

FRAUD RESPONSE PLAN

April 2009



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1. Introduction

- 1.1 In line with the Council's Anti-Fraud and Corruption Strategy, this document sets out the procedures to be followed where fraud is uncovered or suspected. A separate strategy and response exists for Housing and Council Tax Benefits Fraud.

2. Definitions

- 2.1. **Fraud:** "The intentional distortion of financial statements or other records by person internal/external to the authority which is carried out to conceal the misappropriation of assets or otherwise for gain". Fraud incorporates:

- Larceny
- Embezzlement
- Fraudulent conversion
- False pretences
- Forgery
- Corrupt Practices
- Falsification of Accounts

Some potential signs to look for are:-

- Employees who never take leave;
- Employees who work outside normal working hours for no obvious reason;
- Employees with serious personal problems;
- Employees whose lifestyle is disproportionate to their income;
- Unusual concerns about visits by senior managers and auditors;
- Employees who often break rules or fail to comply with procedures;
- Managers who cut corners;
- Complaints about members of staff from customers or other employees;
- Lack of effective internal control;
- Undocumented activities;
- Unexplained falls in income levels or increases in expenses;
- People who rule their subordinates with a 'rod of iron' and unnecessary anger, sarcasm, or criticism, so they become too frightened to question anything;
- Deliveries to other than official Council buildings;
- Increase in number of insurance claims;
- General disregard by management and employees towards security.

N.B - not all circumstances where these signs appear will be

Fraudulent

- 2.2 **Corruption** “The offering, giving, soliciting or acceptance of an inducement or reward, which may influence the action of any person” e.g. occurs in connection with contracts or consultancy engagements.

Malpractice wrongdoing is something which is unlawful, or against the Council’s Standing Orders or policies and is not in accordance with established standards or practice, or amounts to improper conduct by an employee. Potential examples would be:

- Breaches of statutory codes of practice;
- Breaches of, or failure to, implement or comply with, any policy determined by the Council or any of its Committees;
- Actions which are likely to cause physical danger to persons, or give rise to a significant damage to property;
- Failure to take reasonable steps to report and rectify any situation which is likely to give rise to a significant avoidable cost, or loss of income to the Council, or would otherwise seriously prejudice the Council.
- Abuse of power, or the use of the Council’s power and authority for any unauthorised or ulterior purpose.
- Unfair discrimination in the Council’s employment or services;
- Dangerous procedures risking health and safety.
- Other unethical conduct.

NB - not all circumstances where these signs appear will be corrupt.

3. **Fraud Notification**

- 3.1 Anyone wishing to raise concerns should refer to the Council’s Whistle Blowing Policy. A full copy of the Whistle Blowing Policy can be obtained from the Council’s Intranet
- 3.2 The Council’s Whistle Blowing Policy provides avenues for those raising concerns and is intended to safeguard;
- Confidentiality
 - Anonymity, if this is what the provider seeks
 - Untrue allegations
 - Against harassment and bullying

4. Immediate Management of the Situation

- 4.1 When an incident is uncovered or suspected it should be reported to the Head of Service who should immediately contact Internal Audit. Alternatively, a senior manager or the Personnel Manager may be contacted directly where the Head of Service is not available who in turn will inform Internal Audit. Where the irregularities relate to an elected member, there should be an immediate notification to the Chief Executive or the Monitoring Officer.
- 4.2 If a member of the public suspects fraud or corruption they should contact the Chief Executive, Director of Corporate Resources or Head of Internal Audit & Risk in the first instance. They may also contact the Council External Auditor, who is confidentially contactable via the Council's main telephone switchboard
- 4.3 Fraud is a complex area, and it is important that the correct action is taken. Line managers should not carry out their own investigations before informing Internal Audit, through their Head of Service or relevant other senior manager, as this may compromise a later investigation, invalidate evidence, and consequently allow a guilty person to get away with a possible crime.
- 4.4 Immediate action, such as removal of a person from the workplace by the Head of Service or other senior manager, should only be taken where an employee or a third party is caught red handed committing an offence, or there is a risk that evidence will be destroyed e.g. something illegal on a computer. Nevertheless, Internal Audit through the Head of Service must be contacted as soon as possible thereafter. Skills needed to preserve evidence may sometimes be specialisms which only trained officers or the police can apply.
- 4.5 Where an employee is suspected of committing fraud, the Head of Service may remove that person from the workplace or redeploy that person. This should only happen after due consideration of the guidance within the Council's Disciplinary Procedure. However, Internal Audit must be advised of the action taken.
- 4.6 The approved investigation procedure must then be followed.

5. Investigative procedure

- 5.1 Having been informed of a suspected or actual fraud, the Head of Internal Audit and Risk, after an appropriate level of consultation with the Head of Service, will decide on the scope of and the responsibility for any investigation. The options will be to: take no action, to immediately inform the police, or to appoint an auditor to determine the facts of the allegation. Depending on circumstances, it may be necessary to involve officers or external professionals with relevant expertise to assist.

N.B Internal Audit is entitled to access files and make enquiries of individuals to initially establish the facts of any incident. This entitlement is within the Terms of Reference for Internal Audit and The Council's Financial Regulations and is not part of the disciplinary process. Individual's rights will however be respected.

- 5.2 The level of investigation will be proportionate to the perceived level of risk or concern. The objective, scope and expected outcomes will be laid out in an audit remit to be approved by the Head of Internal Audit and Risk.
- 5.3 Where the investigating manager is not instigating disciplinary procedures, Internal Audit reserves the right, on receipt of the report, to undertake or request further work or to refer the matter to the police at this stage. The investigation may be closed at this stage if the allegation is unsubstantiated or evidence is weak.
- 5.4 Internal Audit does not take decisions on disciplinary action but reserves the right to recommend that the process is invoked
- 5.5 Where Internal Audit is investigating, auditors may conclude their work after only preliminary investigation. At this point a report, memo or letter outlining findings and providing an audit opinion will be supplied to the Head of Service concerned.
- 5.6 Where more in depth investigative work is undertaken by Internal Audit, a formal audit report will be produced, on completion of all work outlining findings and providing an audit opinion.
- 5.7 For any investigation Internal Audit reserves the right to undertake procedural or analytical reviews or exploration of the circumstances that led to the fraud. This will be appropriate to the level of concern. Resource Management may specifically request this type of improvement work. More informal advice and guidance on controls is available and is provided on request but subject to staff availability.
- 5.8 The flowchart provided on page 9 outlines the above response and investigative procedures.

6 Reporting Procedures

- 6.1 Investigation reports will be prepared by Internal Audit or by the appointed departmental investigating officer. The investigation report will present the facts obtained during the investigation. It is the responsibility of the Head of Service, or nominated officer, to assess the findings and decide whether it is necessary to start disciplinary proceedings.

- 6.2 A summary of all investigations will be periodically reviewed by the Council's Investigations Panel.

7 Disciplinary Hearing

- 7.1 If disciplinary procedures are invoked the Council's approved policy and procedures will be followed with the investigating officer presenting the case on behalf of management. Even where an internal auditor has undertaken some investigation, his or her role during the hearing is restricted to that of a witness, to discuss the audit findings contained within the report. Only where the complete investigation has fallen entirely within the remit of Internal Audit will the auditor assume the role of investigating officer.

8 Police Involvement

- 8.1 Where a crime has been committed or suspected, the police will be contacted by the Head of Internal Audit and Risk. Full co-operation will be given to the Police while they conduct their enquiries.
- 8.2 The decision to refer the matter to the Police has no bearing on internal investigations, the decision reached by the Disciplining Officer, or the justification to be relied upon before an Appeals Panel

9 Improving Systems to Prevent Fraud

- 9.1 Following incidents of fraud and corruption it is the responsibility of the respective senior manager to re-assess the adequacy and effectiveness of internal controls within the service area in which the incident took place. Where incidents of fraud and corruption are the result of control weaknesses, management will take immediate action to rectify those weaknesses to prevent further abuse. This will ensure the continuous improvement of the robustness of the council's systems in response to fraud. Managers will also respond positively to any recommendations from Internal Audit in relation to systems of control which have given rise to abuse or misuse.

10 Other Aspects of Organisational Response to Fraud and Corruption

- 10.1 All investigations of suspected fraud or corruption will be reported to the Council's Investigations Panel. The Panel will consider the implications of all cases on :
- Corporate policies and procedures

- The level of sanction applied
- The internal control environment and risk identification process.

10.2 Internal Audit has a role in providing assurance on the effectiveness of internal control. Their work is carried out through a risk based audit plan which is reviewed annually. Incidents of fraud may have an effect on the risk rating in a particular area and the plan will be updated to incorporate any changes. This will ensure the review of control systems in high-risk areas.

11 **Review:**

The policy is due for review in April 2010.

Fraud Response Plan Flowchart



