Manchester City Council
Report for Information

Report To: Audit Committee - 19 November 2015

Subject: Counter Fraud and Irregularity Strategy

Report of: Head of Audit and Risk Management

Summary

This report presents to Audit Committee the Council's Counter Fraud and Irregularity Strategy for 2015-2017.

The document brings together the policy framework for preventing fraud and irregularity, describes the Council's approach to countering fraud and identifies key priorities for delivering the Strategy.

Recommendations

Members are requested to note the Council's Counter Fraud and Irregularity Strategy document.

Wards Affected:

All

Contact Officers:

Richard Paver
City Treasurer
0161 234 3564
richard.paver@manchester.gov.uk

Tom Powell
Head of Internal Audit and Risk Management
0161 234 5273
t.powell@manchester.gov.uk

Background documents (available for public inspection):

Documents used in the development of the Counter Fraud Strategy include:
• Internal Audit Assurance Reports
• Anti Bribery Policy
• Anti Money Laundering Policy
• Whistleblowing Policy
• Anti-Fraud and Corruption Policy

Counter Fraud and Irregularity Strategy 2015-2017

Table of Contents

Version Control

V1.0   Approved by Head of Audit and Risk Management for CT Comment
V1.1   Approved by CT for Audit Committee Comment

1.   Introduction

1.1   Manchester City Council has a zero tolerance of fraud and corruption. This is confirmed in the Anti Fraud Policy and this Strategy sets out the approach being taken to deliver the policy aims and objectives.

1.2   Minimising fraud and irregularity is essential, never more so than in times of austerity, to ensure that resources intended to provide essential services to Manchester communities are used for that purpose. Fraud committed against the Council is a theft of taxpayers' money, can cause reputational damage and a loss of confidence amongst the public or stakeholders and have an adverse effect on staff morale.   Through effective counter-measures the Council can reduce the risk of error, loss and fraud.   These include arrangements to acknowledge, deter, prevent detect, investigate and prosecute wrongdoing.

1.3   Minimising fraud and irregularity is everyone's business. Whilst specialist teams have a key role, the Council expects the highest standards of probity, propriety and conduct from all Members, employees and contractors. This includes a requirement to act lawfully and to comply at all times with the Council's policies, procedures and regulations.

1.4   Minimising fraud and irregularity is a continual process. Whilst practical arrangements will evolve over time to reflect changes internal and external to the organisation, there is a constant need for vigilance and appropriate action to address risks.   Change arising from financial pressures; growth of alternative models to commissioning and service delivery; and continued development of collaborative, integrated and joint working require the approach to be regularly reviewed and refreshed.   Current change also includes transfer of the Council's benefit fraud investigation resources to the Single Fraud Investigation Service ("SFIS") in DWP, which is due for completion by February 2016.

1.5   Minimising fraud and irregularity can be complex. The legislative and policy framework in relation to counter fraud is extensive including but not limited to; Regulation of Investigatory Powers, Prevention of Social Housing Fraud Act 2013, Proceeds of Crime Act 2002, the Bribery Act 2000 and Money Laundering Regulations 2007. This is in addition to the Council Constitution and Codes of Conduct that are based on a wide range of other legislation.

1.6   To deliver successfully against the Anti Fraud Policy and given the scale and pace of change within the organisation, the impact of SFIS and modest, additional CLG counter fraud funding secured for the period 2015-2017, the Council's approach and key priorities for the next two years is confirmed in this Strategy.

Objectives

1.7   The key aim of the Counter Fraud Strategy is to ensure that public funds entrusted to the Council are protected against fraud and loss.   To do these the key objectives of this strategy are:

Acknowledge	Continue development of the 'anti-fraud' culture which highlights the Council's zero tolerance of fraud, corruption and theft, defines roles and responsibilities and actively engages everyone including service users, the public, Members, staff, schools, contractors and partners.
Deter	
Prevent	Provide a centralised best practice counter fraud service in Internal Audit which:
Detect	• proactively detects error, loss, fraud, corruption and theft;
Investigate	• Investigates suspected or detected fraud, corruption and theft;
Pursue	• Enables the Council to apply appropriate sanctions and recover losses wherever possible; • Works in effective collaboration with services across the Council and with partners to support counter fraud activity; and • Drives action to inform policy, system and control improvements, thereby reducing the Council's exposure to fraudulent activity.

1.8   The effectiveness of this strategy will be subject to regular review, by the Head of Internal Audit and Risk Management, Section 151 Officer and the Audit Committee.

Definition

1.9   Throughout this document the term fraud and irregularity has been used to refer to acts of corruption, fraud, bribery, money laundering, wrongdoing, loss and error.

Scope

1.10   This Strategy and associated policies apply to the activities of all Council employees and Members. The Strategy does, however, apply to Council engagement with consultants, contractors, suppliers, schools, Council funded voluntary bodies and individuals, partners and any other external agencies.

2. Policy Framework for Preventing Fraud and Irregularity

2.1 This Strategy is part of the Council's overall Counter-Fraud Policy Framework and should be read in conjunction with the Constitution, Financial Regulations, Disciplinary Procedures, Standards of Conduct Procedure for Employees and other related policies and procedures.

2.2 The Terms of Reference for the Audit Committee include the review of effectiveness of anti-fraud and corruption arrangements throughout the Council. To support the Audit Committee in this role the Head of Internal Audit and Risk Management reports annually on the policy framework and in particular the level of fraud detected. The Committee, within its Terms of Reference oversee changes to the Counter-Fraud Policy Framework.

2.3 The key documents comprising the Counter Fraud Policy Framework are:

a. **Anti-Fraud and Corruption Policy**: Identifies a number of key principles outlining the overall approach to combating fraudulent activity against the Council.

b. **Counter Fraud Strategy**: sets out priorities, objectives and actions to respond to identified fraud risks.

c. **Whistleblowing Policy**: Explains how members, employees, agency staff, schools, contractors and members of the public can raise concerns about suspected fraud and other malpractice in a confidential manner.

d. **Anti-Money Laundering Policy**: Defines the responsibilities of officers in respect of the Proceeds of Crime Act 2002, Terrorism Act 2000 and the Money Laundering Regulation 2007.

e. **Anti-Bribery Policy**: Explains how the Council will act to minimise the exposure to bribery risk and prohibits the offering, giving, solicitation or acceptance of bribes or inducements.

f. **Corporate Complaints Policy**: Provides guidance for Council officers to deal with complaints within agreed standards. Complaints can be one way

in which individuals submit concerns and allegations regarding fraud and irregularity.

g. Enforcement Policy: Outlines the approach to enforcement and lays down the principles which will be followed in deciding upon and taking action.

h. Fraud Risk Assessment: Sets out the fraud risks facing the Council based on events which have occurred, intelligence of events occurring elsewhere and issues which may represent a potential future threat.

3. Roles and Responsibilities

3.1 Appendix A sets out the key roles and responsibilities of officers and services responsible for the delivery of this strategy

3.2 Leadership for the delivery of the Counter Fraud and Irregularity Strategy resides with the City Treasurer (S151 Officer) and the Head of Audit and Risk Management. Governance of the strategy and delivery of key responsibilities resides with the Audit Manager and the Internal Audit Section.

3.3 Service areas also contribute to the delivery of the strategy, including but not limited to Revenues and Benefits, Blue Badges, Trading Services and Enforcement Teams as these teams lead the prevention and detection of error, irregularity and fraud in their areas of responsibility.

3.4 Expert, corporate support in addressing fraud and irregularity risks is provided by HROD, Corporate Procurement, ICT, Legal Services and Finance.

3.5 All strategic directors, managers and staff have a responsibly for remaining aware of the risks of fraud and irregularity, for obtaining assurance that these are being appropriately addressed and for raising risks or issues with senior management and internal audit.

3.6 Member roles and responsibilities in relation to the prevention of fraud and corruption are discharged through the Audit Committee in conjunction with Standards Committee and Executive. These roles are detailed within the Council's Anti-Fraud and Corruption Policy and the Council's Constitution.

4. Approach to Countering Fraud

4.1 A dedicated and specialist resource within the Internal Audit Section develops and co-ordinates the Council's overall approach to protecting its assets and finances from fraud, corruption, bribery and loss. Work is focused within each of the key elements of acknowledge, deter, prevent, detect, investigate and recover.

4.2 Fraud by its very nature is hidden, and conducted in such a manner that fraudulent acts are actively concealed. It is therefore vital to maintain a strong anti-fraud culture, and advocate a zero tolerance approach. This not only

provides a deterrent to potential fraudsters, but also encourages an environment where individuals feel comfortable coming forward to raise concerns.

4.3   This Strategy is informed by the Council's objectives and has incorporated guidance and best practice on combating fraud within local government, devised from a number of different sources including:

- National Fraud Authority (NFA): Fighting Fraud Locally – The Local Government Fraud Strategy
- National Fraud Authority: Annual Fraud Indicator June 2013
- Audit Commission: Protecting the Public Purse 2014
- CIPFA Managing the Risk of Fraud
- Protecting the English Public Purse TEICAF 2015

4.4   Nationally recognised fraud risks reported across the sector and which this Strategy seeks to assure and address are:

Employee	Contracts, Commissioning & Procurement	Right To Buy
Social Care	Schools	Insurance
Third Party Grants etc	Housing Tenancy	Council Tax Reduction
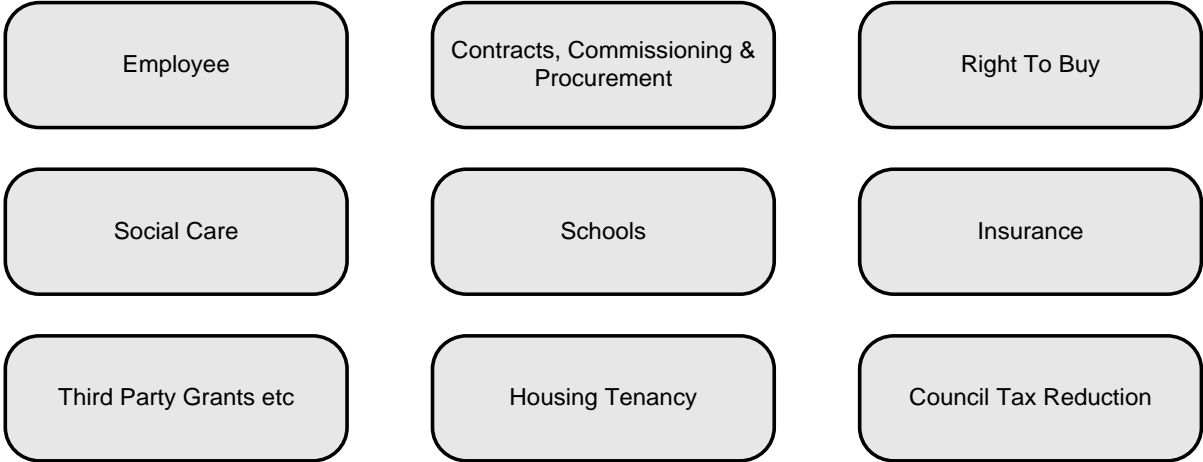
Culture

4.5   The Council is committed to the highest ethical standards of corporate and personal conduct.   The three fundamental public service values of accountability, probity and openness and a strong anti-fraud culture are a key element of the defence against fraud, corruption and bribery.   Codes of Conduct, policies and procedures promoted across the Council are consistent with the 'Seven Principles of Public Life' put forward by the Nolan Committee and The Council expects all staff, including contractors and Members to make themselves aware of and follow these principles.   Further information can be found at http://www.public-standards.gov.uk/

Deterrence

4.6 The Council develops and promotes a strong counter fraud culture. Internal Audit and other services work with HROD and Communications to raise staff and public awareness which include the following:

- Prominent publication and communication of the Council's zero tolerance stance against fraud and the overall strategy for combating it.
- Making clear to staff and residents how and to who they can report concerns.
- Delivering a fraud awareness programme including workshops and training, to ensure the profile of fraud risk remains high in particular amongst Council staff and Members but also contractors and partners.
- Publicising the results of pro-active work and the Council's success in identifying and taking strong action against fraudsters.

Prevention

4.7 Prevention is often the best and most efficient way to tackle fraud and prevent losses to the Council. This requires a robust control environment. Wherever appropriate and cost effective to apply, the Council will design and implement controls to prevent fraud and irregularity. Internal Audit will continue to work with managers and core services including Legal, HROD and Finance to ensure new and existing systems, procedures and policy initiatives consider fraud risks.

4.8 As part of its annual Internal Audit plan and in particular the pro-active counter fraud work the Internal Audit Section reviews those areas of activity deemed to be at greater risk to fraud and corruption and works with management to recommend suitable, preventative controls and confirm these are implemented as planned.

Detection

4.9 Internal Audit maintains a centralised log of all fraud and irregularity referrals received within the Section. The log helps to assess areas within the Council most vulnerable to the risk of fraud.

Item

This enables a Council wide fraud profile to be created which informs audit work aimed at detecting existing and new types of fraudulent activity. This knowledge also informs and helps direct the allocation of staff resources across the audit team ensuring a flexible approach is maintained and sufficient coverage is obtained across both the reactive and proactive counter fraud programmes as well as wider planned audit work.

4.10 A range of actions are already in place in relation to the detection of fraud, irregularity and loss:

- All staff are expected to comply consistently and routinely with internal controls designed to bring data anomalies and other indicators of fraud to the attention of management. As with preventative controls, the Council's Internal Audit Section reviews the adequacy of fraud detection controls in key systems and makes recommendations for weaknesses to be addressed.
- The Council participates fully in the National Fraud Initiative (NFI) and remains open to participation in other relevant national or regional opportunities to detect fraud through data-matching exercises.
- Internal Audit carries out targeted, analytical reviews of key systems and services to identify indicators of fraudulent activity.
- The Council's Whistleblowing Policy is prominently publicised to encourage staff, Members, contractors and partners to raise any genuine suspicions they may have.
- Services across the Council participate in national and regional counter-fraud networks and take prompt action to review the relevance to the Council of alerts or issues shared across these groups.

4.11 Changes and developments in the Council's internal systems and procedures may adversely impact upon the established controls to prevent fraud. The impact on the fraud risk in changing systems and procedures will be evaluated through timely liaison between the business and Internal Audit to help minimise the exposure to risk.

Investigate

LocalGov

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| Jobs | ▾▸ |

Thomas Bridge 04 August 2015

Council manager stole £23k from family budgets

A former council boss took more than £23,000 of public money to cover his own credit card debts, a court has heard.

Patrick Power, 49, siphoned the cash while working as senior service manager for children's services at Manchester City Council and later as property rationalisation manager.

4.12 Where there are genuine grounds to suspect fraud, irregularity or corruption, the Council is committed to ensuring that all cases are investigated promptly, effectively and fully. The Council has developed a Fraud Response Plan (Appendix B) to be followed in all cases.

4.13 All matters involving suspected criminal activity are referred to the Police at the earliest opportunity. The referral decision will be taken

jointly by the City Treasurer (Section 151 Officer) or the City Solicitor (Monitoring Officer) or their nominated representatives.

4.14   In support of the Council's zero tolerance stance, there shall be a general presumption that the Council will request the Police charge offenders in all cases of fraud, corruption, bribery and theft. The Section 151 Officer (or representative) and the Monitoring Officer (or representative) will apply the Enforcement Policy on a case by case basis. Where the Police or Crown Prosecution Service decide not to charge offenders, the Council will consider bringing private prosecution, to be considered on a case by case basis

4.15   The Internal Audit Section regularly liaises with colleagues from HROD and Legal Services regarding casework, in particular where fraud or corrupt acts have been committed by an employee of the Council. In such circumstances it may be decided not to pursue matters further until any external investigations and/or enforcement action are concluded.

Recovery of Losses Incurred

4.16   A crucial element of the Council's response to tackling fraud is seeking financial redress. The recovery of defrauded monies is an important part of the Strategy and where it is practical, action will be taken to recover the loss from the individual or organisation concerned. Where criminality has been proven then the Proceeds of Crime Act 2002 may where appropriate be used to recover funds. Other methods of recovery may include, but are not confined to:
- civil proceedings;
- recovery of pension contributions from employees;
- unlawful profit orders and compensation orders;
- bankruptcy if it is believed the individual has a poor history of paying; and
- recovery from future salary payments.

Fraud Awareness and Training

4.17   During the period covered by this Strategy, work will be undertaken to update the fraud risk assessment and together with other indicators this will be used to identify where further opportunities and requirements for counter fraud training may be appropriate. Consideration will be given to a range of media including e-learning, workshops, newsletters, intranet and cascade of key messages. The effectiveness of training and other fraud awareness activities will be evaluated to inform future planning.

4.18   The Internal Audit Section will establish a training plan to enhance employees' ability to deliver the Strategy. The specific content of the training will be subject to review as part of the Annual Fraud Report, but its key components are likely to include the following:
- Requirement for key staff, particularly line managers, to complete a periodic fraud awareness survey.

- Qualification training for staff responsible for the investigation of suspected fraud.
- Targeted training for key staff likely to use the Fraud Response Plan.
- Targeted training on audit software and tools for key staff likely to participate in data matching exercises.

5.   Joint and Collaborative Working

5.1   Fraud does not always fit neatly within the boundaries of the Council or the City. Given the range of partnerships and collaboration work and the benefits of working with colleagues across the public and private sector, the Council actively seeks to work in conjunction with others.

5.2   Key agencies for data sharing include but are not limited to the following:
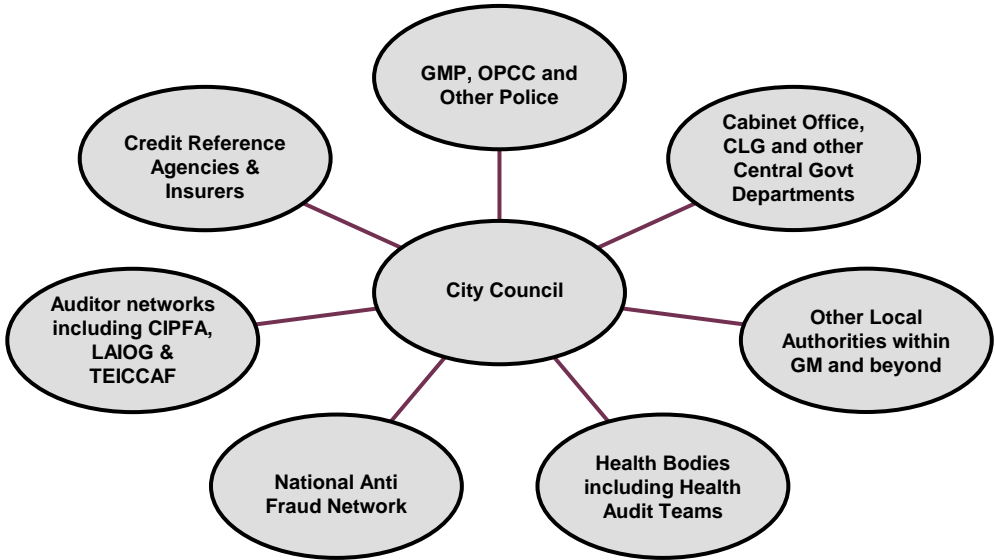
5.3   Arrangements are in place and continue to be developed to encourage both joint and collaborative working involving the exchange of information and intelligence between the Council and other agencies on national and local fraud and corruption activity in relation to local authorities. Any such exchange of information is undertaken in accordance with the principles contained in the Data Protection Act 1998 and the Information Commissioner's Office Code of Practice of Data Sharing. Where appropriate, the Council will participate in national or regional initiatives designed to prevent and detect fraud, such as data matching.

6. Delivery of the Strategy

6.1 The Council's overall approach and key priorities for Counter Fraud 2015-2017 are:

The delivery of key priorities over 2015-2017 will help ensure the Council is be better able to protect itself from fraud, irregularity and loss and will provide a more effective fraud response.

Acknowledge
Acknowledging and understanding fraud risks

Deterrence and Prevention
Deterring and Preventing Fraud

Detection, Investigate and Pursue
Completion of reactive and proactive work, punishing fraud and recovering losses

Assessing and understanding fraud

Committing support and resource to tackling fraud

Maintaining a robust anti-fraud response

Making better use of information and technology

Enhancing fraud controls and processes

Developing a more effective anti-fraud culture

Effective triage and investigation of referrals

Targeted pro-active counter fraud work

Prioritising fraud recovery and actions to punish fraudsters

Joint and collaborative working across the Council, other LAs, agencies and the Police

Priorities 2015-2017

Review and update of Policy Framework specifically Whistleblowing Policy

Introduce a Counter Fraud Strategy

Fraud Awareness Training/workshops

Development of Fraud Risk Assessment

Increase Counter Fraud Resources within Internal Audit

Priorities 2015-2017

Publicity

Fraud Awareness Training/Workshops

Develop existing identification/validation tools

Work with colleagues in FIG regarding the transfer arrangements to DWP.

Develop relationships with partners including Registered Housing Providers

Priorities 2015-2017

Triage and investigate reactive referrals received

Co-ordination and completion of National Fraud Initiative

Duplicate Payments

Data Matching/Mining

Develop programme of wider pro-active counter fraud exercises.

Work jointly and collaboratively with partners on key key areas, including:
Housing Tenancy Fraud
Council Tax Reduction
Individual Budgets
No Recourse to Public Funds.
Contracts and Commissioning
Right to Buy
Insurance
Social Care
Schools
Third Party Grants
Employee irregularity/fraud

6.2   In December 2014 the Council, jointly with colleagues from the Greater Manchester Combined Authority and Bolton Council was successful in securing funding from CLG for the purposes of developing a collaborative approach to counter fraud. The outcome is to be a shared approach, risk based resource allocation and good practice model that will help further raise awareness of fraud risks, use intelligence to detect fraud, investigate areas of concern and recover losses.

6.3   The Internal Audit Section will continue to assess all referrals it receives in a timely manner and investigate as appropriate in accordance with the Fraud Response Plan, working with colleagues in HROD, ICT and Legal as well as Heads of Service and other managers to address concerns identified. The recruitment of additional officers in 2015 will support these arrangements and the delivery of specific counter fraud exercises from the Internal Audit Plan.

6.4   Pro-active counter fraud work will be developed in line with priorities identified from national research and the Council's fraud risk assessment. Resources will be targeted at areas considered to be of high risk to the Council. We will liaise with management regarding opportunities for joint and collaborative working with partners both internally and externally to enhance the quality of intelligence and data matching techniques.

6.5   The work undertaken by Internal Audit will provide management with recommendations and actions to improve the effectiveness of internal controls to help prevent and deter future instances of fraud and irregularity.

Measuring Success

6.6   Progress against the priorities and plans identified within this Strategy will be reported quarterly to the City Treasurer and annually to Audit Committee as part of the Annual Fraud Report.

Appendix A
Key Responsibilities for Delivering the Counter Fraud and Irregularity Strategy

ACTION	Internal Audit	S151 Officer	Directors Manager/ Team Leaders HROD	SMT	Audit Committee	Staff/ Contractor & Partners
Strategy, Development, Maintenance and Reporting						
Maintain the Counter Fraud Strategy	X					
Carry out Annual Fraud Risk Assessment	X					
Compile the Annual Fraud Report	X					
Review and approve the strategy, risk assessment and fraud report				X	X	
Deter						
Publication of the Counter Fraud Strategy	X				X	
Design and implement a periodic fraud awareness programme	X					
Participation in fraud awareness surveys	X	X	X	X	X	X
Publication of successes in dealing with fraud	X				X	
Prevent						

ACTION	Internal Audit	S151 Officer	Directors Manager/ Team Leaders HROD	SMT	Audit Committee	Staff/ Contractor & Partners
Review the preventative controls in key Council systems	X		X			
Implement agreed actions to strengthen internal controls		X	X	X		X
Ensure consistent compliance with established controls to prevent fraud		X	X	X		X
Consider the implications for counter fraud controls in new and changing systems and procedures	X		X			
Detect						
Review the detective controls in key Council systems and carry out targeted, analytical review in high risk areas of activity.	X					
Implement agreed actions to strengthen controls		X	X	X		X
Ensure consistent compliance with established controls to detect		X	X	X		X

ACTION	Internal Audit	S151 Officer	Directors Manager/ Team Leaders HROD	SMT	Audit Committee	Staff/ Contractor & Partners
fraud						
Publicise the Whistleblowing Policy	X					
Raise fraud and corruption concerns promptly through the Whistleblowing Policy with a line manager/senior manager or directly with Internal Audit	X	X	X	X	X	X
Participate in the National Fraud Initiative and other counter-fraud groups	X		X			
Pursue						
Follow the Fraud Response Plan in all cases where fraud and corruption are suspected	X	X	X	X	X	X
Decision to refer to the Police for investigation		X				
Decision to apply Prosecution Policy		X				
Decision to invoke the Council's disciplinary process			X			

ACTION	Internal Audit	S151 Officer	Directors Manager/ Team Leaders HROD	SMT	Audit Committee	Staff/ Contractor & Partners
Consider options for seeking recovery of loses incurred		X	X	X		

Appendix B
Fraud Response Plan

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                        ┌─────────────────────────┐
                        │  Fraud Concern Identified │
                        └─────────────────────────┘
                                    │
                        ┌─────────────────────────┐
                        │         Report           │
                        └─────────────────────────┘
                ┌───────────────┼───────────────┐
    ┌──────────────────┐ ┌──────────────────┐ ┌──────────────────┐
    │  Whistleblowing  │ │ Line Manager     │ │  Internal Audit  │
    │    Mechanism     │ │ (Senior Manager, │ │                  │
    │                  │ │ if line manager  │ │                  │
    │                  │ │ involved)        │ │                  │
    └──────────────────┘ └──────────────────┘ └──────────────────┘
            │                   │                     │
            │       ┌──────────────────────┐          │
            └──────▶│ Assessment of         │◀─────────┘
                    │ allegation by Manager │
                    │ (HR, Legal and IA     │
                    │ if required)          │
                    └──────────────────────┘
                                │
                          ◇ Sufficient to proceed? ◇
            No │                              │ Yes
    ┌──────────────────┐              ┌──────────────────┐
    │ Record of        │              │ Strategy Meetng  │
    │ Decision         │              │                  │
    └──────────────────┘              └──────────────────┘
            │                 ┌──────────────┼──────────────┐
    ┌──────────────────┐ ┌──────────┐ ┌──────────┐ ┌──────────┐
    │ Feedback to      │ │Management│ │ Internal │ │  Police  │
    │ referrer         │ │Investig. │ │  Audit   │ │Investig. │
    └──────────────────┘ └──────────┘ └──────────┘ └──────────┘
                                │
                        ┌──────────────────┐
                        │ Outcome Report   │
                        └──────────────────┘
                                │
                          ◇ Fraud Proven ◇
          Yes │                          │ No
      ◇ Management Decisions ◇    ┌──────────────────┐
                                  │ Management Action│
                                  └──────────────────┘
    ┌────────┐ ┌────────────┐ ┌─────────────┐
    │Prosecu-│ │ Recovery   │ │ Disciplinary│
    │ tion   │ │ of losses  │ │  Hearing    │
    └────────┘ └────────────┘ └─────────────┘
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                               │  Appeal  │
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