



ANTI-FRAUD AND CORRUPTION **STRATEGY**

Managing the Risk of Fraud

Index

1	Foreword	1
2	Introduction	1
3	Key Principles and Culture	2
4	Prevention	3
5	Detection and Investigation	8
6	Deterrence	9
7	Conclusion	10
8	Review	10
	Appendix A – The Seven Principles of Public Life	11

1 **Foreword**

- 1.1 The public sector in the United Kingdom maintains high standards of ethics and has a good reputation for protecting the public purse. Sound systems of public accountability are vital to effective management and in maintaining public confidence.
- 1.2 Southampton City Council (hereafter referred to as the Council) is determined to discharge its responsibilities to safeguard public funds and is committed to fighting fraud and corruption whether attempted from inside or outside of the Council. The Council is committed to the highest ethical standards and requires Members, Officers and all other staff to comply with the seven principles of public life (Appendix A), the Council's Anti-fraud and corruption policy statement; codes of conduct, internal policies, procedures and relevant legislation.
- 1.3 The Council believes strongly in the honesty and integrity of its Members and employees and has achieved a reputation for maintaining effective systems of control. The Council also expects that all outside individuals and organisations, including suppliers, contractors and claimants, will act towards the Council with honesty and integrity. The Council will not tolerate fraud, corruption or other irregularities, regardless of the perpetrator. The Council is therefore determined to prevent, deter and detect all forms of fraud and corruption committed against it and take appropriate action where fraud or corruption is detected.
- 1.4 The Council's commitment to protecting public funds is set out in the Anti-Fraud and Corruption Policy Statement which has been endorsed by the Chief Executive and Leader of the Council.

2 **Introduction**

- 2.1 The purpose of the Anti-Fraud and Corruption Strategy is to put into place mechanisms that will prevent, deter and detect fraud and corruption. The strategy summarises the responsibilities of Members, Chief Officers and employees and outlines the process to be followed where there is suspicion of financial irregularity.
- 2.2 The strategy is designed to:
 - promote the prevention of fraud and corruption;
 - help people detect fraud and corruption; and
 - explain what we will do if we identify cases of fraud and corruption.
- 2.3 Irregularities include theft, fraud, corruption and bribery.

Definitions

Theft is “the dishonest appropriation of property belonging to another with the intention of permanently depriving the other of it” (Theft Act 1968).

Fraud is “the intentional distortion of the financial statements or other records by a person internal or external to the organisation which is carried out to conceal the misappropriation of assets or otherwise for gain” (CIPFA).

Corruption is “the offering, giving, soliciting or acceptance of an inducement or rewards which may influence the action of another person” (CIPFA).

Bribery is “the inducement or reward offered, promised or provided to gain personal, commercial regulatory or contractual advantage” (CIPFA).

Irregularity may also include failure to comply with Financial Regulations, Standing Orders, national and local codes of conduct, Health and Safety Regulations and all other relevant laws and legislation that result in an avoidable loss to the Authority.

3 Key Principles and Culture

- 3.1 Honesty, openness and integrity are at the core of the Council’s ethos, which positively encourages a culture that will not tolerate fraud and corruption. Staff are expected and are positively encouraged, to raise any concerns relating to fraud and corruption of which they become aware.
- 3.2 These can be raised in any way as set out in the guidance provided in the Council’s Duty to Act (Whistleblowing) Policy. This sets out the means by which Members and employees may raise any concerns that they have on issues associated with the Council’s activities. Whichever route is chosen, individuals can be assured that concerns raised in good faith will be fully investigated and, wherever possible, be dealt with in confidence.

- 3.3 The Anti-Fraud and Corruption Strategy endorses and adopts the seven principles of public life (Appendix A).
- 3.4 We also expect that people and organisations we deal with will act with honesty towards us.
- 3.5 We would expect and encourage any person, whether or not they work for us, to tell us about any fraud or corruption that they are aware of.
- 3.6 We will take all relevant and necessary action against any member, employee, individual or organisation falling short of these standards in their dealings with or on behalf of the Council.

4 Prevention

4.1 The Council has a range of interrelated policies and procedures that provide a corporate framework to counter fraudulent activity. These have been formulated in line with appropriate legislative requirements and professional best practice, and include:

- Codes of Conduct for members and officers
- Constitutional Procedure Rules
- Accounting procedures and records
- Sound internal control systems, including specific service area legislative requirements
- Effective internal audit
- Effective recruitment and selection procedures
- Disciplinary Procedure
- Complaints Policies
- Fraud and Corruption Response Plan
- Duty to Act (Whistleblowing) Policy
- Training
- Anti Money Laundering Policy
- Bribery Act Policy

4.2 In addition, the Council is subject to external scrutiny from a variety of bodies. These include the Local Government Ombudsman, External Audit, Central Government Departments and Parliamentary Committees, HMRC and external inspectorates. Internal overview is overseen by those charged with governance responsibilities.

Recruitment

- 4.3 The Council recognises that employees are often the first line of defence in preventing fraud. A key preventative measure is therefore the effective recruitment of employees.
- 4.4 Employee recruitment is undertaken in accordance with the Council's policies for Recruitment and Selection. Written references should be obtained before formal employment offers are made, wherever possible regarding the known honesty and integrity of potential employees. In this regard temporary employees should be treated in the same manner as permanent employees.
- 4.5 Recruitment and selection also covers the checking of identity and right to work in the UK of all potential employees. Some posts, due to the nature of the work also require a Disclosure and Barring Service check to identify whether any potential employee has a criminal record and if this would conflict with the post applied for.
- 4.6 All management and employees must abide by the Officer's Code of Conduct, which sets out requirements on personal conduct. Where applicable, employees are also expected to follow the codes of conduct laid down by their respective professional institutes.

Employee responsibilities

- 4.7 Employees should always be aware of the possibility that fraud, corruption and theft may exist in the workplace and have a duty and a right to share any concerns that they may have with management or through the Duty to Act (Whistleblowing) Policy.
- 4.8 The Council has in place disciplinary procedures for all employees. Those found to have breached the Code of Conduct will be dealt with in accordance with these procedures. Where criminal activity within the workplace is suspected or found, the matter will be referred to the police for investigation and possible prosecution. In addition, recompense will be sought from those who are found to have carried out fraudulent acts.
- 4.9 Under the Council's Constitutional arrangements, employees must operate within Section 117 of the Local Government Act 1972, regarding the disclosure of financial interests in contracts relating to the Council, or the non-acceptance of any fees, gifts, hospitality or any other rewards, other than their proper remuneration. The Bribery Act 2010 makes it an offence to request, agree to receive, or accept a bribe. It is also an offence to offer, promise or give a bribe.
- 4.10 Council policies and procedures support compliance with the Bribery Act. Member's and Officer's Codes of Conduct, set out the acceptable

conduct for both members and employees. Through the codes' strong ethical framework; along with transparency and scrutiny in decision making, clear procurement rules and committees, the Council aims to ensure that employees and members comply with anti-bribery legislation. Non compliance by an employee or member may be perceived as bringing the Council into disrepute or using their office for personal gain. It may result in disciplinary action being taken.

Responsibilities of Managers

- 4.11 Managers at all levels within the Council have a responsibility to ensure that there are sound systems of internal control.
- 4.12 As a general control measure, Managers should implement agreed management actions arising from internal audit work within appropriate timescales.
- 4.13 Managers must report all suspicions of theft, fraud and irregularity to the Chief Internal Auditor immediately.
- 4.14 Managers are responsible for ensuring that staff are aware of Financial Regulations, Contract Procedure rules and the Officer's Code of Conduct and that these are being followed. Managers should ensure that staff know how to deal with concerns at work and that staff are aware of the Duty to Act (Whistleblowing) Policy.
- 4.15 For contracted out services and partnership arrangements, managers should determine the risk of fraud and corruption and incorporate appropriate controls and safeguards within tender documentation, contracts and partnership agreements.

Responsibilities of the Monitoring Officer

- 4.16 The Monitoring Officer is appointed by the Council under Section 5 of the Local Government Act 1989. The Monitoring Officer is responsible for ensuring lawful and fair decision making.
- 4.17 If the Monitoring Officer is of the opinion that any decision or omission would give rise to either unlawfulness or maladministration, the Monitoring Officer has a duty to either ensure that the situation is rectified or after consulting with the Chief Executive and Head of Finance and IT (s151 Officer) report on the matter to full Council. In the event of the latter, the effect of the Monitoring Officer's report will be to stop the act or omission until full Council has considered the matter.
- 4.18 The Head of Legal and Democratic Services is authorised by the Council to commence, defend or participate in, any legal proceedings in any case, where necessary, to give effect to the decisions of the Council, or in any case where the Head of Legal and Democratic Services considers it necessary to protect the Council's interests.

Responsibilities of Members

- 4.19 The elected Members of the Council have a duty to protect the funds and assets of the Council from all forms of abuse. This is achieved through the issue of the Anti- Fraud and Corruption Policy Statement and implementation of this strategy, the effectiveness of which shall be monitored by those charged with governance responsibilities.
- 4.20 Members must maintain the highest standards of accountability and probity and therefore must comply, at all times, with the Members' Code of Conduct.
- 4.21 The Members' Code of Conduct sets out what is required of Members when acting in their official capacity, or when acting as a representative of the Council. Because of their position Members should not use, or be perceived to use, their office for personal gain, and should ensure that their actions are not perceived to bring the Council into disrepute.
- 4.22 These matters and other guidance are specifically brought to the attention of members at their induction and through regular updates and training and are detailed on the Members page on the intranet. They include rules on the declaration of potential areas of conflict between members' council duties and responsibilities, and any other areas of their personal or professional lives.

Responsibilities of contractors, suppliers, customers and members of the public

- 4.23 The Council shall expect that contractors are able to demonstrate, through the tendering process, that they have adequate systems of control to ensure the prevention and detection of fraud and corruption in relation to services provided on behalf of the Council.
- 4.24 Suppliers, customers and members of the public are also encouraged to report concerns.

Responsibilities of partnerships and voluntary organisations

- 4.25 All partnerships and joint working arrangements that are in receipt of Council funding or resources shall be expected to demonstrate appropriate mechanisms for control. Partnership agreements should refer to the adopted Financial Regulations and Codes of Conduct, which govern the partners and to the internal audit arrangements.
- 4.26 Voluntary organisations should be encouraged to follow the standards set by the Council and the Council's Anti-Fraud and Corruption Strategy should be made available where the voluntary organisation is in receipt of grant funding.

Internal Control Systems

- 4.27 The Council has Financial Regulations and Procedures Rules, Accounting Procedures, and various rules and Codes of Conduct in place. Employees are obliged to comply with these requirements when dealing with Council matters.
- 4.28 The Head of Finance and IT has a statutory responsibility under Section 151 of the Local Government Act 1972, to ensure proper arrangements are made for the Council's financial affairs. In addition, under the Accounts and Audit (England) Regulations 2011, the Council is required to maintain an adequate and effective internal audit of its financial records and systems of internal control.
- 4.29 The Council has sound financial systems and procedures, which incorporate efficient and effective internal controls. Managers are responsible for maintaining effective internal controls within their areas of responsibility including the prevention and detection of fraud and other illegal acts. Internal Audit will monitor and report upon these controls.

Responsibilities of Internal Audit

- 4.30 In accordance with 'proper practices' (Public Sector Internal Audit Standards) internal audit are responsible for developing a risk based plan. The audit plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements which should be approved by senior management and the Governance Committee.
- 4.31 In accordance with the annual plan, Internal Audit will review the Council's systems and where necessary, will agree with the appropriate level of management actions to mitigate identified risk and enhance the control environment. Whilst internal audit are not responsible for the identification of fraud, when conducting their reviews, auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls. Internal Audit shall be responsible for assessing whether agreed actions arising from significant risks identified have been implemented.
- 4.32 The Chief Internal Auditor shall provide an annual audit opinion on the adequacy of the Council's internal controls and provide an annual assurance statement to the relevant Member Committee on the overall effectiveness of the Council's framework of internal control, highlighting

any serious weaknesses. The Chief Internal Auditor or representative will be in attendance to present these findings.

5 Detection and Investigation

5.1 It is the responsibility of management to maintain good control systems and procedures, and to ensure that all employees comply with the instructions contained therein.

5.2 Investigations are carried out in response to referrals of potential fraud. The scope of fraud and irregularity that should be referred to Internal Audit for investigation should not be limited to that which has a direct financial impact, but anything that could have a damaging or undermining effect on the Council.

5.3 In addition proactive exercises target areas identified as being at a high risk from fraud.

5.4 All suspected irregularities which could be instances of fraud should be reported to Internal Audit. This is essential to our approach to fraud and corruption and ensures:

- consistent treatment of information regarding fraud and corruption
- proper investigation by an independent and experienced audit team
- the optimum protection of the Council's interests

5.5 Where appropriate managers must report allegations swiftly, to senior management, and where appropriate, support the Council's disciplinary procedures.

5.6 When information relating to potential fraud or corruption is obtained, it is reviewed and subject to a risk assessment. Some referrals do not warrant further investigation whilst others may be better dealt with as management issues; or a full investigation may be needed.

5.7 Depending on the nature and extent of the information obtained, Internal Audit will work closely with:

- appropriate levels of management
- Human Resources
- Other agencies, such as the police, and other local Authorities

This is to ensure that all allegations and evidence supplied are properly investigated and reported upon, and that where possible, losses are recovered for the Council. Where appropriate this will include the use of Proceeds of Crime legislation.

- 5.8 The Council's Duty to Act (Whistleblowing) Policy provides clear guidance for individuals to raise any concerns of malpractice within the Council, without the fear of being penalised or victimised. The Council will take appropriate action to protect any one who has raised a concern in 'good faith'.
- 5.9 The Procedure deals with the reporting of fraud or alleged fraud through formal channels. It also includes making disclosures to external bodies if there is an unsatisfactory outcome to a disclosure made internally. Council schools are required to have their own Whistleblowing Policies.
- 5.10 Where it is found that a Council employee has been involved in fraudulent activity they will be subject to disciplinary procedures.
- 5.11 Where financial non-compliance and wrongdoing is discovered relating to employees, members, or grant aided external organisations, the matter may be referred to the police. Such decisions will be made by the Monitoring Officer or their nominated deputy. Referral to the police will not prevent action under the disciplinary procedure.
- 5.12 The Council's External Auditor also has powers to independently investigate fraud and corruption.

6 Deterrence

- 6.1 There are a number of ways in which we deter potential fraudsters from committing or attempting fraudulent or corrupt acts, whether they are inside or outside of the Council. These include:
- Publicising the fact that the Council will not tolerate fraud and corruption by promoting this at every appropriate opportunity, e.g. statements in contracts, forms and in publicity literature.
 - Acting quickly, efficiently, and decisively when fraud and corruption is suspected and proven, e.g. the termination of contracts, the dismissal and prosecution of offenders.
 - Taking action to recoup the maximum recoveries (including losses and costs) e.g. through agreement, court action, penalties, insurance, superannuation etc. Where appropriate the Proceeds of Crime Act will be used to maximise the penalty suffered by the fraudster, and the level of recovery by the Council.
 - Having sound internal control systems, that still allow for innovation and calculated risk, to create maximum opportunities for the Council whilst minimising the potential for fraud and corruption.

- 6.2 It is the responsibility of senior management to communicate the Anti-Fraud and Corruption Policy Statement to management and employees and to promote a greater awareness of fraud within their respective areas.

7 Conclusion

- 7.1 The Council sets and maintains high standards and a culture of honesty, openness and integrity. This strategy fully supports the Council's desire to maintain an authority free from fraud and corruption.
- 7.2 The Council has in place a network of systems and procedures to assist in dealing with fraud and corruption when it occurs. It is determined that these arrangements will keep pace with any future developments in techniques to both prevent and detect fraudulent or corrupt activity that may affect its operation.
- 7.3 The Council will maintain a continuous review of all these systems and procedures through Internal Audit.

8 Review

- 8.1 The monitoring of the overall progress of the Council's Anti-Fraud Strategy will be the responsibility of the Chief Internal Auditor, as part of the monitoring of the Internal Audit Annual Plan.
- 8.2 Reporting on significant issues arising from fraud and corruption investigative work will be incorporated within the Internal Audit reports presented to the Governance Committee.
- 8.3 This strategy will be reviewed annually by the Chief Internal Auditor, with any significant changes reported for approval by the Governance Committee.

Appendix A – The Seven Principles of Public Life

The Principles of public life apply to anyone who works as a public office-holder. This includes all those who are elected or appointed to public office, nationally and locally, and all people appointed to work in the civil service, local government, the police, courts and probation services. Non departmental Public Body, and in the health, education, social and care services. All public office-holders are both servants of the public and stewards of public resources. The principles also have application to all those in other sectors delivering public services.

- *Selflessness* – Holders of public office should act solely in terms of the public interest.
- *Integrity* - Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.
- *Objectivity* - Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.
- *Accountability* - Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.
- *Openness* - Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.
- *Honesty* – Holders of public office should be truthful.
- *Leadership* - Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.