

# Appendix 2



## Anti Fraud & Anti Corruption Strategy

### 1. INTRODUCTION

- 1.1 Southampton City Council is committed to the highest possible standards of openness, probity and accountability. This is reflected in the Council's core organisation values which state that 'we will work with integrity, openness and honesty - our standards of conduct are based on trust, respect, fairness, honesty, sincerity and equality'.
- 1.2 The Council recognises that the citizens of Southampton need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the Council and damage both its reputation and image.
- 1.3 The purpose of this Strategy is to set out for Members and employees of the Council the key principles and approach to countering fraud and corruption. The document considered in conjunction with the Council's Anti Fraud and Anti Corruption Policy.

### 2. DEFINITION OF FRAUD AND CORRUPTION

#### 2.1 Fraud

"The intentional distortion of financial statements or other records by persons internal or external to the organisation, which is carried out to conceal the misappropriation of assets or otherwise for gain."

#### 2.2 Corruption

"The offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person."

- 2.3 Although this document refers to fraud and corruption, as defined, the principles can be applied to all financial malpractice. This includes a wide range of irregularities and criminal acts including theft of property, false accounting, obtaining by deception, and computer abuse and crime. In addition, the 2006 Fraud Act created a specific offence of fraud, which is split into three principal categories: fraud by false representation, fraud by failure to disclose information, and fraud by abuse of position.

### 3. KEY PRINCIPLES

The Council is committed to the elimination of fraud and corruption and, leading by example will:

- introduce appropriate measures to minimise the risk of fraud or corruption;
- adopt formal procedures to investigate fraud or corruption when it is suspected;
- provide appropriate mechanisms for employees to voice their genuine concerns and protect those who do so;
- deter employees from making malicious or unfounded accusations;
- have no hesitation referring cases of suspected financial irregularity to the attention of the police;
- work closely with the police and other appropriate external agencies to combat fraud or corruption;
- support national and local initiatives against fraud or corruption.

### 4. CORPORATE FRAMEWORK

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4.1 Everyone has a role to play in the prevention and detection of fraud or corruption. The Council expects all its employees and elected members to lead by example. An important deterrent is to have an appropriate framework of policies, procedures in place together with clear lines of accountability and responsibility. 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 which include:

- Anti Fraud and Anti Corruption Strategy;
- Anti Fraud and Anti Corruption Policy Statement
- Fraud Response Plan;
- Codes of Conduct and Disciplinary Rules for members and officers;
- Standing Orders and Financial Regulations;
- Accounting procedures and records;
- Internal control systems;
- Internal Audit;
- Recruitment and selection procedures;
- Disciplinary and Dismissal procedure;
- Anti money laundering procedures;
- Whistleblowing (Duty to Act) policy;
- Regulation of Investigatory Powers (RIPA) procedure.

### 5. ROLES AND RESPONSIBILITIES

5.1 The corporate framework can only be effective in prevention or detection of fraudulent activity if the policies, procedures and arrangements are complied with and there are clear lines of accountability and responsibility.

#### 5.2 **Managers' Responsibilities**

The day to day responsibility for the prevention and detection of fraud and corruption rests with line managers who are responsible for:

- Identifying the risks to which systems, operations and procedures are exposed;
- Developing and maintaining effective controls to prevent and detect fraud; and
- Ensuring that controls are being complied with

This may include ensuring that there is:

- An adequate separation of duties (more than one officer involved in key tasks);
- Proper authorisation procedures (transactions must be approved); and
- Independent monitoring and checking of data and documentation (checks and balances).

Managers should ensure that all staff are aware of the Council's anti fraud and anti corruption arrangements include the [Whistle blowing \(Duty to Act\) policy](#). Managers should also seek to create an environment in which all staff feel that they are able to approach them should they suspect any irregularity is occurring.

#### 5.3 **Employees Responsibilities**

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All staff, including managers, are responsible for:

- Acting with propriety in the use of resources and in the handling and use of public funds whether they are involved with cash or payment systems, receipts or dealing with contractors, suppliers or customers;
- Reporting immediately, without any fear of recrimination, if they suspect or believe that there is evidence or irregular or improper behaviour or that a fraud may have been committed.

In the first instance an employee may choose to contact his/her line manager however it is recognised that there may be circumstances where this is not appropriate. If for any reason an employee feels unable to speak to their manager, then they should act in accordance with the Council's Whistle blowing (Duty to Act) policy. This policy encourages and provides an opportunity for employees to report in confidence any concerns to either the Chief Executive, Solicitor to the Council or the Chief Internal Auditor. The Council will fully support any employee acting within the Whistle blowing (Duty to Act) Policy.

### 5.4 **Members Responsibilities**

The elected Members of the Council have a duty to the citizens of Southampton, to protect the assets of the Council from all forms of abuse. This is reflected through the adoption of this Anti-Fraud and Corruption Strategy and Policy Statement and compliance with the National Code of Conduct for Members, the Councils Financial Regulations and Standing Orders and relevant legislation.

The Council has in place a Standards and Governance Committee which has, within its terms of reference, specific responsibility to:

- To design, implement, monitor, approve and review the ethical framework of the Council, both for Councillors and employees. The Committee's powers shall include responding to consultation documents and the promulgation of Codes of Conduct but the adoption and revisions to the local Code of Conduct for Councillors shall be reserved to the Council.
- To promote a culture of openness, ready accountability and probity in order to ensure the highest standards of conduct of Councillors and employees.
- To lead on all aspects of Corporate Governance by promoting the values of putting people first, valuing public service and creating a norm of the highest standards of personal conduct.

### 5.5 **Role of the Responsible Officer**

Under Section 151 of the Local Government Act 1972 and The Accounts and Audit Regulations 2003, the "responsible officer" (Executive Director Resources and Chief Financial Officer) is responsible for ensuring that the Council has control systems and measures in place "to enable the prevention and detection of inaccuracies and fraud, and the ability to reconstitute any lost records".

### 5.6 **Role of Internal Audit**

All suspected fraud or irregularities should be reported to the Chief Internal Auditor who is responsible for collating and maintaining a central record of all such reports received by the Council.

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The purpose of internal audit is to provide independent and objective assurance to the Council on risk management, control and governance, by evaluating their effectiveness in achieving the Council's stated objectives. Amongst the range of services provided it includes fraud and irregularity investigations in which:

- specialist skills and knowledge will be provided to assist in an investigation, or lead an investigation where appropriate; and
- fraud prevention controls and detection processes are assessed to ascertain their effectiveness.

## 5.7 Role of the Benefit Investigation Unit

The responsibility of the Benefit Investigation Unit is to undertake the investigation of allegations of fraud and discrepancies in the housing and council tax benefits systems including national benefits in accordance with the benefit fraud policy.

## 5.8 Role of the External Auditor

The responsibilities of the external auditor include the review of the Council's arrangements for preventing and detecting fraud and corruption. External auditors do not have a specific role to prevent fraud and irregularity but the auditors are always alert to the possibility of fraud and corruption and will report without due delay if any grounds for suspicion come to their notice.

## 6. FRAUD RESPONSE PLAN

The Council has in place a [Fraud Response Plan](#) which should act as a checklist of actions and a guide to follow in the event that a fraud is suspected. The plan covers:

- Purpose
- Managing the risk of fraud
- Roles and Responsibilities (investigation process)
- Initiating the action
- Establishing and securing evidence
- Recovery of losses
- Prevention of further losses
- Reporting

## 7. SUMMARY

- 7.1 The Council has in place a clear network of systems and procedures to assist it in the prevention of fraud and corruption. The Council is committed to ensuring that these arrangements will keep pace with future developments, in both preventative and detection techniques, regarding fraudulent or corrupt activity that may affect its operation or related responsibilities.

## 8. APPENDICES

APPENDIX 1 – Fraud Response Plan.

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## **SOUTHAMPTON CITY COUNCIL FRAUD RESPONSE PLAN**



### **1. PURPOSE**

Southampton City Council is committed to highest possible standards of openness, probity and accountability.

The purpose of the Fraud Response Plan is to define responsibilities for action, confirm the reporting lines and procedures to be followed where a fraud is suspected and to ensure timely and effective action can be taken. The plan is part of the Council's overall Anti Fraud and Anti Corruption Strategy and Policy and applies to elected members and all Southampton City Council employees including those employed on a temporary or contract basis.

The use of the plan will enable the Council to:

- assign responsibility for investigating the incident;
- ensure that those suspected of being involved in a fraud or irregularity are treated fairly and consistently;
- keep all personnel with a need to know suitably informed about the incident and the progress of the investigation;
- establish circumstances in which external specialists should become involved;
- establish and secure evidence necessary for criminal and disciplinary action;
- recover losses and prevent further loss;
- notify the Police where appropriate and establish lines of communication with them;
- review the reasons for the incident, the measures taken to prevent a recurrence, and any action needed to strengthen future responses to fraud;
- reduce adverse impacts on the Council's operations; and
- make people aware of the possible consequences of committing fraud against the Council.

### **2. MANAGING THE RISK OF FRAUD**

The management of fraud risk is the responsibility of everybody in the Council. The internal control system should be designed to respond to and manage the risks that the Council faces in the achievements of its aims and objectives. Managing fraud risk should be seen in the context of this wider risk.

Some areas of the Council's operation will have an inherent risk of fraud, e.g. housing and council tax benefits fraud, insurance fraud etc. It should be recognised that these services will have targets, measures and procedures to reduce the level of fraud risk and to detect, respond and deal with fraud. This plan is not intended to cover any suspected cases of these types of fraud. Further information on the arrangements in place in these areas may be obtained from:

Housing and Council Tax Benefits: Benefit Investigation Unit telephone: 023 8083 2380 or e-mail at [benefit.fraud@southampton.gov.uk](mailto:benefit.fraud@southampton.gov.uk)

Insurance: Risk Management and Insurance, telephone: 023 8083 3291 or via e-mail at [insurance@southampton.gov.uk](mailto:insurance@southampton.gov.uk)

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### 3. ROLES AND RESPONSIBILITIES

The role and responsibilities of both elected members and employees in relation to counter fraud and corruption are detailed in the Council's 'Anti Fraud and Anti Corruption Strategy and Policy' as follows:-

<http://www.southampton.gov.uk/thecouncil/thecouncil/organisation/corporategovernance/antifraudcorruption.asp>

<http://www.southampton.gov.uk/thecouncil/thecouncil/organisation/corporategovernance/antifraudcorruptionstrategy.asp>

All members and employees are required to report promptly any suspected fraud in accordance with the Council's 'Duty to Act - Whistleblowing Policy' as follows:-

[http://www.southampton.gov.uk/Images/Whistleblowing%2520Policy%2520\(Duty%2520to%2520Act\)\\_tcm19-122913\\_tcm46-168797.pdf](http://www.southampton.gov.uk/Images/Whistleblowing%2520Policy%2520(Duty%2520to%2520Act)_tcm19-122913_tcm46-168797.pdf)

The responsibilities for ensuring that appropriate actions are taken upon receipt of any allegation that appears to involve elected members, employees or those working for or on behalf of the Council are delegated as follows:

#### i) Internal Audit

All suspected fraud or irregularities should be reported to the Chief Internal Auditor who will determine whether the information provided is adequate to establish a prima facie case, seeking further information where it is deemed necessary. The Chief Internal Auditor is responsible for collating and maintaining a central record of all such reports received by the Council.

In some cases the allegation may relate directly to a management or performance issue rather than an actual fraud or irregularity. Examples of management issues may include concerns around time management, poor performance, attendance management, disciplinary, etc. In such circumstances the matter would be referred back to the line manager for action with the appropriate support of Human Resources.

The Chief Internal Auditor would normally be the nominated 'Investigation Leader' in the investigation of a fraud or serious irregularity. Examples of fraud or serious irregularity may include suspected distortion of financial statements carried out to conceal the misappropriation of assets, offers of inducements or rewards with the intention of influencing the actions or decisions.

Fraud investigations involving employees should not normally be undertaken by management, although management will be expected to co-operate fully with any requests for assistance from the Investigation Leader.

The Chief Internal Auditor may directly or through delegation to suitably trained staff:

- provide advice to employees wishing to raise concerns;
- assist in the deterrence and prevention of fraud through advice on the effectiveness of control commensurate with the extent of potential exposure or risk in the areas of the Council's operations under review;
- work in conjunction with management (where appropriate) in conducting fraud investigations, either through the provision of advice or guidance, or through the provision of resources, either directly or through appointment of external specialists, necessary to conduct a fraud investigation;

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- ensure that the 'Anti Fraud and Anti Corruption Strategy and Policy' and any associated documents are consistent with relevant legislative requirement;
- maintain and administer the Council's 'Whistleblowing – Duty to Act' arrangements including the administration of the online reporting facility ([duty.to.act@southampton.gov.uk](mailto:duty.to.act@southampton.gov.uk));
- submit an annual report on Counter Fraud and Corruption to the Audit Committee.

### ii) Human Resources

The Head of Human Resources may, following discussion with the Chief Internal Auditor, be nominated the 'Investigation Leader' in the conduct of an investigation.

The Head of Human Resources may, either directly or through delegation to suitably trained staff:

- provide advice to employees wishing to raise concerns;
- provide advice to line managers in making decisions with regards to suspension and disciplinary proceedings. This includes matters covered in employment law and the Council's employment policies;
- ensure that policies on 'Gifts and Hospitality' and 'Declaration of Pecuniary and Outside Interests' and any associated documents are consistent with relevant legislative requirements;
- ensure that the 'Anti Fraud and Anti Corruption Strategy and Policy' and associated documents are consistent with Council's employment policies and relevant employment law; and
- provide resources, either directly or through appointment of external specialists, necessary to conduct a fraud investigation.

### iii) Legal Services

The Solicitor to the Council may, following discussion with the Chief Internal Auditor, be nominated the 'Investigation Leader' in the conduct of an investigation.

The Solicitor to the Council may, either directly or through delegation to suitably trained staff:

- provide advice to employees wishing to raise concerns;
- provide advice in relation to Members' Code of Conduct, Officer/Member Protocol and associated matters;
- ensure that the 'Duty to Act – Whistleblowing Policy' and the 'Anti Fraud and Anti Corruption Strategy and Policy' and associated documents are consistent with relevant legislative requirement;
- provide resources, either directly or through appointment of external specialists, necessary to conduct a fraud investigation.

### iv) Chief Executive

In a situation where a Member identifies that an Officer may have committed a breach of the Council's disciplinary rules and procedures, s/he shall draw the issue to the attention of the Chief Executive (Head of Paid Service) in accordance with the Officer/Member Protocol. Following consultation with the Head of Human Resources, the Chief Executive will ensure that the appropriate action is taken.

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## v) **Directors/Heads of Service/Operational Managers**

Directors, Heads of Service and Operational Managers are responsible for:

- assessing the types of risk, including fraud risk, involved in the operations for which they are responsible;
- ensuring that an adequate system of internal control exists within their areas of responsibility and that controls operate effectively; and
- preventing and detecting fraud and promptly reporting all suspected fraud or irregularities to the Chief Internal Auditor.

## 4. **INITIATING THE ACTION**

### i) **Detection**

Suspicion of fraud or irregularity may be raised through a number of means, including the following:

- Operation of proper management and control procedures; or
- Disclosure under the Council's 'Duty to Act – Whistleblowing Policy'; or
- The requirements under Financial Procedure Rules for Chief Officers to report all suspected fraud or irregularities to the Chief Internal Auditor; or
- Planned audit work; or
- Allegations (anonymous or otherwise) from the public, officers, members or other bodies.

### ii) **Initial Action**

In the first instance, all actual or suspected incidents of fraud or irregularity should be reported in accordance with the Council's 'Duty to Act – Whistleblowing Policy' as follows, to:

- the relevant line manager; or
- the relevant Executive Director; or
- the Chief Internal Auditor, Solicitor to the Council or the Chief Executive as the nominated officers identified in the 'Whistleblowing- Duty to Act' policy; or
- the online reporting facility ([duty.to.act@southampton.gov.uk](mailto:duty.to.act@southampton.gov.uk)); or
- the external confidential helpline 020 7404 6609 provided by the independent charity, Public Concern at Work.

As much information as possible should be gathered by the person receiving the allegation, without alerting the suspects, to determine whether there is substance to the claim and/or whether the allegation actually relates to a suspected fraud or irregularity.

This information should be passed immediately to the Chief Internal Auditor.

### iii) **The Investigation Process**



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The Chief Internal Auditor will consider the information provided and determine whether it is adequate to establish a prima facie case of fraud or serious irregularity, seeking further information where it is deemed necessary. Once a prima facie case has been established and a full investigation is considered appropriate, a meeting of the following officers (or their nominated deputies) will normally be called within one working day to determine the response:

- Chief Internal Auditor (or nominated deputy); and
- the relevant senior line manager; and
- Head of Human Resources (or nominated deputy) where allegations relate to a staff member; or
- Solicitor to the Council (or nominated deputy) where allegations relate to a member.

The response will normally be a full investigation, carried out to a criminal standard of proof, led either by the Chief Internal Auditor, Head of Human Resources or Solicitor to the Council as appropriate. The 'Investigation Leader' will be determined and agreed by mutual consent taking into account the nature of allegation and/or type of subsequent investigation required. The process will involve the use of authority to:

- screen allegations or information to gauge their credibility;
- secure all evidence;
- interview suspects / witnesses;
- take statements; and
- liaise with departments or other agencies (including the Police).

The decision to initiate a full investigation shall constitute authority to spend the necessary Internal Audit, Human Resources or Legal Services time on this work. The officer group will also consider whether the involvement of officers from other specialist areas, such as Information Technology, or external fraud specialist investigators, is required.

In certain circumstances it may be deemed necessary and appropriate to undertake covert investigation or directed surveillance. This option would however only be considered where all other sources of information had been explored / exhausted and any such surveillance was deemed necessary and proportionate, taking into account the provisions of the Regulation of Investigatory Powers Act 2000 ('RIPA'). Any request for covert investigation or directed surveillance must be formally approved by a RIPA Authorised Officer.

The Investigation Leader shall make appropriate arrangements to ensure that the officer group is kept informed of progress of the investigation and, where necessary, meetings will be held if significant decisions relating to the case need to be made, for example invoking disciplinary action, referral to the Police, recovery of assets, etc.

### **5. ESTABLISHING AND SECURING EVIDENCE**

The primary objectives of any investigation will be to establish the facts and to determine whether any offences (criminal or disciplinary) have occurred. The Investigation Leader will advise the relevant line manager of the facts arising from the investigation and will make recommendations on appropriate sanctions. The Council will follow disciplinary procedures against any member of staff who has committed fraud. The Council will also involve the Police and pursue the prosecution

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of any such individual where there is evidence that a criminal offence has taken place.

The Investigation Leader will:

- maintain familiarity with the Council's disciplinary procedures, to ensure evidence requirements will be met during any fraud investigation;
- establish and maintain contact with the Police throughout the investigation as required; and
- ensure that staff involved in fraud investigations are familiar with and follow the rules on the admissibility of documentary and other evidence in criminal proceedings.

### **6. RECOVERY OF LOSSES**

Where losses have occurred, their recovery will form an important part of the fraud investigation. The Investigation Leader shall ensure that, where possible, the amount of any loss will be quantified for all fraud investigations. Repayment of losses will be sought in all cases.

Where the loss is substantial, legal advice will be obtained without delay about the options available and any need to freeze the suspect's assets through the Court, pending the conclusion of the investigation. Similarly, where the perpetrator refuses to repay, legal advice will be sought about prospects for recovering losses through the Civil Court. The Council would normally seek to recover any legal or other costs in addition to any losses.

### **7. PREVENTION OF FURTHER LOSS**

Where initial investigation provides reasonable grounds for suspecting fraud, the officer group will, wherever possible, make recommendations to prevent or reduce the risk of further loss. This may require suspension of the suspect(s) in accordance with Council's disciplinary procedures. It may be necessary to plan the timing of suspension to prevent the suspect from destroying or removing evidence that may be needed to support disciplinary or criminal action.

In these circumstances, the suspect should be approached unannounced by the Investigation Leader and relevant line manager. The suspect should be supervised at all times before leaving the premises. They should be allowed to collect personal property under supervision, but they should not be able to remove any property belonging to the Council. Any security passes, keys to premises or vehicles, mobile telephone, portable equipment, etc. should be retrieved from the suspect and / or arrangements made for their prompt return. The Head of ITS should be instructed to immediately withdraw access permissions to all computer systems and where appropriate, any IT equipment used by the suspect should be quarantined.

The Investigation Leader shall consider whether it is necessary to investigate systems, other than that which has given rise to suspicion, through which the suspect(s) may have had opportunities to misappropriate assets.

### **8. REPORTING**

The Investigation Leader, in consultation with other members of the officer group, will determine and agree the appropriate person to whom confidential update reports regarding progress of the investigation should be provided. The Investigation Leader will consider whether it is necessary to promulgate areas of learning identified within

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the investigation to other directors/senior line managers, particularly where there is considered to be significant risk to other areas of the business of major loss or business failure.

### **i) Dealing with the media**

The Investigation Leader will inform the relevant Executive Director and/or Cabinet Member and the Council's Head of Communications of any high profile fraud cases so that they can manage or monitor Council's media response.

### **ii) Reporting to Audit Committee**

The Chief Internal Auditor shall provide periodic confidential update reports on significant investigations at appropriate stages of the investigation to the Audit Committee.

These reports shall summarise:

- circumstances surrounding the case, contributing factors, etc.;
- quantification of actual/estimated losses;
- progress with recovery action;
- progress with disciplinary action;
- progress with criminal action;
- an estimate of resources required to conclude the investigation;
- actions taken to prevent and detect similar incidents; and
- any significant variation from the Fraud Response Plan, together with reasons for the variation.

On completion of a significant investigation, the Chief Internal Auditor shall submit a written report to the Audit Committee containing:

- a description of the incident, including value of any loss, the people involved and the means of perpetrating the fraud;
- the measures taken to prevent a recurrence; and
- any action needed to strengthen future responses to fraud, with a follow-up report on whether the actions have been taken.

## **9. OTHER ISSUES**

### **i) Responsibility for investigation**

Where allegations relate to external suppliers, customers or contractors the Chief Investigation Leader may consider that the matter should be passed to the relevant line manager for appropriate action. In these circumstances, the Chief Internal Auditor or the Head of Human Resources or the Solicitor to the Council may offer advice and support as required. Managers must ensure that all such allegations, investigations and their outcomes are notified to the Chief Internal Auditor for information purposes and for inclusion in the annual report on Counter Fraud and Corruption to the Audit Committee.

### **ii) Technical expertise**

Some investigations may require the use of specific technical expertise, which the Council does not possess. In these circumstances, the project officer group may approve the appointment of external specialists to lead or contribute to the investigation.

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**iii) References for employees disciplined or prosecuted for fraud**

Any requests for a reference for a member of staff who has been disciplined or prosecuted for fraud, or is the subject of an ongoing investigation, shall be referred to the Head of Human Resources who shall prepare any response to such a request.

**iv) Review of the Fraud Response Plan**

The Fraud Response Plan will be reviewed by the Chief Internal Auditor, in consultation with other relevant officers, on at least an annual basis with any significant changes reported to the Audit Committee.

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