



Safest People, Safest Places

Audit and Finance Committee

30 September 2021

Fraud and Corruption Annual Report 2020/21

Report of the Head of Internal Audit

Purpose of the Report

1. The purpose of this report is to advise and provide assurances to Members of the Audit and Finance Committee of the results of work being undertaken within the Authority in seeking to identify, control and prevent fraud and corruption.

Background

2. Public accountability, a reputation for honesty and the exposure of misconduct are key features of the approach taken in combating potential fraud and corruption from within and outside the Authority.
3. The Fraud Act 2006 describes the following three methods of committing fraud;
 - Fraud by misrepresentation
 - Fraud by failing to disclose information
 - Fraud by abuse of position
4. Corruption is defined as “the offering, giving, soliciting or acceptance of any inducement or reward which may improperly influence the action of any person”.

The Authority’s Responsibilities in relation to Fraud and Corruption

5. In administering its responsibilities, the Authority has in place a framework of written procedures and controls to help ensure the highest standards of conduct are practised.
6. Central to these are detailed rules for decision making, and rules of procedure, including; a Constitution, Standing Orders, Contract Procedure Rules, Financial Regulations, Member, Officer Codes of Conduct, and a Whistleblowing Policy (Confidential Reporting Code).

7. The Authority has also approved a number of other policies in relation to the prevention, detection and investigation of fraud as follows:
 - Anti-Fraud, Anti-Bribery & Anti-Corruption Policy
 - Regulation of Investigatory Powers Act (RIPA) 2000 Policy
 - IT Security Policy
 - Disciplinary Procedures
8. Internal Audit has a key role in providing assurance that the Authority's procedures and policies are adhered to and in helping to detect fraud through its testing. All Internal Audit staff are aware to the risk of fraud and corruption and help prevent this through evaluating the effectiveness of internal controls and recommending improvements to management to help manage risk.
9. It is the responsibility of the Section 151 Officer to develop, maintain and review the Authority's Anti-Fraud, Anti-Bribery & Anti-Corruption Policy. Senior Officers are responsible for promoting the Policy within their Department and ensuring that all suspected irregularities are reported to the Head of Internal Audit.
10. It is the responsibility of Senior Officers to establish sound systems of internal control in its arrangements for planning, appraising, authorising and controlling operations within their areas. In doing so Officers must be aware of the risk of fraud and corruption within their areas of operation and should seek advice from Internal Audit as considered necessary. Where possible this advice should be sought during the development of systems so that Internal Audit can be pro-active in helping management establish appropriate controls pre-implementation, thereby increasing their effectiveness and minimising risk.
11. Publication of related policies on the Authority's website and intranet is a further way in which the Authority seeks to be pro-active in this area. Policies are also incorporated into Employee Handbooks and are identified during officer and member induction.
12. Internal Audit will look to advise / work with the Section 151 Officer in determining the relevant course of action to be pursued, in the event of fraud or corruption including, where it is considered appropriate, to involve the Durham Constabulary. To help manage this process the Council has a dedicated Counter Fraud Team within the Internal Audit Service who hold appropriate professional qualifications in Fraud Investigation.

National Fraud Initiative NFI

13. Internal Audit also supports management pro-actively in the prevention and identification of potential irregularity through membership of the National Anti-Fraud Network (NAFN) and directly through participation within the National Fraud Initiative (NFI).
14. The NFI is the Cabinet Office's data matching exercise that runs every two years. Data from Authority systems was submitted in October 2020 and was matched across systems and against data submitted by other organisations to identify potential fraud and / or error.

15. The exercise focused upon payments made in relation to pensions, payroll and creditors and generated various reports containing a total of 201 data matches for further investigation.
16. The report confirmed that out of the 201 data matches identified;
 - One duplicate payment for £2,325 was identified as being caused by human error. Arrangements have been made to recover the overpayment from the supplier.
 - Two minor errors contained within the creditors database were identified and rectified as a result of the review.
17. All 201 data matches were reviewed and investigated as appropriate with no instances of fraudulent or irregular activity, being perpetrated by Service employees, pensioners or their representatives identified.

Fraud and Corruption Survey

18. Internal Audit adapted the former Audit Commission's fraud and corruption survey attached as Appendix 1 for use as a reference point against which fraud can be analysed and categorised. Through discussion with the Deputy Chief Executive no incidences of fraud were identified as occurring during 2020/21.

Recommendation

19. Members are requested to note the progress made and assurances provided in relation to the Authority's anti-fraud and anti-corruption arrangements.

Tracy Henderson, Interim Audit Manager, 03000 269668

Fraud cases

Procurement, Insurance and Economic/ third sector fraud

Note: all cases in this survey where management authorised action has been taken, such as an investigation or enquires made, and as a result an officer with management authorisation has determined that on the balance of probabilities a fraud or act of corruption has occurred. As such, cases do not require a sanction or prosecution to be determined as fraudulent.

If you have cases but do not record the number and/or the value please answer 'yes' and record 'NR' in Number of cases and/or Value (£'s)

Procurement fraud

Note: this is any fraud linked to the false procurement of goods and services for the organisation either by internal or external persons or companies including but not limited to: violation of procedures; manipulation of accounts: records or methods of payment failure to supply; failure to supply to contractual standard.

Did you have any cases of procurement fraud? **No**

Fraudulent insurance claims

Note: this is any insurance claim against your organisation or your organisation's insurers that proves to be false.

Did you have any cases of fraudulent insurance claims? **No**

Economic and third sector support fraud

Note: this is any fraud that involves the false payment of grants, loans or any financial support to any private individual or company, charity, or non-governmental organisation including, but not limited to: grants paid to landlords for property regeneration; donations to local sports clubs; loans or grants made to a charity.

Did you have any cases of economic and third sector support fraud? **No**

Debt, Pensions and Investment fraud

If you have cases but do not record the number and/or the value please answer 'yes' and record 'NR' in Number of cases and/or Value (£'s)

Debt Fraud

Note: This is any fraud linked to the avoidance of a debt to the organisation including, but not limited to false declarations; false instruments of payment or documentation,

Did you have any cases of debt fraud? **No**

Pension Fraud

Note: this is any fraud relating to pension payments including, but not limited to: failure to declare changes of circumstances; false documentation; or continued payment acceptance after the death of the pensioner.

Did you have any cases of pensions fraud? **No**

Investment fraud

Note: this is any fraud relating to investments including, but not limited to: the fraudulent misappropriation of assets; or loss through breach of procedures

Did you have any cases of investment fraud? **No**

Payroll and Expenses fraud, Abuse of position and Other fraud

Payroll and employee contract fulfilment fraud

Note: this includes, but is not limited to: the creation of non-existent employees; unauthorised incremental increases; the redirection or manipulation of payments; false sick claims; not working required hours; or not undertaking required duties.

Did you have any cases of payroll and contract fulfilment fraud? **No**

Number of cases

Value (£'s)

In the Payroll and employee contract fulfilment detected fraud cases you have reported is there any evidence to suggest they have resulted from organised crime?

Expenses fraud

Note: this includes, but is not limited to: false declarations of mileage allowances; breaches of authorisation and payment procedures.

Did you have any cases of employee expenses fraud? **No**

Did you have any cases of councillor expenses fraud? **No**

Abuse of position

Note: this could include frauds not reported elsewhere (the financial gain could be for the fraudster or other) including, but not limited to: the misappropriation or distribution of funds by someone taking advantage of their position such as payments officers, bursars or finance managers; or fraudulently securing a job for a friend or relative.

Did you have any cases of abuse of position for financial gain? **No**

Did you have any cases of manipulation of financial or non-financial data? **No**

Note: this includes, but is not limited to: the falsifying of statistics to ensure performance targets are met; or the adjustment of accounts to remain within set financial limits for the benefit of an individual or the organisation.

Other fraud

Did you have any other types of fraud? **No**

Recruitment fraud and fraud reporting

If you have cases but do not record the number and/or the value please answer 'yes' and record 'NR' in Number of cases and/or Value (£'s)

Recruitment Fraud

Note: this could involve any applications, including attempts, to gain employment or subsequently where any of the details prove to be false, including but not limited to: false identity, immigration (no right to work or reside); false qualifications; or false CVs.

Did you have any cases of recruitment fraud? **No**

Not included in figures elsewhere in the survey, how many incidents of corruption did you have involving a councillor? **None**

Not included in figures elsewhere in the survey, how many incidents of corruption did you have involving an employee? **None**

Prosecutions

Fraud and Corruption Prosecutions

If you have cases but do not record the number and/or the value please answer 'yes' and record 'NR' in Number of cases and/or Value (£'s)

Fraud

Did you prosecute any cases of fraud? **No**

Did you have any fraud prosecutions that resulted in a guilty outcome? **No**

Corruption prosecutions

Did you prosecute any cases of corruption? **No**

Did you have any corruption prosecutions that resulted in a guilty outcome? **No**