

**REPORT TO:** AUDIT AND RISK MANAGEMENT SUB-COMMITTEE 20/03/06  
**REPORT ON:** FRAUD GUIDELINES  
**REPORT BY:** CHIEF INTERNAL AUDITOR  
**REPORT NO:** 80-2006

**1. PURPOSE OF REPORT**

To submit to Members of the Audit and Risk Management Sub-Committee the proposed revised Fraud Guidelines for approval.

**2. RECOMMENDATIONS**

It is recommended that the Members of the Sub-Committee approve the revised Fraud Guidelines, attached as Appendix A, and thereafter for these to be cascaded throughout the Council.

**3. FINANCIAL IMPLICATIONS**

None

**4. LOCAL AGENDA 21 IMPLICATIONS**

None

**5. EQUAL OPPORTUNITIES**

None

**6. BACKGROUND**

- 6.1. As part of the Internal Audit Plan for 2005/06, a review of the Council's existing Fraud Guidelines was undertaken. Given the current guidance has been in place since April 1996 it was considered an opportune time for such a review. The audit fieldwork in carrying out this exercise included contacting other Scottish Local Authorities to obtain copies of their current Guidance and also reviewing publications issued by professional bodies such as CIPFA and the Institute of Internal Auditors. The salient points from these documents were extracted as a basis to update the Council's Guidelines.
- 6.2. Whilst the attached Fraud Guidelines provide a more comprehensive reference source, it is important to note that the fundamental approach to fraud adopted by Dundee City Council since Local Government reorganisation has not changed. The City Council is committed to protecting public funds and responding effectively to fraud, when it occurs, including taking legal and/or disciplinary action where appropriate.

**DAVID K DORWARD**  
**DEPUTE CHIEF EXECUTIVE (FINANCE)**

**13 January 2006**

**BACKGROUND PAPERS**

None



# ***Dundee City Council***

## ***Fraud Guidelines***

***December 2005***

<b><u>Contents</u></b>	<b><u>Page no</u></b>
1 Introduction	3
2 Definitions	4
3 The Anti-Fraud Strategy	5
4 Culture	6
5 Roles and Responsibilities	7
6 Internal Control Systems	10
7 Fraud Response Policy	11
8 Conclusion	13

**Appendix**

- A Internal Audit Staff and Finance Directorate Contacts
- B Key Areas in the Structure and Conduct of an Investigation

## **1. Introduction**

Dundee City Council is committed to protecting the public funds entrusted to it. The minimisation of losses to fraud and corruption is essential for ensuring that resources are used for their intended purpose, that of providing services to the citizens of Dundee.

The Council is determined to protect itself and the public from fraud and corruption and is committed to maintaining an effective anti-fraud and corruption strategy which will provide a framework to:

- Encourage fraud prevention
- Promote detection
- Investigate all instances of suspected fraud
- Pursue recovery of any losses
- Invoke disciplinary and police proceedings, where appropriate

An internal control framework exists to ensure that Dundee City Council's financial and operational environments are properly controlled. The following documents and procedures are an important part of effective internal control processes:

- Standing Orders
- Scheme of Administration for Financial Regulations
- Scheme of Administration for Tender Procedures
- Scheme of Administration for Delegation of Powers
- Operating Procedures and Guidelines
- Employees' Conditions of Service and Employment Policies
- Code of Conduct for Councillors
- The National Code of Conduct for Local Government Employees in Scotland

As stewards of public funds, employees and Councillors must have, and be seen to have, high standards of personal integrity.

**2. Definitions**

**Fraud:**

In law there is no specific offence of fraud. The term is used to describe obtaining money, assets, contracts, benefits or advantage through deliberate deceit, whether active or passive. It covers a wide variety of offences, such as falsification of accounts, theft, embezzlement and bribery.

**Corruption:**

This relates to the offering, giving, soliciting or acceptance of an inducement or reward which may improperly influence the action of any person.

### **3. The Council's Anti-Fraud Strategy**

The objective of this strategy is to prevent fraud and corruption. The purpose of this strategy is to formalise the responsibilities and arrangements for the prevention of, and response to, fraud and corruption.

The Council's strategy for the prevention and detection of fraud and corruption is based on the following comprehensive and related elements:

- Developing and promoting an anti-fraud culture.
- Allocating responsibilities for the overall management of the risk of fraud.
- Establishing cost effective internal controls to detect and deter fraud.
- Responding effectively to fraud when it occurs, including taking appropriate legal and/or disciplinary action.
- Monitoring systems to record, and subsequently monitor, all discovered cases of fraud.

#### **4. Culture**

Creating an anti-fraud culture, in which all staff understand the standards of conduct required, their personal responsibilities in preventing fraud and the importance of controls, is vital in preventing fraud.

The Council is committed to the seven Principles of Public Life identified by the Nolan Committee, namely selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

The Council expects Councillors and employees to lead by example in ensuring opposition to fraud and corruption. This includes adherence to rules, regulations, procedures and practices.

The Council requires all individuals and organisations with whom it deals in any capacity to behave towards the Council with integrity and without intent or action involving fraud or corruption.

Councillors, employees and members of the public are the important elements in the stance against fraud and corruption and are positively encouraged to raise any concerns they may have on issues which impact on Council activities being carried out with propriety.

Training and guidance is vital in maintaining the effectiveness of the strategy and its general credibility. The Council supports induction and work related training. This ensures that responsibilities and duties are regularly highlighted and reinforced to ensure that best practice is followed across all Council Services.

Senior management should try to create the conditions in which staff have neither the motivation nor the opportunity to commit fraud. The maintenance of good staff morale may help to minimise the likelihood of an employee causing harm to the organisation through fraud.

Under the right conditions staff are themselves an excellent deterrent against fraud. Staff should be encouraged to report suspicions of fraud either to their line managers, Internal Audit or to call the Council's Helpline for Employees.

The Council have a "whistleblowing" policy in place whereby any genuine concerns can be raised confidentially.

The Council's Internal Audit Service is pivotal in the investigation of fraud and corruption and the approach to such matters is outlined in The Fraud Response Policy (detailed at Section 7).

## **5. Roles and Responsibilities**

### ***(i) Chief Executive***

The Chief Executive has overall responsibility for the operations and activities of the Council.

### ***(ii) Chief Officers and Managers***

Managers at all levels are responsible for ensuring that:

- An effective system of internal control is in place within their areas of responsibility.
- All employees for whom they are responsible are complying with the relevant codes of conduct.
- All complaints are logged and details of subsequent actions and decisions are recorded.

Managers, therefore, are required to:

- Establish clear written rules and procedures, within which employees, consultants, contractors, service users, Councillors and the public can work.
- Regularly review and update the written rules to reflect the current operating environment.
- Assess types of risk involved in the operations for which they are responsible.
- Regularly review and test the control systems for which they are responsible.
- Ensure controls are being complied with.
- Ensure suitable levels of internal checks are included in working procedures, particularly financial procedures.
- Ensure that there is suitable segregation of duties, so that no one person can carry out a complete transaction without being subject to some form of checking process, and control of any key function is not vested in one individual.
- Ensure that employee recruitment is in accordance with procedures laid down by the Assistant Chief Executive (Management), and, in particular, written references are obtained to confirm the honesty and integrity of potential employees prior to an offer of employment being made.
- Ensure that backlogs of work are not allowed to accumulate.



- Ensure that there is regular rotation of staff where practicable.
- Give consideration to building in safeguards against internal and external fraud when designing a new system.
- Take seriously any allegation of fraud reported to them and deal with these in accordance with appropriate procedures.
- Make necessary changes to systems after a fraud to minimise the risk of recurrence.

***(iii) Employees***

Employees should be encouraged to be alert to the possibility of fraud and corruption in the workplace. They should know whom to contact if they suspect a fraud whether it is their line manager, other appropriate member of staff or Internal Audit.

Employees are responsible for ensuring they fully comply with codes of conduct within the Council and any code of conduct related to their professional body. They must also assist in any investigations by making available all relevant information.

Any Officer or other employee in receipt of a regular salary shall not be entitled to retain any fees or commissions collected or received in connection with the duties or their office.

Any Officer or other employee of the Council who corruptly accepts any gratuity, bonus, discount, bribe or consideration of any sort in connection with the duties of their office (or any other office within the Council) shall be liable to summary dismissal.

Councillors and employees must declare any possible conflicts of interest which they may have, whether in contracts entered into by the Council or otherwise. In the case of employees this should be done in writing to their Head or Department, while Councillors must declare their interests in the Register of Members.

***(iv) Internal Audit***

Internal Audit is available to offer advice and assistance on control issues as necessary. However, it is the responsibility of management to maintain effective internal controls for systems for which they are responsible and to ensure that the authority's resources are properly applied in the manner intended.

Internal Audit will have regard to the possibility of malpractice during routine audit work and will seek to identify defects in controls. They should report all weaknesses which could facilitate fraud to Heads of Departments.

Internal Audit is required to formally report all incidents of fraud to the Council's External Auditors who forward such information to Audit Scotland.

**(v)     *External Audit***

The role of external audit is to form an objective view of the discharge by the audited body of its stewardship responsibilities. They carry out specific reviews to test, amongst other things, the adequacy of the Council's financial systems. They also examine arrangements for preventing and detecting fraud and corruption.

**(vi)    *Members of the Public***

The success of the fraud prevention strategy will be enhanced through the honest and co-operative support of the public.

## **6. Internal Control Systems**

Control is any action, procedure or operation undertaken by management to increase the likelihood that activities and procedures achieve their objectives. A key element in the prevention of fraud and corruption is the operation of effective systems of internal control.

Thorough documentation, including working manuals and operating procedures, is expected for all financial and operational systems, and these must be issued to all relevant staff.

Every effort must be made to continually review and develop these systems in line with best practice to ensure efficient and effective internal controls, which include:

- Effective segregation of duties
- Authorisation procedures
- Budgetary control
- Financial monitoring
- Security of data
- Recording and documentation
- Training and support

This should assist in deterring fraudulent activity and detect error.

## **7. Fraud Response Policy**

The circumstances of individual frauds may vary, but suspected frauds will be investigated thoroughly and timeously, and the appropriate action will be taken.

All employees must inform their line manager, or appropriate member of staff of any circumstances which may suggest an irregularity affecting the finances, services or policy of the Council. Alternatively, there is a Council Helpline for employees to disclose information if they feel that they cannot discuss the matter with their line manager.

The confidentiality of any concerns raised will be maintained as far as possible.

All suspected frauds must be reported to Internal Audit, after initial assurance that there are reasonable grounds for concern. The Internal Audit staff are listed in Appendix A.

After consultation with appropriate officers, Internal Audit will decide on the type and course of investigation, which will essentially fall into one of four categories:

- The investigation is carried out solely by Internal Audit.
- A joint investigation is undertaken by Internal Audit and the department concerned.
- An internal investigation is carried out by the department with Internal Audit acting in an advisory capacity.
- The case is passed immediately to the Police who will carry out the investigation.

When a significant fraud is discovered and notified to Internal Audit, Internal Audit has a duty to inform the Depute Chief Executive (Finance) and the Head of Finance (contact details listed in Appendix A). At this stage a decision will be made in conjunction with the Chief Executive, Head of Department involved and the Assistant Chief Executive (Management) either to inform the Police or to investigate the matter internally. In most cases, the Police will not be officially notified at this stage. The Police may request the assistance of Internal Audit or any relevant party as part of the investigation.

The purpose of any investigation is to:

- Gather evidence to determine whether an irregularity has occurred
- Identify those involved
- Identify the amount involved
- Support findings with evidence
- Identify any control weaknesses or failures
- Recommend improvements
- Provide a written factual report on the incident.

All persons who are the subject of an investigation into suspected fraud or corruption will be treated fairly and courteously at all times.

It is the responsibility of each Head of Department to ensure action is taken following the enquiry including any formal disciplinary action. The Assistant Chief Executive (Management) is also involved to ensure that each employee is treated in accordance with the appropriate employment policies and procedures.

Where loss has been suffered through fraudulent activity, the Council will pursue the perpetrator for recovery.

Management must put in place controls recommended by Internal Audit following any fraud or corruption to reduce the risk of future loss.

Attached in Appendix B is a summary of the key areas which should be considered when undertaking a fraud investigation.

All aspects of Council Tax or Housing Benefit fraud are investigated by the Investigation Section in the Revenues Division of the Finance Department.

## **8. Conclusion**

The Council is committed to making sure that the opportunity for fraud and corruption is as small as possible.

The Council expects all employees, consultants, contractors, services users, Councillors and the public to be fair and honest, and to provide information, support and assistance to ensure fraud and corruption are prevented, subject to the Data Protection Act.

The Council has in place a clear framework of systems and procedures to deter, detect and investigate fraud and corruption. It will ensure that these arrangements are fair and transparent, and are monitored and updated for future developments in preventative, deterrent and detection techniques.

Fraud, corruption or other irregularities will be dealt with effectively, in a firm and controlled manner.

**APPENDIX A**

**Internal Audit Staff**

<b>Name</b>	<b>Post</b>	<b>Ext No (Tayside House)</b>
Sallie Dailly	Chief Internal Auditor	3159
Margery Rathband	Principal Internal Auditor	3942
Jacqueline Barr	Internal Auditor	3086
Tom Malone	Internal Auditor	3895
Muriel Rooney	Internal Auditor	3680
Lucy Russell	Internal Auditor	3895
Melanie Scott	Internal Auditor	3086

**Finance Department: Directorate Contacts**

<b>Name</b>	<b>Post</b>	<b>Ext No (Tayside House)</b>
David Dorward	Depute Chief Executive (Finance)	3359
Marjory Stewart	Head of Finance	3555

**APPENDIX B**

**Key Areas in the Structure and Conduct of an Investigation**

**1. Procedural Considerations**

- The overall objective is to achieve a professional and systematic approach to the investigation.
- It is important that there are adequate resources to investigate the matter.
- A working paper file should be opened for each investigation to ensure that it is satisfactorily documented in terms of information and evidence so that any action taken can be properly supported.

**2. Operational Considerations**

- All evidence and other documentation should be adequately secured.
- It is important to determine the most appropriate methods to seek out and evaluate the evidence to reach a considered professional opinion.
- Consideration must be given as to whether or not to suspend the employee(s) under investigation. The final decision whether or not to suspend is usually made by the department concerned in consultation with the Chief Executive, with appropriate advice provided by Internal Audit and the Personnel Department.

**3. Conduct of the Investigation**

The purpose of the investigation is to establish the facts in an equitable and objective manner. Therefore it is essential to ensure that:

- All documentation relevant to the investigation (preferably original documentation) is obtained.
- Other evidence, such as physical verification, cash counts, etc. is obtained as necessary.
- The evidence is evaluated. For larger investigations, with a high volume of information, it may be necessary to carry out a preliminary analysis of a select number of cases, with a full and detailed appraisal being carried out after the initial conclusion has been reached.
- Confidentiality is maintained. This prevents the employee whom the allegations are made against from destroying any evidence and prevents embarrassment should the allegations turn out to be unfounded.

**4. Interviewing**

- Thorough preparation before the interview is necessary, for example, typing out sample questions, ensuring all relevant documents are to hand and agreeing respective roles of those conducting the interview.
- Two people should be present to conduct the interview, one asking questions and one taking notes.
- It may be beneficial for the employee's manager to be present as they will have a more in depth knowledge of the systems involved.
- The interviewee has a right to be accompanied to the meeting.
- It is imperative that interview notes record the events accurately.
- The interviewee should be given the opportunity to read through the interview notes and make any adjustments necessary (which should



be initialled). The interview notes should then be consecutively numbered, dated and signed by interviewer and interviewee.

**5. Reporting Procedures**

- The primary responsibility for the prevention and detection of fraud rests with management and it is therefore essential that the findings are reported at a time and in a manner consistent with the needs of management.
- The report should be made to the appropriate level of management.
- The report should be of a high standard because the final report may well be used by management in a disciplinary situation or the Police in a criminal situation. Therefore, it is essential that the report accurately presents all material aspects of the investigation. Due consideration should be given to the content of any report as under the Freedom of Information (Scotland) Act 2002 the report could be made available to the public, this may increase the risk of similar frauds.
- The report should be supplemented by working papers which fully document the investigation.

**6. Post-Investigation Issues**

- The investigation may result in a formal disciplinary hearing chaired by a Senior Officer from the Department concerned and attended by a representative of the Personnel Department. The outcome of such a hearing may be an oral warning, a written warning, a final written warning or dismissal.
- An employee may lodge an appeal against the outcome of formal disciplinary action.
- In certain circumstances an employee may take the case to an employment tribunal.
- Where deemed appropriate the case may be referred to the Police. The decision whether to refer the case to the Police is made by the Head of the Department concerned in conjunction with the Chief Executive.
- When the investigation has been completed and all aspects have been explored and the extent of the fraud determined, it is necessary to determine whether there are any systems implications which have been disclosed by the fraud.
- It is then necessary to determine what changes (if any) need to be made, and controls imposed to bring the system up to the required standard.