

## NORTH YORKSHIRE COUNTY COUNCIL

### AUDIT COMMITTEE

19 April 2012

#### PROGRESS ON ISSUES RAISED BY THE COMMITTEE

#### Joint Report of the Corporate Director – Finance and Central Services and the Assistant Chief Executive (Legal and Democratic Services)

#### 1.0 PURPOSE OF THE REPORT

1.1 To advise Members of

- (i) progress on issues which the Committee has raised at previous meetings
- (ii) other matters that have arisen since the last meeting and that relate to the work of the Committee

#### 2.0 BACKGROUND

2.1 This report is submitted to each meeting listing the Committee's previous Resolutions when it requested further information to be submitted to future meetings. Accordingly, the current list of outstanding items is set out below:-

Date	Minute number and subject	Audit Committee Resolution	Comment
21/04/2011	140 – Information Governance	(b) That it be noted that the Corporate Director – Finance and Central Services intends to report to the Committee, at a later stage during the year, concerning information security breaches.	<b>See Agenda Item 9.</b>
30/06/2011	151 – Annual Governance Statement and Local Code of Corporate Governance	(c) That the Standards Committee be requested to let this Committee have sight of the new Standards of Conduct expected of County Councillors at such time as such standards are adopted.	This will be implemented once the new Code becomes available.

Date	Minute number and subject	Audit Committee Resolution	Comment
29/09/2011	163 – Internal Audit Work on Computer Audit	(b) That a report be submitted to each future meeting of the Committee to advise of progress in rationalising the management of ICT systems and of migrating only those systems supported by Corporate ICT to Microsoft.	<b>See paragraph 4 of this report.</b>
29/09/2011	165 – Review of the Effectiveness of Internal Audit	(b) That the outcome of the review of the 2011/12 review of the effectiveness of Internal Audit be reported to the June 2012 meeting of the Audit Committee.	Scheduled in the Work Programme for the 28 June 2012 meeting.
08/12/2011	174 – Progress on Issues Raised by the Committee	(b) That the Audit Committee's request for the Standards Committee to report once per year to the Audit Committee concerning the action the Standards Committee takes in reviewing Members' attendance records be retained within the "Progress on Issues Raised by the Committee" reports submitted to future meetings of the Audit Committee until such time as the Standards Committee determines this request.	This request has not yet been resolved.  The County Council, on 16 May 2012, is due to make a decision on the new local standards regime subsequent to the Localism Act 2011. Thereafter the Audit Committee's request can be given further consideration.  (The Standards Committee, on 28 November 2011, resolved "That consideration of this issue be deferred until the remit of the newly formed Standards Committee has been established".)
08/12/2011	177 – Governance of Partnerships	(b) That the CIPFA publication 'Partnerships from the Audit Committee perspective' be noted and that the questions on page 5 of that document be considered by officers in undertaking the 2012 annual review of the governance of partnerships involving the County Council.	Officers will reflect this suggestion in their next report on Partnerships which is scheduled in the Work Programme for the 6 December 2012 meeting.

Date	Minute number and subject	Audit Committee Resolution	Comment
08/12/2011	180 – Service Continuity Planning	(b) That a further report be submitted to the Committee once Management Board has considered the feedback from the pilot process.	Scheduled in the Work Programme for 28 June 2012 meeting.
08/03/2012	189 – Progress on Issues raised by the Committee	(b) That the checklist within the Audit Commission Annual Fraud Report “Protecting the Public Purse 2011” be submitted to the Committee’s meeting to be held on 19 April 2012.	This will be addressed in “Part II” of Fraud Training session proposed to be held before the 28 June 2012 meeting.
08/03/2012	191 – Counter Fraud and Associated Matters	(a) That the revised Counter Fraud Strategy, set out at Appendix 1 to the report, be recommended for approval by the Executive, subject to the inclusion of a statement advising of the types of fraud which have occurred in North Yorkshire.	The Committee’s recommendation is scheduled to be considered by the Executive on 24 April 2012. <b>See paragraph 5 of this report.</b>
08/03/2012	197 – Progress on 2011/12 Internal Audit Plan	(b) That Members contact the Head of Internal Audit if they are interested in attending any of the CIPFA workshops and training events for Audit Committee Members in 2012, as listed on page 105 of the papers for today’s meeting.	The Head of Internal Audit has contacted all Members and a booking / recording process is in place.
08/03/2012	197 – Progress on 2011/12 Internal Audit Plan	(c) That Assurance Mapping be undertaken in respect of the One Council Programme and that the offer from Deloitte LLP to work alongside that exercise be accepted.	A report will be submitted to the 6 December 2012 meeting.
08/03/2012	197 – Progress on 2011/12 Internal Audit Plan	(d) That the Corporate Director – Finance and Central Services report to a future meeting concerning the County Council’s position with regard to the risk areas, with the exception of transformation programmes, listed on pages 8-10 of the CIPFA Better Governance Forum briefing paper.	<b>See Agenda Item 8.</b>

Date	Minute number and subject	Audit Committee Resolution	Comment
08/03/2012	197 – Progress on 2011/12 Internal Audit Plan	(e) That the Corporate Director – Finance and Central Services organise a process to obtain views from Audit Committee Members concerning the Internal Audit Service.	Head of Internal Audit is devising a questionnaire that will be sent to all Members of the Committee following today's meeting; results will be collated for a report to the meeting scheduled for the 28 June 2012.
08/03/2012	198 – Programme of Work	That the Programme of Work for 2012/13 be approved, subject to the inclusion of the following:-  (a) Treasury Management Policies to be scheduled for a future meeting, such meeting to be identified by the Corporate Director – Finance and Central Services; and	Report on Treasury Management Practices scheduled for the 27 September 2012 meeting.
08/03/2012	198 – Programme of Work	That the Programme of Work for 2012/13 be approved, subject to the inclusion of the following:-  (b) the External Audit Fee Letter being scheduled for the September 2012 meeting.	Work Programme (see <b>Agenda Item 10</b> ) amended accordingly.

### 3.0 TREASURY MANAGEMENT

- 3.1 The Committee has taken an active role in monitoring the Treasury Management (TM) activity of the County Council, and the County Council has approved an amendment to the Terms of Reference of the Committee that acknowledges that role.
- 3.2 Given the current Code of Practice for Treasury Management, the Audit Committee needs to maintain this active interest particularly in relation to any significant changes in Treasury Management activity that necessitates changes in the County Council's lending or borrowing strategies. However these changes do not necessarily occur on a predictable or regular basis.
- 3.3 Members have therefore agreed that, rather than produce an agenda report which states that "nothing has changed", such an update can be provided via this report. Clearly however if significant changes have taken place they will be reported to the Committee in the normal way via a separate report on the Agenda.

- 3.4 Since the Committee's last meeting held on 8 March 2012, there have been no material changes in either the financial markets or the consequential Strategy the County Council has been following.
- 3.5 The next scheduled report to the Executive (19 June 2012) is the Out-turn report for 2011/12 – this will be circulated for discussion at the 28 June 2012 meeting.
- 3.6 Under the joint auspices of the Better Governance Forum, and its Treasury Management Panel, CIPFA recently published a self-assessment document designed to assist an Audit Committee consider the effectiveness of the governance arrangements relating to Treasury Management.
- 3.7 The self-assessment schedule has been completed by officers, and discussed with the Deputy Leader and Corporate Portfolio Member. A copy is attached at **Appendix A**.
- 3.8 Members are invited to consider the results of the self-assessment and determine whether any follow-up actions are necessary.

#### 4.0 RATIONALISATION OF SYSTEMS AND DATA

- 4.1 In relation to Minute 163 (see page 2 of this report) it is proposed to provide an update on progress in this area as part of this report rather than create a specific Agenda item.
- 4.2 There are 2 activities in progress that will have an impact on this issue –
- (a) the transition from Novell to Microsoft
  - (b) the Systems and Data One Council workstream
- 4.3 Details of the progress made to date were reported to the March meeting. The position has not changed materially in the intervening 5 weeks, although a "hot list" of potential "culls" has been prepared and will be discussed with Directorates during April and May 2012.
- 4.4 A report detailing, hopefully, the further progress that has been made will then be submitted to the June meeting.

#### 5.0 COUNTER FRAUD STRATEGY

- 5.1 Following the consideration of the above at the March meeting, a report has been prepared for submission to the Executive on the 24 April 2012 – see **Appendix B**.
- 5.2 Included within the report to the Executive is the revised Strategy which includes, at **paragraph 1.7**, the additional details requested by the Committee (Minutes 191(a) refers).

#### 6.0 VERITAU NORTH YORKSHIRE

- 6.1 The new company, Veritau North Yorkshire (VNY), was formed on 1 February 2012. Final agreement was reached with each of the 5 District Councils who were members of the former North Yorkshire Audit Partnership, and the services and staff were successfully transferred to VNY on the 1 April 2012. The transferring staff have now received training in Veritau's systems and operating practices. Work is ongoing to roll out the new arrangements across each of the Councils' sites to ensure that internal audit is being delivered in a consistent manner.

7.0 **RECOMMENDATION**

- 7.1 That the Committee considers whether any further follow-up action is required on any of the matters referred to in this report.

JOHN MOORE  
Corporate Director – Finance and Central Services

CAROLE DUNN  
Assistant Chief Executive  
(Legal and Democratic Services)

County Hall  
NORTHALLERTON

11 April 2012

**Background Documents:**

Report to, and Minutes of, Audit Committee meeting held 8 March 2012

## Effective Scrutiny of Treasury Management (February 2012)

### Self-assessment by members responsible for the scrutiny of treasury management

The CIPFA Treasury Management Code 2009 requires public service organisations to nominate a body to be responsible for the scrutiny of treasury management strategy and policies. This is a relatively new responsibility for many organisations and to undertake this role effectively the nominated committee will require support, training and guidance.

Effective scrutiny is important. As well as demonstrating compliance with the Code, the scrutiny is an important part of ensuring effective governance of treasury management.

- It helps develop a better understanding of the treasury risks faced by the organisation.
- It helps ensure better decision making on strategy & policy matters.
- It improves accountability and transparency.
- It improves knowledge and understanding of treasury matters amongst the members of the governing body.

This self-assessment has been designed to support the development of effective scrutiny. There are a number of ways that it can be used, including:

- Self-assessment by the committee responsible for undertaking the scrutiny.
- Self-assessment by the responsible committee with additional input from the audit committee (where the audit committee doesn't undertake this function directly).
- Review as part of an internal audit of treasury management.
- Review by the treasury officers / finance team responsible for reporting to the committee.

The most important thing is that the review is used to identify any areas where support or training is needed to ensure the development of effective scrutiny.

	Aspects of delivering effective scrutiny	Performing well	Performing at the minimum required level	Area for improvement	Action plan for improvement or development
<b>1</b>	<b>Clearly defined responsibility</b>				
a	Has the organisation nominated a committee to be responsible for scrutiny in compliance with the CIPFA Code of Practice?	This role is undertaken by the Audit Committee			
b	Has the committee responsible for scrutiny appropriate and up to date terms of reference outlining its role in relation to treasury management?	<p>The Audit Committee Terms of Reference In respect of <b>Treasury Management include:-</b></p> <ul style="list-style-type: none"> <li>- to be responsible for ensuring effective scrutiny of the County Council's Treasury Management strategy and policies as required by the CIPFA Treasury Management Code of Practice</li> <li>- to review these Treasury Management strategies, policies and arrangements and make appropriate recommendations to the Executive</li> </ul>			



	Aspects of delivering effective scrutiny	Performing well	Performing at the minimum required level	Area for improvement	Action plan for improvement or development
<b>2</b>	<b>Knowledge &amp; training</b>				
a	Do those responsible for scrutiny have an appropriate level of knowledge of the following areas:				
	(i) Regulatory requirements			Audit Committee Members have some knowledge and experience in these areas, but not necessarily at a very detailed level.	Training can be provided on a mandatory or optional basis.
	(ii) Treasury risks				
	(iii) The organisation's treasury management strategy				
	(iv) The organisation's policies and procedures in relation to treasury management.				
<b>3</b>	<b>Support for effective scrutiny</b>				
a	Has adequate time been made on the committee agenda to allow sufficient scrutiny to take place?	Treasury Management is a standing item within the agenda item <i>Progress on Issues Raised</i> by this Committee which is submitted to every Audit Committee meeting.  All Treasury Management reports submitted to Executive, including the Quarterly performance monitoring and out-turn reports, are copied to Audit Committee Members for discussion at the next meeting under the " <i>Progress...</i> " item.			

	Aspects of delivering effective scrutiny	Performing well	Performing at the minimum required level	Area for improvement	Action plan for improvement or development
b	Have reports and briefings been provided in good time to committee members?	Yes – see <b>Item 3a</b> above.			
c	Have reports and briefings been presented to the committee with adequate explanations and minimal jargon.	All reports and briefings are scrutinised by the Corporate Director – Finance and Central Services before presentation to the Committee to ensure adequate explanations are provided where necessary and to avoid the use of jargon.			Is a knowledge and understanding issue – see <b>Item 2a</b> above.
<b>4</b>	<b>Coverage of the required areas</b>				
a	During the past year has the committee undertaken scrutiny in the following areas:				
	(i) Reviewed adequacy of policy and procedures	The Annual Treasury Management Strategy is submitted to the Audit Committee for scrutiny on an annual basis. In addition the Audit Committee reviews the Treasury Management sections of the Quarterly Performance Monitoring and out-turn reports considered by the Executive.			The 12 Treasury Management Practices (TMPs) were originally approved by Members in 2004. A redraft is to be submitted to members, via the Audit Committee during 2012/13.

	Aspects of delivering effective scrutiny	Performing well	Performing at the minimum required level	Area for improvement	Action plan for improvement or development
	(ii) Received regular briefings on performance, issues and trends affecting treasury management	<p>Quarterly performance reports are submitted to the Executive for review and comment.</p> <p>These reports highlight contemporary issues. Under the Committee's Terms of Reference (see <b>Item 1b above</b>) the Committee can refer any matter, or make any recommendations to the Executive regarding Treasury Management.</p> <p>The Annual Treasury Management Outturn Report includes details of current Strategy and analysis of previous years Strategy compared to actual activity. This is submitted to Executive, Audit Committee and full Council.</p> <p>Regular meetings are also held between the Corporate Director – F&amp;CS and the Deputy Leader and Corporate Portfolio holder (both Executive Members) on Treasury Management.</p> <p>Ad hoc meetings are also held on specific issues (eg Chairman of Audit Committee joined the above Group for a meeting with a particular Bank on the Approved Lending List).</p>			

	Aspects of delivering effective scrutiny	Performing well	Performing at the minimum required level	Area for improvement	Action plan for improvement or development
	(iii) Reviewed the organisation's risk profile and treasury risks	The Annual Strategy report is submitted to Executive, Audit Committee and full Council. The Strategy outlines the organisation's risk profile and current treasury risks.			
	(iv) Reviewed the role of external advisors		<p>Quarterly meetings are held between the Advisor (Sector) and officers. Members are able to attend these meetings if required.</p> <p>Copies of the minutes from the meetings with the Advisor are provided to the Deputy Leader and Corporate Portfolio holder through the regular meetings with the Corporate Director – F&amp;CS (see <b>Item 4a(ii) above</b>)</p> <p>Additional meetings can be arranged with the Advisor should Members wish to scrutinise their role further.</p>		Any additional action(s) required?

	<b>Aspects of delivering effective scrutiny</b>	<b>Performing well</b>	<b>Performing at the minimum required level</b>	<b>Area for improvement</b>	<b>Action plan for improvement or development</b>
	(iv) Reviewed assurances on treasury management, including internal audit reports and management reports.	A summary of Internal Audit work on Treasury Management is submitted on an annual basis to the Audit Committee; the report includes an opinion on the internal control environment of the County Council's Treasury Management activities.			
b	During the past year has the committee scrutinised how effectively other council bodies are performing their roles? e.g. does the committee know if the nominated body responsible for implementation and monitoring (ie the Executive) has carried this role out satisfactorily?		As already mentioned, Audit Committee receive and scrutinise all Treasury Management reports to Executive and subsequent recommendation(s) approved by that body. However they have not attempted to specifically scrutinise the effectiveness of the Executive in this area.		Does the Committee want to do more or is it satisfied with the Quarterly Performance and out-turn reports?

	Aspects of delivering effective scrutiny	Performing well	Performing at the minimum required level	Area for improvement	Action plan for improvement or development
<b>5</b>	<b>Quality of Scrutiny</b>				
a	Is the committee able to demonstrate its effectiveness in providing scrutiny in any of the following ways?				
	(i) Questioning and constructive challenge		<p>Audit Committee Members do question and challenge; they also make suggestions and recommendation as appropriate.</p> <p>However better knowledge and understanding would improve the scrutiny 'challenge' (see <b>Item 3c above</b>).</p>		<b>See Items 2a and 3c above</b>
	(ii) Recommendations for additional actions				
	(iii) Ensuring that adequate plans are in place to provide assurance				
	(iv) Follow up of recommendations or action plans				
	(v) Providing a report to full council on the scrutiny undertaken				
	(vi) Other examples				

	Aspects of delivering effective scrutiny	Performing well	Performing at the minimum required level	Area for improvement	Action plan for improvement or development
<b>6</b>	<b>Impact of Scrutiny</b>				
a	<p>Is the committee able to demonstrate the impact of undertaking scrutiny?</p> <p>Examples might include:</p> <ul style="list-style-type: none"> <li>• Improvements in internal controls as a result of scrutiny of policies and procedures.</li> <li>• Improvements made to reports to make them more understandable</li> <li>• Members of full council are more able to understand the risks shaping the organisation's treasury strategy</li> </ul>	<p>Additional briefing notes have been compiled in response to queries raised during scrutiny. These areas have included borrowing strategy and credit worthiness criteria.</p> <p>Members also have access to the Corporate Director of Finance and Central Services in order to raise additional queries.</p> <p>The Executive Members with responsibility for Treasury Management have attended meetings with both Treasury Management Advisor and representatives from various banks. This has given the opportunity for them to question and challenge these organisations direct.</p>			<p>Does the Committee want to do more or is it satisfied with the Quarter and out-turn reports?</p>

Completed by: Peter Yates

Date: 15 February 2012

## NORTH YORKSHIRE COUNTY COUNCIL

## EXECUTIVE

24 APRIL 2012

## COUNTER FRAUD STRATEGY

Joint report of the Assistant Chief Executive (Legal and Democratic Services)  
and the Corporate Director – Finance and Central Services

**1.0 PURPOSE OF THE REPORT**

- 1.1 To consider a recommendation from the Audit Committee concerning a revision of the Counter Fraud Strategy.

**2.0 BACKGROUND**

- 2.1 The Audit Committee, on 8 March 2012, considered a report which, amongst other things, recommended revision of the Counter Fraud Strategy. A copy of relevant extracts from the report considered by the Committee is attached at **Appendix A**.
- 2.2 The revised Strategy document submitted to the Audit Committee comprised various minor changes aimed at ensuring its content reflects best practice and current guidance.
- 2.3 At the Audit Committee's meeting, a Member suggested that a statement should also be included in the Strategy advising of the types of fraud which had occurred in NYCC. Other Members expressed support for that suggestion and the Audit Committee therefore decided to recommend approval of the revised Strategy, subject to the inclusion of such a statement.
- 2.4 Subsequent to the Audit Committee's meeting, and following discussion with the Head of Internal Audit, additional text has been included within the revised Strategy at **paragraph 1.7**. A full copy of the 'post Audit Committee' version of the Strategy is attached as **Appendix B**.
- 2.5 This Strategy is not part of the major policy framework referred to in the Constitution and is, therefore, a matter for the Executive to approve.



3.0 **RECOMMENDATIONS**

3.1 That the revised Counter Fraud Strategy, as set out in **Appendix B**, be approved.

CAROLE DUNN  
Assistant Chief Executive  
(Legal and Democratic Services)

JOHN MOORE  
Corporate Director – Finance and Central Services

County Hall  
Northallerton

16 April 2012

RAG/JSM

**Background Documents:** None

## Extracts from a report considered by Audit Committee on 8 March 2012

## COUNTER FRAUD AND ASSOCIATED MATTERS

## Report of the Head of Internal Audit

## 1.0 PURPOSE OF THE REPORT

...

- 1.3 To approve, for recommendation to the Executive, an updated Counter Fraud Strategy.

## 2.0 BACKGROUND

2.1 In the current economic climate, all organisations are at increasing risk of fraud and corruption. Experience has demonstrated that it is ever more important for organisations to be vigilant about the risks of fraud during times of economic hardship. In its latest report, published in January 2011, the National Fraud Authority (NFA) estimated that fraud costs the UK in the region of £38.4 billion a year. Fraud against the public sector is estimated to account for 55% of the total fraud loss with estimated losses of £21.2 billion of which £2.1 billion relates to local government. The main types of local government fraud are housing tenancy and council tax, procurement, recruitment and payroll, blue badge abuse, grant related and pension fraud.

2.2 In October 2011, the NFA published *Fighting Fraud Together*, a strategic plan for organisations involved in combating fraud. The plan recognised that the police, government departments, local authorities, private sector organisations and other agencies are most effective when they work collaboratively across sectors, sharing intelligence, information and good practice. The plan involves delivering three strategic objectives

- improved awareness of fraud risks,
- stronger systems and controls to prevent fraud, and
- more efficient and effective enforcement.

A detailed strategy for local authorities, called *Fighting Fraud Locally* is expected to be published shortly.

2.3 In November 2011, the Audit Commission published its latest annual fraud report *Protecting the Public Purse: Fighting Fraud Against Local Government*. The Audit Commission reported that whilst councils are having to reduce expenditure on services, they can make significant savings by reducing fraud. The report included a number of recommendations which are intended to help councils in combating fraud. The reports also highlighted a number of current fraud risks. A copy of the report was included in the papers for the meeting of this Committee held on 8 December 2011.

2.4 Whilst the County Council has a good record in maintaining standards of probity and propriety, it is essential that its arrangements for reducing the risk of loss from fraud and corruption remain effective. As a consequence the Counter Fraud Strategy, and the associated Anti-Money Laundering Policy and Whistleblowing Policies are kept under review, and updated as required. In addition, Veritau has been involved in a number of initiatives during 2011/12 designed to prevent and detect possible fraud.

### 3.0 THE COUNTER FRAUD POLICY FRAMEWORK

#### Background

3.1 The Counter Fraud Policy Framework includes the Counter Fraud Strategy, the Whistleblowing Policies and the Anti Money Laundering Policy. In February 2009, revised versions of the Whistleblowing Policies were presented to this Committee for approval. The documents had been considerably amended to reflect legislative requirements and developments in best practice. The Anti Money Laundering Policy was updated in April 2011, and the changes were approved by the Executive on 26 July 2011. **At the present time, it is considered that no further amendments are required to either the Whistleblowing or Anti Money Laundering policies.** However, some further minor changes have been made to the Counter Fraud Strategy to ensure that its content reflects best practice and current guidance.

### 4.0 VERITAU INVESTIGATIONS 2011/12

4.1 ...

### 5.0 FRAUD AND LOSS RISK ASSESSMENT

5.1 ...

### 6.0 RECOMMENDATIONS

6.1 Members are asked to:

- (i) agree the revised Counter Fraud Strategy and recommend its approval to the Executive.
- (ii) ...

M A THOMAS  
Head of Internal Audit

**BACKGROUND DOCUMENTS** Relevant audit reports kept by Veritau Ltd at 50, South Parade. contact Roman Pronyszyn, extension 2284

**NORTH YORKSHIRE COUNTY COUNCIL**

**COUNTER FRAUD STRATEGY**

**April 2012**

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## 1.0 INTRODUCTION

1.1 The County Council is committed to maintaining an effective Counter Fraud Strategy which is designed to minimise the risk of fraud and corruption by adopting measures which:-

- encourage fraud prevention
- pro-actively detect fraud, and
- enable cases to be investigated promptly and thoroughly.

1.2 Any fraud committed against the County Council effectively constitutes a theft of taxpayers money. It is unlawful and deprives the County Council of resources which should be available to provide services to the public. By putting in place effective measures to counter the risk of fraud and corruption the County Council can reduce losses which impact on service delivery. The County Council therefore expects the highest standard of probity, propriety and conduct from Members, employees and contractors. This includes requiring those concerned to act lawfully and to comply at all times with the County Council's policies, regulations and procedures.

1.3 This Counter Fraud Strategy is based on a series of interrelated policies and procedures designed to frustrate any attempted fraudulent or corrupt act. These policies and procedures cover:-

- the Counter Fraud culture of the County Council
- prevention arrangements and controls
- fraud awareness and training
- the detection and investigation of suspected fraud and corruption

1.4 The County Council is subject to a high degree of external scrutiny of its affairs by a variety of bodies including:-

- Local Government Ombudsman
- The Care Quality Commission
- Audit Commission / External Auditor
- Ofsted
- the public/service users (through the County Council's Complaints Procedures)
- Central Government Departments
- HM Revenue and Customs

1.5 The Corporate Director - Finance and Central Services is the Section 151 officer for the County Council as defined by the Local Government Act 1972. He has an overriding and statutory responsibility to ensure that there are adequate and effective financial procedures in place. He is also responsible for ensuring that the County Council has an effective internal audit function.

1.6 For the purpose of this Strategy the term fraud is used broadly to include:

- any acts which would fall under the definition in the Fraud Act 2006
- anything which would be deemed fraudulent in accordance with the generally held view of fraud as causing loss or making a gain at the expense of someone else by deception and dishonest means
- any act of bribery or corruption including specific offences covered by the Bribery Act 2010
- acts of theft
- any other irregularity which is detrimental to the County Council whether financial or otherwise, or by which someone gains a benefit to which they are not entitled.

1.7 Whilst the County Council has a good record in preventing fraud and corruption cases do occur which require further investigation. In recent years such cases have included:

- the falsification of financial records by an employee, in order to divert funding to a fraudulent bank account
- theft from County Council service users committed by staff employed by external organisations
- the theft of money belonging to service users whilst they are attending or resident in County Council establishments
- the theft of cash and/or equipment from County Council establishments
- an employee not working their contracted hours
- an employee who benefited financially by undertaking private work gained through their employment with the County Council
- fraudulent invoices submitted to the County Council for payment
- misuse of the County Council's e-mail and internet facilities.

## **2.0 POLICY FRAMEWORK FOR PREVENTING FRAUD**

2.1 This document sets out the County Council's strategic objectives in relation to combating fraud and corruption, and its overall arrangements for preventing and detecting fraud. It forms part of the County Council's overall policy framework and should be read in conjunction with the Constitution, the Contract, Financial and Property Procedure Rules, disciplinary policies, and other related policies and procedures. The Terms of Reference for the Audit Committee specifically include reference to reviewing the effectiveness of anti-fraud and corruption arrangements throughout the County Council. To support the Audit Committee in this role the Corporate Director – Finance and Central Services reports on the Policy Framework and level of fraud detected within the County Council each year. This Committee will approve any changes to the Policy Framework.

2.2 The key documents comprising the Policy Framework are:-

(a) **Counter Fraud Strategy**

This document sets out the Strategy which the County Council has adopted to prevent loss due to fraud and corruption. The County Council will be both proactive in detecting suspected fraud and corruption and will deal effectively with all identified instances of loss.

(b) **Whistleblowing Policy**

Whistleblowing remains the most common way that frauds are detected in large organisations such as the County Council. In 2006/07 this Policy was extended to allow contractors (and their staff) to raise allegations in a confidential manner.

(c) **Anti-Money Laundering Policy**

This Policy defines the responsibilities of officers in respect of the Proceeds of Crime Act 2002 and Money Laundering Regulations 2007. The Head of Internal Audit is the Money Laundering Reporting Officer for the County Council and the Monitoring Officer is the Deputy Money Laundering Reporting Officer. This Policy explains how any allegations of such practice will be dealt with.

(d) **Fraud and Loss Risk Assessment**

This is an annual assessment which sets out the risks facing the County Council based on events which have occurred, intelligence of events occurring elsewhere and issues which may represent a potential future threat. Its aim is to analyse the fraud / loss risks facing the County Council and then direct internal audit work to specific areas to help detect fraud and loss. This Assessment will be reviewed by the Audit Committee on an annual basis and its results fed into the preparation of the annual Audit Plan.

### 3.0 KEY OFFICERS AND CORPORATE GROUPS

3.1 There are a number of officers and Corporate Groups which have a key role in protecting the County Council from fraud / loss. These include:

- the **Management Board** which is responsible for addressing issues highlighted in the Fraud and Loss Assessment as areas of high risk
- the **Corporate Director – Finance and Central Services**, as the Section 151 officer, has a specific legal responsibility to ensure adequate and effective anti-fraud/loss arrangements are in place
- the **Outposted Accountants** from the Finance and Central Services Directorate are responsible for ensuring that the Section 151 role of the Corporate Director – Finance and Central Services is discharged in each Directorate. This includes identifying and reporting any matters they consider to be of concern
- the **Head of Internal Audit, Veritau Ltd (HIA)** is responsible for developing the Counter Fraud Strategy of the County Council, being the Money



Laundering Reporting Officer. The HIA is also the investigating officer for any issues reported under the Whistleblowing Policy

- the **Corporate Governance Officers Group** is responsible for ensuring that the organisation has fraud and corruption procedures which comply with Good Governance Standards
- the **Corporate Procurement Group**, whose role includes improving the overall procurement arrangements of the County Council, has a responsibility for developing procedures to detect and prevent fraud in the area of contracting and procurement
- the **Head of Insurance and Risk Management** is responsible for ensuring that the potential for losses due to fraud and corruption are included in the creation of Risk Registers where appropriate
- the **Assistant Chief Executive (Legal and Democratic Services)** as Monitoring Officer has a statutory responsibility under the Local Government and Housing Act 1989 to ensure that the County Council, its officers and Members act lawfully in the discharge of the authority's functions.

## 4.0 CULTURE

4.1 The employees of the County Council can undertake an important role in identifying possible fraud and corruption and they are therefore positively encouraged to raise any concerns that they may have. They can do this in the knowledge that such concerns will be treated in confidence, be properly investigated and are fairly dealt with. If necessary a route, other than a normal line manager or Directorate finance officer may be used to raise such concerns. Examples of such routes are via:-

- a Corporate Director
- Internal Audit Service – Veritau Ltd
- the Monitoring Officer
- 24 Hour Anti-Fraud Confidential Hotline

4.2 The County Council operates a hotline number for members of staff or contractors to report concerns. The hotline is operated by **Veritau Ltd**, the provider of the Internal Audit Service to the County Council, and every attempt is made to protect the confidentiality of callers. However, it is acknowledged that the process of investigating a complaint or allegation may inevitably lead to colleagues speculating on the identity of the source of that allegation. The telephone number for the hotline is 01609 760067.

4.3 The County Council has two separate Whistleblowing Policies (one applies to the County Council and the other to Primary Schools) in place in accordance with the Public Interest Disclosure Act. Information leaflets have been distributed to employees and reminders of the Policy's existence will be issued at intervals. Copies of the Policy are available on the intranet and to any employee on request. Employees are encouraged to report concerns to management, and a number of alternative reporting mechanisms are available if an employee feels unable to raise a matter with their immediate line management. Employees may also use the hotline number if they wish.

- 4.4 Employees or members of the public may report concerns by either e-mail or by the completion of an e-form if they wish. The email address is:  
[whistle.blower@northyorks.gov.uk](mailto:whistle.blower@northyorks.gov.uk).
- 4.5 The County Council, including Members, will be robust in dealing with financial malpractice. Senior service managers are expected to deal swiftly and firmly with those who defraud the County Council or who commit corrupt acts involving the County Council.
- 4.6 Senior service managers are responsible for ensuring that all suspected or reported irregularities are dealt with promptly and in accordance with proper practice. They should ensure that:-
- any case of suspected or reported fraud, corruption or similar irregularity is reported at the earliest opportunity to the Corporate Director – Finance and Central Services and/or to the Head of Internal Audit (Veritau)
  - any evidence that may have come into their possession is kept safely and securely (taking advice from Veritau if appropriate)
  - the Head of Insurance and Risk Management is notified so that any appropriate insurance claim can be initiated and the irregularity is recorded in the County Council's Risk Registers
  - the County Council's disciplinary procedures are implemented when and where appropriate.
- 4.7 Internal Audit (Veritau) will ensure that:-
- any case of suspected or reported fraud or corruption or other irregularity is dealt with promptly
  - the Monitoring Officer will be informed as soon as Internal Audit becomes aware of any circumstances where the County Council, its officers or members may have acted unlawfully
  - a log is maintained by Veritau that records details of all concerns raised formally via whistleblowing arrangements
  - all evidence is sound, properly recorded, and adequately secured
  - the outcome of investigations is reported to senior service management
  - all matters warranting referral to the Police are reported as soon as is practicable and that there is adequate liaison with the Police thereafter
  - all investigation reports are followed up to ensure that systems weaknesses and disciplinary action identified as appropriate have been progressed as intended
  - an Annual Report outlining the level of fraud and corruption within the County Council is submitted to the Audit Committee. This report will summarise the number and types of allegations being communicated to Veritau via the whistleblowing arrangements
  - the Counter Fraud Strategy, the Whistleblowing Policy, and the Anti-Money Laundering Policy are reviewed annually and updated as required

- emerging risks to the County Council are identified on an annual basis in the Fraud and Loss Risk Assessment
- an annual review will be carried out into the significance and type of concerns being raised via whistleblowing arrangements to identify patterns and trends or indications that the purpose of the Policy is misunderstood by the County Council's staff and/or contractors
- the promotion of staff awareness of the County Council's counter fraud and whistleblowing arrangements and the dissemination of lessons learned (subject to Data Protection constraints).

## 5.0 PREVENTION

### Members

5.1 Members are required to operate within:

- the Members' Code of Conduct
- County Council Standing Orders
- Sections 94-96 of the Local Government Act 1972
- Local Authorities Members Interest Regulations 1992 (SI.618)

5.2 These matters and other guidance are specifically brought to the attention of Members in the Member's Handbook.

### Employees

5.3 The County Council recognises that a key preventative measure in the fight against fraud and corruption is to take effective steps at the recruitment stage to establish, as far as possible, the previous record of potential employees, in terms of their propriety and integrity. In this regard, temporary and contract employees should be treated in the same manner as permanent employees.

5.4 Employee recruitment should therefore be undertaken in accordance with the Recruitment and Selection procedures laid down by the Assistant Chief Executive (HR and OD). In particular, written references covering the honesty and integrity of potential employees should be obtained before employment offers are made. Other clearances, for example, Criminal Records Bureau checks, should be obtained where necessary.

5.5 Employees are expected to abide by a Code of Conduct which sets out the County Council's requirement on personal conduct. Employees are also expected to follow any Code of Conduct related to their personal Professional Regulating body.

5.6 The County Council has in place a Disciplinary Procedure.

5.7 The role that employees are expected to play in the County Council's framework of internal control will feature in employee induction procedures. Induction procedures should also be used to raise awareness of the Whistleblowing arrangements and how any suspected concern may be raised.

- 5.8 The County Council has in place a Constitution containing Contract, Financial and Property Procedure Rules that provide a framework of control. Employees must operate within these Rules at all times.
- 5.9 The County Council maintains a register of business interests for all key staff (Grade Band 12 and above) and there is an expectation that all relevant interests will be declared.

### **Contractors**

- 5.10 The County Council expects the highest standards of conduct from all its contractors and the staff they employ. The Whistleblowing Policy has been extended to cover all these staff and work is ongoing with the Corporate Procurement Group to improve existing procedures for detecting fraud during the procurement process.

### **Combining with other agencies**

- 5.11 Arrangements are in place, and continue to be developed, to encourage the exchange of information between the County Council and other public 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.

- 5.12 These public agencies include:-

- Police
- Society of County Treasurers
- Local, Regional and National Auditor Networks
- the National Anti Fraud Network
- Audit Commission
- The National Fraud Authority
- Office of Fair Trading
- Department for Works and Pensions
- Other Local Authorities

## **6.0 DETECTION AND INVESTIGATION**

- 6.1 The County Council has in place an array of preventative systems, particularly internal controls designed to provide indicators of any fraudulent activity. These measures are generally also sufficient in themselves to deter fraud.
- 6.2 It is the responsibility of Corporate Directors/Heads of Service Units and their line managers to prevent and detect fraud and corruption. However, it is often the alertness of employees and members of the public to such indicators that enables fraud to be detected and the appropriate action to be taken.

- 6.3 Despite the best efforts of managers and auditors many frauds are discovered by chance or "tip-off" and the County Council has in place arrangements to enable such information to be properly dealt with.
- 6.4 It is a requirement of the Financial Procedure Rules that all suspected irregularities are reported to the Head of Internal Audit. Reporting is essential to the Counter Fraud Strategy and:-
- ensures the consistent treatment of information relating to suspected fraud and corruption
  - facilitates proper investigation by an experienced Internal Audit team
  - ensures the proper implementation of a fraud response plan
- 6.5 The County Council will also undertake targeted counter fraud activities (for example data matching exercises) to detect potential fraud and corruption. This proactive work will be carried out by Veritau as part of its annual workplan. The work will be prioritised based on the annual Fraud and Loss Risk Assessment, and where appropriate, may involve joint exercises with other agencies, including other local councils.
- 6.6 Depending on the nature and anticipated extent of the allegations, Veritau normally work closely with management and other agencies such as the Police to ensure that all allegations and evidence are properly investigated and reported upon. All staff involved in the investigation of fraud will be appropriately trained. They will be required to comply with any relevant legislation and codes of practice. For example the Police and Criminal Evidence Act (PACE), Regulation of Investigatory Powers Act (RIPA), the Data Protection Act, and the Criminal Procedures Investigations Act.
- 6.7 The County Council's Disciplinary Procedures will be used where the outcome of the audit investigation indicates improper behaviour by a member of staff.
- 6.8 Where impropriety is discovered and there is evidence that a criminal offence may have occurred, the County Council's policy is that the Police will be informed where appropriate but that this will not delay the matter being dealt with on an internal basis. Referral to the Police is a matter for the Head of Internal Audit following consultation with the Chief Executive, the Corporate Director – Finance and Central Services, the Monitoring Officer and the relevant Service Corporate Director(s).
- 6.9 The External Auditor also has powers to independently investigate fraud and corruption, and the County Council can use his services for this purpose, if considered appropriate.

## **7.0 RECOVERY OF LOSSES INCURRED**

- 7.1 When the County Council can demonstrate that it has suffered financial loss and, where it is practical, action will be taken to recover the loss from the individual or organisation concerned.

## 7.2 Methods of recovery include, but are not confined to:-

- recovery of pension contributions from employees who are members of the North Yorkshire Pension Fund
- an assessment of what assets are held by an employee or third party, who has committed fraud and whether the losses incurred by the County Council can be recovered there from
- bankruptcy if it is believed an individual has a poor history of paying
- if an individual remains an employee of the County Council any assessed losses can be recovered from future salary payments

7.3 Where criminal offences are involved then cases will normally be referred to the Police. However, such investigations often take time. The County Council may also decide not to pursue matters until the Police investigation is concluded. If the Police decide to charge the employee, the matter can also take a long time to come to court. In such circumstances, Veritau's internal auditors will therefore work with Human Resources, within the rules of the disciplinary process, to minimise the ongoing salary payments made to such staff.

## 8.0 FRAUD AWARENESS AND TRAINING

8.1 Training, particularly of line managers, is an effective method of raising awareness of the risk of fraud. Veritau will use the outcomes from the annual fraud and loss risk assessment, and other indicators, to determine what counter fraud training may be appropriate, and arrange the delivery of training. This will include the use of the company's online training package. A Guide for Managers will also be made available on the Intranet.

## 9.0 CONCLUSIONS

9.1 The County Council has in place a clearly defined network of systems and procedures to assist in the fight against fraud and corruption. It is determined that these arrangements will keep pace with any future developments in both preventative and detection techniques regarding fraudulent or corrupt activity that may affect its operational activities.

9.2 To this end the County Council maintains a continuous overview of such arrangements in particular, through its Corporate Director – Finance and Central Services, the Financial Procedure Rules, Finance Manual and internal audit arrangements.

## 10.0 REVIEW OF STRATEGY

10.1 This Strategy will be reviewed every year and updated as required.