

Meeting Audit Committee

Portfolio Area Resources

Date 10th November 2021



ADOPTION OF AN ANTI-FRAUD & CORRUPTION STRATEGY/ ANTI-MONEY LAUNDERING POLICY/ FRAUD SANCTIONS POLICY

NON KEY DECISION

1 PURPOSE

- 1.1 To provide the Committee with a copy of the Councils revised Anti-Fraud and Corruption Strategy as recommended by CIPFA, the National Audit Office and the Fighting Fraud and Corruption Locally Strategy 2020, for review, comment and adoption.

- 1.2 To provide the Committee with a copy of the Councils new Anti-Money Laundering Policy, to comply with the Anti-Money Laundering Act 2017 as recommended by CIPFA although the Council is not part of the regulated sector, for review, comment and adoption.

- 1.3 To provide the Committee with a copy of the Councils new Fraud Sanctions Policy, as recommended by CIPFA and Ministry for Housing Communities and Local Government, for review, comment and adoption.

2 RECOMMENDATIONS

- 2.1 That the Audit Committee adopts the proposed Anti-Fraud and Corruption Strategy, as set out at Appendix A to the report.
- 2.2 That the Audit Committee adopts the proposed Anti-Money Laundering Policy, as set out at Appendix B to the report.
- 2.3 That the Audit Committee adopts the proposed Fraud Sanctions Policy, as set out at Appendix C to the report.

3 BACKGROUND

Anti-fraud & Corruption Strategy

- 3.1 Recent reports from the Home Office and other agencies highlight fraud as the most prevalent crime in the UK, with 1 in 3 of all reported crimes relating to fraud. Amongst other reports the *UK Annual Fraud Indicator 2017* and CIPFAs *Fraud and Corruption Tracker 2018* all make it clear that the risk of fraud to local government is real and could cost councils more than £2bn each year.
- 3.2 In its 2020 summary report *Perspectives on Fraud (Insights from Local Government)* CIPFA published the findings of its 2019 survey of senior management across local government. The report states that 64% of respondents felt that fraud is a major problem for local authorities. 69% felt that poor organisational controls exposed councils to fraud. 87% said that prevention had to be the local government response for tackling fraud.
- 3.3 Section 151 of the Local Government Act places a duty on local authorities to have in place measures to protect the public funds that they administer, including protecting them from fraud. This is further required by the CIPFA publication the *Code of Practice on Managing the Risk of Fraud and Corruption*.

Anti-Money Laundering Policy

- 3.4 The UK government's latest rules on anti-money laundering came into force in June 2017 as The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR 2017) and replaces the Money Laundering Regulations 2007 (MLR 2007) and the Transfer of Funds (Information on the Payer) Regulations 2007 which were previously in force.
- 3.5 Although not part of the Regulated Sector CIPFA advises that all local government follow the principles of the regulations.
- 3.6 A key difference with the 2017 Regulations is that 'relevant' persons are obliged to adopt a more risk-based approach towards anti-money laundering,

in particular in how they conduct due diligence. Determining the appropriate level of due diligence requires analysis of risk factors based on the EU Directive, which are set out in MLR 2017.

Fraud Sanctions Policy

3.7 The fourth 'Pillar' in the *Fighting Fraud and Corruption Locally- a Strategy for the 2020's* is 'PURSUE' and this section of the national strategy requires local authorities to:

- *Prioritise fraud recovery and the use of civil sanctions.*
- *Developing capability and capacity to punish offenders.*
- *Collaborating across geographical and sectoral boundaries.*

3.8 The national Strategy also includes a checklist for Councils to measure themselves against as an indicator of how effective they are in promoting an anti-fraud culture and in fraud prevention. The checklist includes the following:

- *Successful cases of proven fraud/corruption are routinely publicised to raise awareness.*
- *Statistics are kept and reported by the fraud team which cover all areas of activity and outcomes.*
- *There is a programme to publicise fraud and corruption cases internally and externally which is positive and endorsed by the council's communications team.*
- *Asset recovery and civil recovery are considered in all cases.*

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 The proposed **Anti-fraud & Corruption Strategy** has been designed to provide a platform to allow the Council to protect itself against fraud and other economic crime. It should not be seen in isolation but as part of a suite of policies and procedures to combat fraud, bribery, corruption, and money laundering offences.

4.2 The new **Anti-fraud & Corruption Strategy** will supersede the existing Anti-Fraud & Corruption Policy 2014.

4.3 The proposed **Anti-Money Laundering Policy** ensures that the Council complies with the following:

- **General risk assessment:** Whereas MLR 2007 required organisations to keep policies relating to risk assessment and due diligence, MLR 2017 is more prescriptive, particularly when it comes to risk mitigation procedures.

- **Risk mitigation policies:** These policies and controls must be in writing, be proportionate to the risks identified and be approved by the relevant organisations senior management.
- **Level of due diligence:** The circumstances in which simplified customer due diligence (CDD) is permissible is more restricted under MLR 2017.
- **Reliance on third parties:** Relevant persons are still able to rely on the CDD carried out by a third party if that third party is either subject to the MLR 2017 or an equivalent regime.
- **Politically exposed persons (PEPs):** The parts of MLR 2007 which applied only to foreign PEPs now also apply to local PEPs.
- **New criminal offence:** Any individual who recklessly makes a statement in the context of money laundering which is false or misleading commits an offence punishable by a fine and/or up to 2 years' imprisonment.
- **Role of SAFS as MLRO:** The Council is a partner to the Shared Anti-Fraud Service (SAFS). In 2021 the SAFS Board agreed that the Head of SAFS should provide the MLRO role for all partners.

4.4 The proposed **Anti-Money Laundering Policy** will reflect the Councils Constitution - part 4f (Financial Regulations).

4.5 If the Council is to be effective in preventing and deterring fraud & corruption it is essential that it has in place a transparent response that reinforces the message that acts of fraud committed against the Council will be dealt with robustly.

4.6 The proposed **Fraud Sanctions Policy** reinforces the view that fraud will not be tolerated and indicates how those who commit fraud against the Council will can expect to be dealt with. The Policy also acts as a guide and procedural note on how and when certain sanctions might be applied and who the decision makers are.

4.7 Adoption of the new strategy and policies is a function for the Audit Committee as part of its responsibilities for anti-fraud and corruption. Once approved by this Committee these new strategies and policies will be implemented immediately.

5 IMPLICATIONS

Financial Implications

5.1 Fraud and corruption can potentially have a significant impact on the council's finances. As a partner authority in the Shared-Anti Fraud Service (SAFS) the council receives expert support and advice to combat fraud, bribery, corruption, and money laundering offences.

Legal Implications

5.2 None for the purposes of this report

Risk Implications

- 5.3 The risk of fraud is included in the Councils risk registers and mitigation of that risk includes having robust and effective anti-fraud policies and procedures in place.

Other Corporate Implications

- 5.4 These documents comply with the Council's Policy Framework and are a review of revised version of policies the Council already had in place.

BACKGROUND DOCUMENTS

- BD1 CIPFA Perspectives on Fraud (Insights from Local Government)
- BD2 CIPFA The Code of Practice on Managing the Risk of Fraud and Corruption.
- BD3 CIPFA Fraud and Corruption Tracker 2018
- BD4 Fighting Fraud and Corruption Locally a Strategy for the 2020's

APPENDICES

- A Stevenage Borough Council Anti-Fraud and Corruption Strategy 2021
- B Stevenage Borough Council Anti-Money Laundering Policy 2021
- C Stevenage Borough Council Fraud Sanctions Policy 2021