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Audit Committee

Meeting Venue
By Teams

Meeting Date
Thursday, 10 December 2020

Meeting Time
10.00 am

For further information please contact
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County Hall
Llandrindod Wells
Powys
LD1 5LG

3 December 2020

Mae croeso i chi siarad yn Gymraeg neu yn Saesneg yn y cyfarfod.
Rhowch wybod pa iaith rydych am ei defnyddio erbyn hanner dydd, ddau ddiwrnod gwaith cyn y cyfarfod.
You are welcome to speak Welsh or English in the meeting.
Please inform us of which language you wish to use by noon, two working days before the meeting.

AGENDA

1.	APOLOGIES

To receive apologies for absence.

2.	DECLARATIONS OF INTEREST

To receive declarations of interest from Members.

3.	MINUTES

To authorise the Chair to sign the minutes of the previous meetings.
(Pages 3 - 12)

4.	SWAP AUDIT REPORT LEARNING AND DEVELOPMENT

To consider the report of the Head of Workforce and Organisational Development.
(Pages 13 - 16)

5.	AUDIT WALES - RAISING OUR GAME - TACKLING FRAUD

To consider the Audit Wales report.
(Pages 17 - 106)

6.	DATE OF NEXT MEETING

The next meeting is scheduled for Thursday 11 February 2021 at 10am.

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT TEAMS LIVE ON THURSDAY, 19 NOVEMBER 2020

PRESENT
County Councillors JG Morris (Chair),   D R Jones, M J Jones, K Lewis, DW Meredith, WD Powell, D A Thomas, R G Thomas, T J Van-Rees, A Williams, J M Williams and R Williams and Mr J Brautigam

Cabinet Portfolio Holders In Attendance: County Councillor A W Davies

Officers: Dan Paley, Financial Reporting and Policy Accountant, Wyn Richards, Head of Democratic Services and Jane Thomas, Head of Finance

Other Officers In Attendance: Messrs Phil Pugh, Audit Wales and Ian Halstead, SWAP

1.	APOLOGIES

Apologies for absence were received from County Councillors M Barnes and K Laurie-Parry

2.	DECLARATIONS OF INTEREST

County Councillor T J Van Rees declared a personal interest in relation to Item 3, Minutes as a former trustee of Theatr Brycheiniog

3.	MINUTES

The Chair was authorised to sign the minutes of the previous meeting, held on 29 September 2020, as a correct record.

4.	POWYS PENSION FUND - STATEMENT OF ACCOUNTS

Documents:
- Report of the Head of Financial Services
- Audit Wales – Pension Fund report
- Pension Fund Accounts 2019/20
- Letter of representation

Discussion
Overview
- The draft accounts were signed by the S151 Officer on 15 June 2020
- Audit Wales had had to prioritize work due to the pandemic and an approach was taken across Wales to complete statutory Local Authority accounts before auditing Pension Funds. The audit of the Pension Fund began in early September.
- It is the Auditor General's intention to issue an unqualified opinion
- There were no uncorrected misstatements

- There was one emphasis of matter relating to the valuation of property assets due to the pandemic
- The accounts will form part of the Pension Fund Annual Report which will be presented for approval to the Pension and Investment Committee on 25 November 2020
- The Annual Report must be published no later than 1st December.
- The Committee was asked to approve the sign off of the accounts and Letter of Representation by the Chair and S151 Officer
- The issue of materiality was explained that the level at which misstatements was set so that the reader of the accounts was not mislead. This level had been set at £6.453M.
- Audit Wales identified one potential conflict of interest relating to a member of their team. Planned safeguards operated as intended.
- Work was substantially complete and the Auditor General was due to issue his opinion on 23 November 2020
- The Committee asked about the current level of Employer contributions to the Fund. For Powys County Council this is 26.2% of pensionable pay in 2020-21.
- The UK Government proposed its remedy for the McCloud Judgement in July 2020. Confirmation had been obtained by the actuaries that assumptions used in the draft were broadly similar to those set out in the proposal.

Outcomes:
- **the 2019-20 Pension Fund Accounts and Letter of Representation be approved for formal signing by Chair of the Committee and the Section 151 Officer**

Discussion:
- There was one emphasis of matter relating to property assets and valuations
- The Statement of Accounts will be submitted by the deadline of 1 December
- The draft accounts had been submitted on time by 15 June, but Audit Wales had had to prioritize work due to the pandemic and an approach was taken across Wales to complete statutory Local Authority accounts
- It is the Auditor General's intention to issue an unqualified opinion
- There were no uncorrected misstatements
- The employer contribution to an employee's pension is 26.2%
- The McLeod had been considered in conjunction with the proposed remedy

Outcomes:
- **the 2019-20 Pension Fund Accounts and Letter of Representation be approved for formal signing by Chair of the Committee and the Section 151 Officer**

5.	AUDIT WALES - FINANCIAL SUSTAINABILITY OF LOCAL GOVERNMENT AS A RESULT OF THE COVID 19 PANDEMIC

Documents:
- Audit Wales –Financial Sustainability of Local Government as a Result of the COVID-19 Pandemic

Discussion:
- Local Authorities had been in a challenging financial environment prior to the pandemic
- The report focusses on the financial sustainability of local government across Wales and will define future work for Audit Wales
- The costs of the pandemic have been considerable – Powys has recovered £6.5M from the Hardship Fund together with a further £1.5M for lost income
- Members attention was drawn to the Pillars of Financial Resilience as defined by CIPFA
- Reserves are also an indicator of financial resilience
- Audit Wales informed the Committee that the report had been issued in October
- There had already been a commitment from Audit Wales to look at financial sustainability as this was a key issue across Wales. One report had already been produced prior to the pandemic but events and circumstances have changed rapidly since then. A further report on local issues will be published in April with a national report following in early summer.
- The Head of Finance was asked how the Council could increase the level of reserves. Projects can be identified for funding from revenue and a planned contribution can be made to a specific reserve to support these. Other funds, such as spend to save, are also set aside. The council could decide to make a planned contribution to reserves as part of budget setting.
- It was noted that the balance sheet was relatively healthy in terms of assets and that this should be further explored through the Finance Panel. The Head of Finance confirmed that all aspects were considered when planning the budget and that assets should be utilized in the most appropriate way.

Outcome:
- **The report was noted**

6.	AUDITOR GENERAL - DATA ANALYTICS

Documents:
- Letter from the Auditor General, Wales

Discussion:

- The letter had been sent to all Chief Executives in Wales and stated the intention to increase the use of data analytics by securing routine data downloads from the principle financial systems of the bodies they audit.
- Audit Wales are seeking support from the Council to develop this approach

- Each authority has different financial systems – there are 15 different systems in operation in Wales
- The long- term aim is to access routine information in this way.
- The Committee asked how this was to be paid for and what would be the additional workload for Finance. The costs would be absorbed by Audit Wales and there would be benefits to both organisations of data being available more effectively. There was already a cost to authorities in terms of providing information throughout the year. This would automate the process making the process more efficient and less time consuming for the Council.
- There have already been improvements in the sharing of electronic files and this can be developed further

Outcomes:
- **The Auditor General, Wales, letter was noted**

7.	STRATEGIC AND COVID RISK REGISTERS

Documents:
- Report of the Portfolio Holder for Finance
- Strategic and Covid Risk Registers
- Heat maps

Discussion:
- The Risk Registers were reported to Cabinet on 3 November 2020 and covered the position for quarter 2.
- There was considerable detail within the registers which could not be fully covered by Audit Committee during a meeting. Scrutiny Committees should be looking at the service specific issues as part their work, but Audit Committee needed to be assured that appropriate processes were in place to ensure that risks were identified, monitored and managed appropriately.
- The Committee should give further consideration as to how the process should be operating

Outcomes:
- **The Committee will give further consideration to the reviewing of risk registers at the next meeting**

8.	INTERNAL AUDIT - PERFORMANCE REPORT

Documents:
- Internal Audit Update Quarter 2 report 2020/21

Discussion:
- There has been increased dialogue with Executive Management Team which helps focus on key risks for the Authority
- SWAP are looking at agile auditing to improve the speed with which risks can be addressed and mitigation put in place. There will be more data,

more engagement, faster reporting and an aim to resolve risk issues during the audit.

- The new approach is supported by EMT
- The recent firebreak did not impinge upon the work of SWAP
- Risks within Powys and the wider audit sector were reported and this will influence the forward work plan
- An audit plan will no longer be set at the start of each year and there is a need to react promptly to changing risks
- Adverse opinions are tracked by Internal Audit Working Group and two of those are reported in the Internal Audit Working Group Summary. A further two reports will be considered by the Working Group in early December, namely, Conflicts of Interest and Voids.
- The report contained a list of all recommendations made since April 2019 - all recommendations are now tracked, and the report will be fully populated by the next meeting to provide assurance to the Committee that audits are being actioned.
- A number of audits had been put on hold during the pandemic and this could negate the value of the audit. These audits will still be delivered and SWAP are working with services to complete them.

Outcomes:
- **The report was noted**

9.	GOVERNANCE AND AUDIT COMMITTEE

Documents:
- Report of the Head of Democratic Services

Discussion:
- The Local Government and Elections Bill is currently at the Committee stage in the Senedd and likely to gain Royal Assent in the new year
- One of the proposals is to amend the role and function of the Audit Committee
- The new Governance and Audit Committee would consider compliance, annual performance reports and self-assessments in addition to Audit Wales reports and Internal Audit reports. It has also been proposed that maladministration complaints should also be considered
- The Chief Executive was keen to introduce the revised proposals in advance of the legislation with a change to the Constitution from January 2021
- Governance issues were also considered by Democratic Services Committee and the Economy, Communities, Residents and Governance Committee but the roles were quite distinct
- It is intended that a report be considered by County Council early next year in relation to amending the Constitution
- In the meantime, the Audit Committee could receive briefings on the types of reports that they would be expected to consider in their new role
- Mandatory training for staff could also be considered – member training is overseen by Standards Committee

- Members commented that online training was more effective but would welcome the return of the feedback form
- Clarification was sought that an Internal Audit Working Group or Sub Committee would still be permissible – this was an internal arrangement which would not be affected
- There is also a proposal to increase the number of lay members to one third of the membership of the Committee, one of whom would become Chair
- Members were concerned about recruiting a sufficient number of suitably qualified lay Members if all Welsh Authorities were also trying to recruit. The increased costs were also noted.
- Audit Wales proposed refresher training in the new year

Outcomes:
- **The report was noted**
- **A briefing session would be arranged to consider the types of reports that would be considered by the Governance and Audit Committee**
- **The Head of Finance agreed to progress refresher training for the Committee**

10.	TREASURY MANAGEMENT

Documents:
- Report of the Portfolio Holder for Finance
- Credit Rating list (confidential)

Discussion:
- The report provided an economic background and forecast
- The Treasury Management Strategy had been approved in February
- The Authority looks to achieve the optimum level of liquidity
- Bank rates remain low and returns are correspondingly low
- Some borrowing has occurred
- cash flow is constantly monitored
- There has been little activity in debt rescheduling
- The Capital Financing Requirement is lower than anticipated and the Council remains in an under-borrowed position
- The debt profile which had been static for some time was now changing and the Head of Finance was asked if borrowing was being used rather than cash reserves.   A number of short term loans have been taken out and longer term loans are under constant review.
- The affordability of the Capital Programme going forward should be considered
- The benefits from a change in the Minimum Revenue Policy have been achieved but revenue expenditure will now increase - the Head of Finance agreed that a pressure will be seen going forward and will have to be considered as part of the budget planning process and longer term planning will be key.

Outcomes:

- **Issues to be considered by the Finance Panel and reported back to Audit Committee**

| 11. | INTERNAL AUDIT WORKING GROUP |

Documents:
- Internal Audit Working Group Summary Report

Discussion:
- The Assistant Director SWAP welcomed the work of the Internal Audit Group as it was able to consider reports in detail and provide a greater level of challenge
- The most recent meeting had considered reports into Welshpool High School and Employee Development
- The Chair suggested that it might be useful for the Committee if the SWAP reports were provided as an appendix for information to the summary report in future.

Outcomes:
- **The report was noted**

| 12. | NEXT MEETING |

The next meeting will be the AGM on Friday 27 November 2020 at 11 am.

The next full meeting will be on Thursday 10 December at 10am.

County Councillor JG Morris (Chair)

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MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD BY TEAMS ON FRIDAY, 27 NOVEMBER 2020

PRESENT: County Councillor JG Morris (Chair), D R Jones, M J Jones, K Laurie-Parry, WD Powell, D A Thomas, R G Thomas, T J Van-Rees, A Williams, J M Williams and R Williams and Mr J Brautigam

Officers: Jane Thomas, Head of Finance

1.	APOLOGIES

An apology for absence was received from the Portfolio Holder, County Councillor A W Davies.

2.	ELECTION OF CHAIR

RESOLVED that County Councillor J G Morris be elected Chair for the ensuing year.

3.	ELECTION OF VICE CHAIR

RESOLVED that Mr J Brautigam be elected Vice Chair for the ensuing year.

4.	INTERNAL AUDIT WORKING GROUP

RESOLVED that County Councillors D Jones, K Laurie-Parry, J G Morris, A Williams, R Williams and Mr J Brautigam be appointed to the Internal Audit Working Group for the ensuing year.

5.	FINANCE PANEL

RESOLVED that County Councillor D A Thomas be appointed to the Finance Panel. County Councillor R G Thomas would be co-opted by the Finance Panel. Further co-options of County Councillors A Williams and R Williams would be considered by the Democratic Services Committee.

County Councillor JG Morris (Chair)

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CYNGOR SIR POWYS COUNTY COUNCIL

AUDIT COMMITTEE

DATE: 10th December 2020

REPORT AUTHOR: **Paul Bradshaw, Head of Workforce and Organisational Development**

SUBJECT: **SWAP Audit Report concerning Learning and Development**

REPORT FOR: Noting the contents of Report

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1.   Background

1.1   There has been significant change in the Workforce and Organisational Development (WOD) service over recent years, with a lot of staff in the wider service and the OD team having left and a number having been replaced.

1.2   Following the commencement of a new Head of Service during January 2019, a senior managerial post in the OD team was established and filled from within the team, a 2 year vision and plan for the service developed, a Workforce Futures Transformation Board and programme developed and a People Strategy developed and launched.

1.3   The vision and aforementioned plans, already incorporated many of the actions referred to in the audit report, which have either been implemented or form part of the planned programme of work, as outlined in section 2 below.

1.4   The OD team is very much a corporate resource and is responsible for Leadership and Management Development (including team climate and team development), apprenticeships, corporate mandatory training, corporate mandatory e-learning, and some statutory learning and development activities. The various service areas have their own training budgets in place for developing their workforce in service specific learning and development activities.

1.5   Over the past 18 months the primary focus of the OD team has been on supporting services in workforce planning, to ensure that the Council has the right workforce in the right place at the right time. A key component of which, was to work corporately and with services to deliver the learning and development activities required to equip employees with the necessary skills to undertake their roles successfully, whilst providing succession planning opportunities for the future.

1.6   The audit by SWAP relates to a number of areas the OD team is responsible for, as follows:

- Leadership and Management Development
- Corporate Mandatory Training
- Appraisals

- Training Needs Analysis (TNA) and the use of training resources and budgets

2. Purpose of the Audit

The audit reviewed employee development within the Council.

3. Key Points to Note

3.1 The OD team have developed an appropriate and robust workplan, a programme of work, and a People Strategy. To support the programme funding was provided to engage two additional staff to help deliver the programme and a Workforce Futures Board was established in the early part of 2019 to oversee the delivery of the programme

3.2 In reviewing the findings of the audit it was reassuring to note that most of the actions recommended by SWAP, had either been completed or were identified as part of the service's programme, for example:

- The Learning and Development Policy has been completed and will be presented to the Policy Forum shortly. The policy includes reference to mandatory training.

- Mandatory Training is currently being monitored and reported at a senior level (EMT), with the numbers of staff who have completed their mandatory training having increased significantly for some service areas, as laid out below:

  - GDPR – 75%
  - VAWDASV – 73%
  - Office Manual Handling – 49%
  - Office Health and Safety – 49%
  - Equality and Diversity – 50%

- Refresher reminders have been built into the TRENT system, to remind staff and their line managers to complete their next round of training on time. To this end, GDPR needs to be refreshed annually and the other modules every 3 years.

- The previous level of Appraisal completions had already been looked at and steps taken to increase completion rates. Completions have increased from 2% in 2018 to 57.1% in 2019 and to an average of 83.3% across the Council at the point this report was completed, which is above the stretch target set at 80%.

- The OD team had already conducted TNAs with all service areas during 2019/2020 which enabled the Council to identify, plan and budget for a corporate training and development programme. It also supported each service in developing their service specific training plans. The TNAs currently being developed for 2012/22 will also identify succession planning routes in each service and will challenge managers to identify what training is required to ensure there is a potential successor in place for each key role. This process

will be conducted annually and reviewed to ensure what is delivered meets the needs of the Council, with factual evidence to support delivery.

- Training Evaluation was an area of weakness and had been conducted on an ad hoc basis. A digital evaluation form is currently being developed using Microsoft Forms, which will be sent / e-mailed to all staff in attendance once training has been completed.   This will ensure the Council can capture feedback on all training delivered and to evaluate the effectiveness.

- The OD team is also considering introducing evaluations for managers especially where there has been significant investment. This will enable them to evaluate whether they have seen a corresponding change in performance / behaviour and hence whether the investment was worthwhile.

- A corporate induction programme has been developed and was to be launched from April 2020. All new staff will be required to attend a corporate induction session and whilst the pandemic has delayed the face to face delivery of this, we are now exploring whether it can be delivered digitally. New employees will be able to book their place on the induction through TRENT (our HR system), which will enable checks to be made re compliance.

- To support the corporate induction process a digital Corporate Handbook has been developed, which provides a good overview of relevant information and corporate documents.

- The OD team already offers a line managers induction programme which has been in operation for 2 years and provides line managers with the information they will need in order to be effective in their new role.

- To aid the service specific induction historically provided by service's the OD team have developed a Manager's checklist, to help ensure all essential induction information has been provided. A simple tick-off checklist is included for this purpose. Both the manager and member of staff are asked to sign the document to confirm the induction has taken place.

- The OD team is in the process of reviewing the booking and completion of training to ensure accuracy and completeness of record keeping.

- When considering how third-party contractors can best be managed in respect of mandatory training requirements, the OD team has worked with the Procurement Team to establish a suitable approach. Procurement have suggested that there is a mixed approach to mandatory training and are confident that all agency staff (particularly in social care) complete corporate mandatory training. They advise that for contractors this obligation rests with the appointed contractor to comply with all legislative requirements and companies generally have their own arrangement for undertaking all statutory and other training as required. Whilst SWAP suggested that the requirement for undertaking mandatory training be built into contracts, the Procurement Team have advised that there isn't currently a Council policy, which requires suppliers to undertake the Council's training and logistically they question whether this would be practical, given the number of suppliers the Council engages.

4. Conclusion

4.1   As stated most of the actions recommended by SWAP had already been actioned or were included in the service's 2020/21 work programme, some of which have since been implemented. Whilst a small number of planned actions have regrettably been delayed due to the pandemic, significant progress has been made over the past 18 months.

4.2   Overall the Council in a much more robust and healthier position than it was and has; a vision, corporate work plan, People Strategy, 12 service areas workforce plans, a corporate development plan, and 12 Training Needs Analyses in place. Pleasingly as part of this, the Council is in the best position it has been in regards to staff appraisal, with the number of completed appraisals running at 83.3%, ahead of the stretch target of 80% set by EMT.

4.3   The WOD service would like to thank the officers of SWAP team for their work on the audit and the recommendations and reassurance offered through the audit.

Recommendation	Reason for Recommendation
That the committee note the findings of the report and the resulting plans.	To advise the committee about the report / findings of the audit and the plans in response to the recommendations.

Relevant Policy (ies) :	Learning & Development Policy		
Within Policy	Y/N	**Within Budget**	**Y/N** N/A

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Archwilio Cymru
Audit Wales

'Raising Our Game'
Tackling Fraud in Wales

Report of the Auditor General for Wales

July 2020
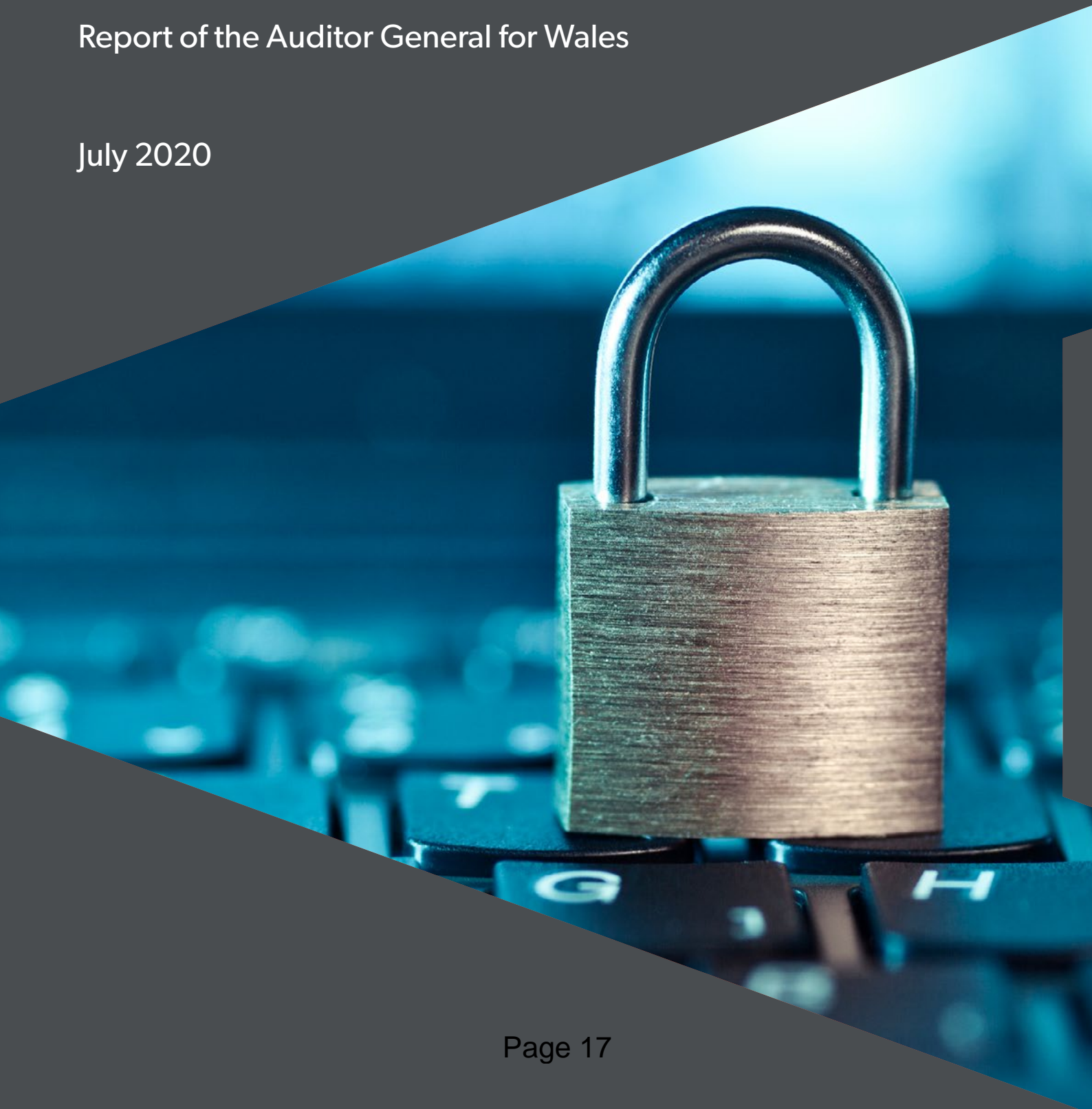
This report has been prepared for presentation to the Senedd under the Government of Wales Acts 1998 and 2006 and the Public Audit (Wales) Act 2004.

The Audit Wales study team comprised Rachel Davies, Christine Nash and Ian Hughes, under the direction of Mike Usher.

The Auditor General is independent of the Senedd and government. He examines and certifies the accounts of the Welsh Government and its sponsored and related public bodies, including NHS bodies. He also has the power to report to the Senedd on the economy, efficiency and effectiveness with which those organisations have used, and may improve the use of, their resources in discharging their functions.

The Auditor General also audits local government bodies in Wales, conducts local government value for money studies and inspects for compliance with the requirements of the Local Government (Wales) Measure 2009.

The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office, which is a statutory board established for that purpose and to monitor and advise the Auditor General.

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

Contents

Foreword by the Auditor General

1   In June 2019, I published a report giving an overview of the scale of fraud in the Welsh public sector, together with a description of counter-fraud arrangements across the Welsh Government, the NHS and Local Government. I noted that the sums lost annually in Wales to fraud and error are significant – and could be anywhere between £100 million and £1 billion. The Crime Survey for England and Wales recognises fraud as being one of the most prevalent crimes in society today.

2   However, some senior public sector leaders are sceptical about the levels of fraud within their organisations. As a result, they are reluctant to invest in counter-fraud arrangements and assign a low priority to investigating cases of potential fraud identified to them by the National Fraud Initiative, even though there are many examples of a good return on investment in this area. Their stance runs contrary to all the research being done by recognised leaders in the field such as CIPFA and the UK Government's Counter Fraud Function. This latest report, which examines the effectiveness of counter-fraud arrangements at over 40 public-sector bodies in Wales, has found that where such scepticism arises, it is not based on any significant local counter-fraud work or robust fraud risk assessments.

3   But we also know that fraudsters appear the very instant that an opportunity presents itself. Fifteen individuals have to date been jailed for fraud in the light of the Grenfell fire tragedy. Fraudsters and scammers were quickly on the scene earlier this year whilst the flooding in South Wales was ruining the homes and lives of local people. There has been an explosion in fraudulent activity, and especially in cyber crime, during the current COVID-19 pandemic. I welcome the proactive steps which the Welsh Government has taken to raise awareness across the public sector in Wales about this risk.

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4   Public sector bodies can mitigate these risks by having the right organisational culture supported by strong counter-fraud arrangements. Many local authorities have invested so little in counter-fraud arrangements that they have only a few of the key components in place. Whilst the position is generally much more robust across the NHS in Wales, there is still a challenging agenda to make counter-fraud fit for the next decade where globalisation and the advent of digital technology have created new risks, and opportunities, for the fraudsters.

5   I was heartened to see the Welsh Government's positive response to my 2019 report and, following the one-day conference organised by the Public Accounts Committee in July 2019, the Permanent Secretary's commitment (see **Appendix 2**) to provide Wales-wide leadership in raising the profile of counter-fraud activity.

6   In this latest report, based on a more extensive programme of field work, we identify a significant range of further opportunities to improve on the current national position, including:

     a   strengthening strategic leadership, coordination and oversight for counter-fraud across the Welsh public sector;

     b   increasing counter-fraud capacity and capabilities, especially across local government, and exploring the potential for sharing resources and expertise across public bodies;

     c   getting the right balance between proactive and reactive counter-fraud activities;

     d   improving awareness-raising and staff training in counter-fraud; and

     e   better evaluation of fraud risks and sharing of fraud information, both within and across sectors.

7   There is also significant potential for Wales to take advantage, where appropriate, of many of the counter-fraud initiatives underway across the wider UK public sector. These include the recent establishment of a recognised government counter-fraud profession, with defined competencies and career paths, and the increasing focus on tackling fraud by smarter use of data analytics.

8   As I publish this report, Wales continues to grapple with the effects of the COVID-19 pandemic. This report contains a timely illustration of some of the ways in which fraudsters have moved rapidly in recent months to exploit the pandemic for criminal gain. I have already taken steps to extend the scope of our National Fraud Initiative (NFI) to enable local authorities in Wales to undertake eligibility checks on applications for COVID-19 support grants. I am also proposing to mandate that all local authorities, together with the Welsh Government, should submit COVID-19 grant and payment data to the NFI, to help identify fraudulent applications.

Adrian Crompton

Auditor General for Wales

◄ Summary and recommendations

Ensuring that the arrangements for preventing and detecting fraud in the Welsh public sector are effective

This report examines seven **'key themes'** that all public bodies need to focus on in raising their game to tackle fraud more effectively:

- leadership and culture;

- risk management and control frameworks;

- policies and training;

- capacity and expertise;

- tools and data;

- collaboration; and

- reporting and scrutiny.

For each theme in turn, the report examines:

- why it is important;

- what our audit fieldwork identified in terms of current working practices and their effectiveness across the 40 Welsh public sector bodies that we examined (listed in **Appendix 1**); and

- what needs to happen next to generate improvement.

Our **recommendations for improvement** which are addressed to all public bodies in Wales within the Auditor General's remit, are as follows:

Theme	What needs to happen next?
Leadership and Culture	**R1** The Welsh Government should enhance its strategic leadership of counter-fraud across the public service in Wales, playing a coordinating role where it can, while recognising that individual bodies remain responsible for their own counter-fraud activities.
	R2 All public bodies should champion the importance of a good anti-fraud culture and actively promote its importance to give confidence to staff and members of the public that fraud is not tolerated.
Risk management and Control framework	**R3** All public bodies should undertake comprehensive fraud risk assessments, using appropriately skilled staff and considering national intelligence as well as organisation-specific intelligence.
	R4 Fraud risk assessments should be used as a live resource and integrated within the general risk management framework to ensure that these risks are appropriately managed and escalated as necessary.
Policies and Training	**R5** All public bodies need to have a comprehensive and up-to-date set of policies and procedures which together represent a cohesive strategy for identifying, managing and responding to fraud risks.
	R6 Staff working across the Welsh public sector should receive fraud awareness training as appropriate to their role in order to increase organisational effectiveness in preventing, detecting and responding to fraud.
	R7 Cases where fraud is identified and successfully addressed should be publicised to re-enforce a robust message from the top that fraud will not be tolerated.

Theme	What needs to happen next?
Capacity and Expertise	**R8** All public bodies need to build sufficient capacity to ensure that counter-fraud work is resourced effectively, so that investigations are undertaken professionally and in a manner that results in successful sanctions against the perpetrators and the recovery of losses.
	R9 All public bodies should have access to trained counter-fraud staff that meet recognised professional standards.
	R10 All public bodies should consider models adopted elsewhere in the UK relating to the pooling /sharing of resources in order to maximise the availability of appropriately skilled staff.
Tools and Data	**R11** All public bodies need to develop and maintain dynamic and agile counter-fraud responses which maximise the likelihood of a successful enforcement action and re-enforces the tone from the top that the organisation does not tolerate fraud.
	R12 All public bodies should explore and embrace opportunities to innovate with data analytics in order to strengt hen both the prevention and detection of fraud.
Collaboration	**R13** Public bodies should work together, under the Digital Economy Act and using developments in data analytics, to share data and information to help find and fight fraud.
Reporting and Scrutiny	**R14** Public bodies need to collate information about losses and recoveries and share fraud intelligence with each other to establish a more accurate national picture, strengthen controls, and enhance monitoring and support targeted action.
	R15 Audit committees must become fully engaged with counter-fraud, providing support and direction, monitoring and holding officials to account.
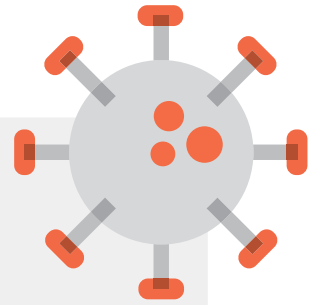
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The COVID-19 pandemic: a case study in how scammers and fraudsters are ready to exploit a crisis

We know from experience that fraudsters appear the very instant that an opportunity presents itself. Fifteen individuals have to date been jailed for fraud in the light of the Grenfell fire tragedy. Fraudsters and scammers were quickly on the scene earlier this year whilst the flooding in South Wales was ruining the homes and lives of local people.

Predictably, there has been an explosion in fraudulent activity, and especially in cyber crime, during the current COVID-19 pandemic.

The first reported positive cases of COVID-19 were reported in the UK on 31 January 2020. By this time the fraudsters and scammers had mobilised and were already hard at work.

The first fraud report relating to COVID-19 was received on February 9 by Action Fraud, the UK's fraud reporting centre. Since that time, the number of reports has increased significantly across the UK – the media reporting an unprecedented number of scams linked to the virus.

We have seen examples of good practice by some public bodies and organisations in Wales in identifying the fraud risks and sharing them with other bodies and citizens. The Welsh Government is liaising with the UK Cabinet Office and is sharing its guidance and learning on counter-fraud with the rest of the public service in Wales, including Local Authority Counter Fraud leads. Welsh Government officials have agreed to maintain and develop this group post-COVID. The intelligence obtained from these meetings has also assisted the Head of Counter Fraud with fraud intelligence sharing with Cabinet Office and the three other devolved administration fraud leads.

But has the Welsh public sector response been more reactive than proactive? What can we do better? Whilst globalisation has benefited the fraudsters it can also be to the advantage of counter-fraud specialists; we had early notice of scams from thousands of miles away a few weeks before the first case of COVID-19 was identified in the UK.

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We believe that the COVID-19 pandemic provides an important opportunity for the Welsh counter-fraud community to come together (by appropriate means) and reflect on the speed and effectiveness of its response to the scammers and fraudsters.

The key issues and recommendations set out in this report could help set an agenda or framework for such an event. There has never been a timelier opportunity for Welsh public sector leaders and counter-fraud specialists to consider how to:

- create stronger strategic leadership, coordination and oversight for counter-fraud across the Welsh public sector;
- make best use of counter-fraud capacity and capabilities and explore the potential for shared arrangements, resources and expertise;
- get a better balance between proactive and reactive counter-fraud activities;
- raise awareness amongst employees and provide the necessary training to those most likely to come across a fraud; and
- evaluate fraud risks more effectively and share fraud information both within and across sectors.

So, what do we already know about the fraudsters' response to the pandemic?

The mobilisation of fraudsters has benefited from a number of factors, for example:

- more people are spending time online to shop and socially interact. Elderly people are seen as particularly vulnerable, being generally less computer literate and more susceptible to scams such as phishing emails and ordering fake products such as face masks and sanitisers.
- working patterns have changed at short notice which can leave weaknesses in processes and procedures.
- an unprecedented amount of public money has been put into a range of new and innovative financial support schemes to businesses and individuals.

The COVID-19 pandemic: a case study in how scammers and fraudsters are ready to exploit a crisis

Fraudsters and scammers mobilised quickly for a number of reasons:

- they are very good at evaluating risks and exploiting vulnerabilities which can be at a process or at an individual level;

- they have well-established tools and methodologies and can adapt them at short notice to a new opportunity; and

- they do not recognise geographical boundaries and can be effective individually and by collaborating with like-minded individuals.

There are more examples of COVID-19 frauds and scams coming to light than can be mentioned here. There are, however, a number of themes emerging:

- the early reports related to the sale of Personal Protective Equipment such as face masks and hand sanitiser and testing kits. Typically, the items were fake or often failed to arrive after payment had been made[1].

- the next to emerge were phishing emails. For example, one claiming to be from the Department for Work and Pensions (DWP) asking the individual for debit or credit card details by saying that they are entitled to a council tax refund.

- as the attentions and resources of organisations were diverted to new ways of working and many staff were laid off, the incidence of cyber security attacks to steal business-sensitive and personal data increased.

- with more people working from home following the UK-wide lockdown, phishing campaigns then targeted applications that are being relied upon during remote working, in particular popular conference calling applications and parcel delivery firms.

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1   NHS in Wales introduced arrangements to mitigate against this fraud risk and it did not become an issue.

The COVID-19 pandemic: a case study in how scammers and fraudsters are ready to exploit a crisis

- as the national focus turned to test and track, the fraudster's net became wide and indiscriminate, as shown by a fake text message attempting to dupe people into believing they have been in contact with someone who has tested positive for the virus, directing recipients to a website for more information. The link is then used to harvest personal and financial data.

A world-leading counter-fraud response would mean that counter-fraud specialists had identified the risks at least at the same pace as the fraudsters, if not sooner. It would also mean they had the right tools to prevent and detect fraudsters exploiting any new opportunities; and that the counter-fraud response was mobilised rapidly through effective collaboration and information sharing.
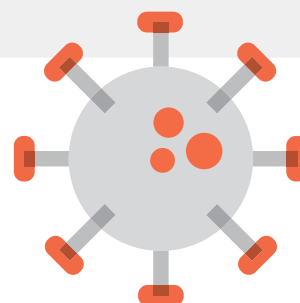
Culture and leadership across the Welsh public sector

01

Why is it important?

1.1   The Crime Survey for England and Wales recognises fraud as one of the most prevalent crimes in society today. Every pound stolen from the public sector means that there is less to spend on key services such as health, education and social services. Public sector bodies can mitigate the risks from fraud by having the right organisational culture supported by effective counter-fraud arrangements.

1.2   Strong leadership sets the appropriate tone from the top of an organisation and plays a crucial part in fostering a culture of high ethical standards. It is important that senior management leads by example and sends a clear message that fraud will not be tolerated either from inside or outside of the organisation. A strong tone at the top can raise the profile of fraud risks and promote the best standards and approaches in counter-fraud work.

What did we find?

1.3   Other than in the NHS there is an absence of any overarching strategic approach, guidance, coordination and oversight.

1.4   In NHS Wales, the NHS Counter Fraud Service[2] provides leadership, specialist investigation skills, support and guidance to the sector and a Counter Fraud Steering Group[3] provides strategic direction and oversight. This leadership model delivers a coordinated approach to counter-fraud across the NHS in Wales and a good counter-fraud culture complemented by inbuilt scrutiny of the arrangements. The legal framework specific to the NHS Wales and the levels of investment give counter-fraud a high profile and robust enforcement and recovery mechanisms. At a local level, strategic leadership was evident within Health Boards through the dissemination of a consistent message, both internally and externally, that fraud is not tolerated.

2   Which is hosted by the NHS Wales Shared Services Partnership
3   A sub-group of the All Wales Directors of Finance Forum

1.5   Across local authorities there is an absence of sector-wide strategic
        leadership, guidance, coordination and oversight of counter fraud.
        Within the individual authorities we found statements espousing a zero
        tolerance of fraud in policies and strategic documents. But there is much
        more that can be done to re-enforce the tone from the top at a practical
        level. We found examples where the leadership team actively promotes
        the importance of a good anti-fraud culture through awareness campaigns,
        newsletters to staff and active engagement with counter-fraud teams.
        But we also found in many authorities that there was little evidence that
        the message is driven down from the top and little priority is given to
        counter-fraud work. There were often competing priorities and, as a result,
        little time was given to counter-fraud and it often had a low profile.

1.6   In Central Government, the position is mixed. Within Welsh Government,
        we found evidence that counter-fraud is taken seriously, and a small
        team has achieved many successful outcomes, albeit its emphasis
        leans towards reactive rather than proactive work. We have been
        encouraged to see that the Welsh Government has accepted both of the
        recommendations made by the Public Accounts Committee following our
        first report. However, there remains a leadership gap that still needs to be
        addressed.

1.7   Across the other central government bodies that we examined,
        counter-fraud is not always given such a high priority. One reason for
        this appears to be the very low incidence of fraud being identified and
        reported; this poses the difficult question of whether this is due to a lack
        of investment in counter-fraud or a genuine low incidence of crime taking
        place. However, this latter explanation runs contrary to all the research
        being done by recognised leaders in the field such as CIPFA and the
        National Crime Agency.

1.8 The threat posed by fraud is also getting greater recognition within the UK. The UK government, for example, is working to make central government, and the public sector more widely, a place where fraud is actively found and robustly dealt with. It is transforming its whole approach to counter-fraud by:

a establishing a counter-fraud function;

b developing and launching a Government Functional Standard (GovS013);

c establishing a 'Government Counter Fraud Profession' to develop people and increase capability;

d providing expert advice to the rest of government on how to deal with fraud;

e delivering specialist services to assist public bodies; and

f collaborating with overseas governments to bring further expertise to the UK.

What can the Welsh public sector do to improve?

Recommendations

R1 The Welsh Government should enhance its strategic leadership of counter-fraud across the public service in Wales, playing a co-ordinating role where it can, while recognising that individual bodies remain responsible for their own counter-fraud activities. In doing so it could consider:

- forming strategic partnerships with the key players nationally and internationally;
- developing and delivering an all Wales counter-fraud strategy and vision;
- advocating/promoting minimum standards in terms of public sector counter-fraud arrangements similar to those established by the UK Government;
- elevating the status of counter-fraud staff by recognising counter fraud as a profession with essential competencies;
- supporting the other sectors by, for example, providing invest-to-save funding opportunities, and supporting the development of professional competencies across the Welsh public sector; and
- providing timely advice and guidance on 'hot' issues by gathering and disseminating important information and analysing trends.

R2 All public bodies should champion the importance of a good anti-fraud culture and actively promote its importance to give confidence to staff and members of the public that fraud is not tolerated.

Risk management and control frameworks

02

Why is it important?

2.1 Fraudsters are becoming more sophisticated and are evaluating opportunities and risks on a real-time basis. The management and mitigation of risk in public bodies often fails to keep up with changes in the nature and impact of potential fraud. The recent flooding in South Wales created opportunities for scams within days of the floods. Security experts have reported an explosion in fraudulent activity during the COVID-19 outbreak as the pandemic has created a myriad of opportunities for fraudsters (see **Case Study on page 10**).

2.2 A fraud risk assessment should be an honest appraisal of risks using a range of sources such as national intelligence, local intelligence, audit reports, brainstorming exercises and data-matching results. Risk assessments should be live documents and kept under constant review. Having identified the risks, bodies can then evaluate them, assessing their likelihood and the impact if the fraud were to occur. It is only when risks are properly identified and evaluated that public bodies can tackle the risks in a prioritised and proportionate way and put appropriate actions and controls in place to manage or mitigate these risks.

2.3 It is important that organisations have an effective control framework to help mitigate the risks identified. A strong internal control environment can help to prevent fraud from happening in the first place and detect fraud if an instance has occurred. Fraudsters will try to circumvent established controls and it is important that controls are regularly reviewed. A strong control programme whereby fraudsters are faced with a real prospect of detection helps mitigate the risk. When frauds are discovered, controls should be reviewed to identify weaknesses and introduce improvements. Internal Audit have expertise in designing and testing controls and they should undertake work on key systems on a risk-based approach.

What did we find?

2.4 The quality of counter-fraud risk assessment and mitigation varies significantly in the Welsh public sector and there is generally scope to improve their quality and timeliness.

2.5 In the NHS, National Fraud Risk Alerts are produced by the NHS Counter Fraud Authority. These are routinely circulated to all Local Counter Fraud Specialists (LCFS) and Directors of Finance across NHS Wales. The LCFS are also required to conduct their own local risk assessments. This is a relatively new requirement and we found that these assessments are still being developed and embedded. The NHS Fighting Fraud Strategy recognises that a key challenge for the sector is the need to develop a comprehensive analysis of specific fraud risks to ensure counter-fraud resources are being directed to the most appropriate areas within the sector. The Counter Fraud Steering group has undertaken an overall risk assessment and produced assurance maps in respect of each main area of fraud. These maps will be used to target area of proactive work.

2.6 Our work identified that while some local authorities and central government bodies have undertaken fraud risk assessments, there were many who had not prepared a fraud risk assessment for several years. Some bodies in these sectors did not have a fraud risk assessment and therefore had not properly assessed the likelihood or impact of the risk. Without this key component, bodies cannot direct resources appropriately or adequately mitigate the risks of losses due to fraud. As a result, fraud strategies and work programmes are not particularly useful or relevant as they are not targeting the key areas of risk.

2.7 Our work also identified that, even where risk assessments were undertaken, they may not be integrated within the wider risk management framework. Fraud is not commonly reflected in corporate risk registers. We did not find many coordinated mechanisms for ensuring that fraud risks are appropriately communicated, owned and monitored within the audited body. Instead, fraud risk assessments are often held as standalone documents without any corporate ownership or active management of the risk. As a result of this approach, fraud risks are not adequately shared across departments.

2.8　We did identify some good practice in the sharing of fraud risks. In response to the Coronavirus pandemic, the Welsh Government issued a fraud risk bulletin early in April 2020, highlighting the emerging risks to the Welsh public sector. Ahead of the Welsh Government's bulletin, the UK Government Counter Fraud Function published its own guide: Fraud Control in Emergency Management – COVID-19 UK Government Guidance. The guide highlights the importance of risk assessment, effective payment verification and due diligence arrangements and the need for robust claw-back arrangements to recover funds that are paid out incorrectly. There were also good examples in local authorities of raising awareness of scams with local residents.

2.9　We found that, in general, public bodies across all sectors have internal control frameworks that are well established and internal audit teams test controls as part of their annual programmes of assurance work. However, we found that internal audit teams do not always consider the fraud risks associated with systems as part of their work programmes. Furthermore, where new systems and processes are established, we found that organisations are not always using counter-fraud contacts and internal audit teams to try to design fraud out of systems.

What can the Welsh public sector do to improve?

Recommendations

R3　All public bodies should undertake comprehensive fraud risk assessments, using appropriately skilled staff and considering national intelligence as well as organisation-specific intelligence.

R4　Fraud risk assessments should be used as a live resource and integrated within the general risk management framework to ensure that these risks are appropriately managed and escalated as necessary.

Policies and training

03

Why is it important?

3.1 A sound policy framework enables organisations to direct their approach to counter-fraud and to promote good ethical behaviour. There should be a suite of policies and procedures in place that set out what is expected and what the consequences are for breaking the rules. Codes of conduct should set out the standards expected of employees and highlight the importance of declaring conflicts of interest and establish rules around gifts and hospitality.

3.2 Publicising frauds and the recovery action undertaken, helps to re-enforce the message from the top that fraud will not be tolerated. Publicity can help to discourage wrongdoing by others as it can highlight the damaging repercussions of their actions.

3.3 Staff are often the first to notice something irregular or potentially fraudulent and are the often the first line of defence in the fight against fraud. These staff need easy access to a good counter-fraud policy and whistleblowing policy so they can be clear about their roles and responsibilities and the process they must follow if they suspect a fraud.

3.4 Effective training helps staff interpret policies and codes of conduct, giving them the confidence and skills to report suspected fraud. However, training and awareness-raising campaigns should be kept under continual review and must be linked to the live risk assessments so that new frauds or risks facing public bodies are quickly shared amongst staff and contractors if appropriate.

What did we find?

3.5 Generally, we found that public bodies have prepared and approved a range of policies setting out the processes to follow if staff suspect that they have uncovered a fraud. However, we identified that some policies were outdated, some were still in draft form and some were not easily accessible to staff.

3.6 Whilst NHS bodies have each developed comprehensive counter-fraud strategies (informed by an over-arching national strategy), we found that only a few other public sector bodies had done so. Such strategies set out clear approaches to managing fraud risks along with responses and actions, they define roles and responsibilities and are cross-referenced to other policies so that they can be readily understood by staff.

3.7 The NHS has a policy of proactively publicising successful fraud cases. The NHS Counter Fraud Service does this by issuing press releases and engaging with local media for interviews and promotional opportunities. Publicity helps raise awareness of fraud risks and also deters staff and contractors from committing fraud. By publicising counter-fraud work and raising awareness of the effects of fraud, the NHS involves staff, key stakeholders and the public in the fight against fraud.

3.8 We did not identify the same level of proactive publicity work in other sectors. Some local authorities take the view that publicising cases can be reputationally damaging and are therefore reluctant to publish such information. The Welsh Government recognises that more can be done to publicise fraud cases. The very low levels of fraud identified at central government bodies also means there is little publicity that can act as a further deterrent.

3.9 Our audit work also identified wide variation in levels of training and awareness-raising specifically relating to counter-fraud across the Welsh public sector. We found that a few public bodies provide fraud awareness training to all their staff. Some others provide training as part of the induction of new staff but do not provide this training for longstanding staff. We found some examples of refresher training sessions and e-learning modules provided for staff, but these are not widespread. There are many bodies that do not provide any counter-fraud training or awareness-raising events.

3.10 These findings suggest that there could be a significant proportion of the public sector workforce in Wales who have either received no fraud-awareness training at all or have not received training for several years.

3.11 There are good examples of awareness-raising in the NHS where the LCFS has an ongoing work programme to develop and maintain an anti-fraud culture within their health board. These programmes include the preparation of presentations and publications to raise awareness of fraud. There are also examples of LCFS undertaking staff surveys to capture the levels of staff awareness of fraud in order to act if necessary. In addition, the NHS has developed a fraud awareness e learning package for all staff and levels of compliance across organisations is reported the Directors of Finance on a quarterly basis. However, even in the NHS sector, counter-fraud training for new staff is generally not a mandatory requirement.

What can the Welsh public sector do to improve?

Recommendations

R5 All public bodies need to have a comprehensive and up-to-date set of policies and procedures which together represent a cohesive strategy for identifying, managing and responding to fraud risks.

R6 Staff working across the Welsh public sector should receive fraud-awareness training as appropriate to their role in order to increase organisational effectiveness in preventing, detecting and responding to fraud.

R7 Cases where fraud is identified and successfully addressed should be publicised to re-enforce a robust message from the top that fraud will not be tolerated.

Capacity and expertise

04

Why is it important?

4.1   It is important that public bodies each designate a counter-fraud champion who understands fraud and leads the organisation's approach and response. Public bodies need access to sufficient appropriately skilled counter-fraud specialists to prevent, detect and investigate suspected fraud and protect their assets. As fraud risks change, public bodies should have resources available to provide a response that is appropriate to the threat.

4.2   Skilled and experienced staff will also help to ensure investigations are undertaken properly with evidence being obtained and handled lawfully in order to secure successful sanctions and the recovery of losses.

4.3   Investigations, whilst crucial, can be time consuming and costly and the low numbers of successful prosecutions mean that public bodies cannot rely on investigations alone to combat fraud. Public bodies need to have the capacity to undertake both proactive counter-fraud work and reactive investigation work. Proactive work includes fraud awareness campaigns, training, designing policies and strategies and strengthening controls to prevent attacks.

What did we find?

4.4   Insufficient capacity arose frequently as a key challenge faced by public bodies in their efforts to combat fraud. On the ground, capacity and skills in counter-fraud vary widely across and within public sector bodies in Wales. Most of the capacity is allocated to responsive work and investigations with any spare capacity being used in preventative counter-fraud work.

4.5   In local government, some officers are sceptical about the levels of fraud within their organisations and question the need for additional resources. However, these same local authorities allocate little resource to counter-fraud arrangements, do not have robust fraud risk assessments and the following up of matches from the National Fraud Initiative is assigned a low priority. Their assumptions about low levels of fraud run contrary to all the research being done by recognised leaders in the field such as CIPFA and the National Crime Agency.

4.6   Local authorities suffered a significant loss in counter-fraud capacity when the independent Single Fraud Investigation Service (SFIS) was created in 2014. SFIS is a partnership between the Department for Work and Pensions, HMRC and local authorities and which covers welfare benefit fraud. Most of the counter-fraud specialists left the sector to work for this new organisation. A small number of authorities have retained experienced and skilled counter-fraud staff, but the workload has mostly fallen on Internal Audit teams.

4.7   Our work found that the counter-fraud arrangements were generally more advanced in the local authorities that retained a dedicated and specialist counter-fraud resource. Where Internal Audit teams carry out the counter-fraud work we found a trade-off between counter-fraud work and the general programme of assurance work due to limited resources and competing priorities.

4.8   We also found that, within some local authorities, several teams play a role in counter-fraud work; for example, Internal Audit, Council Tax, and Human Resources teams all contribute. Whilst helpful in terms of adding capacity, we found that this can result in a lack of coordination and integration between these teams and a lack of clarity in the overall picture of counter-fraud activity.

4.9   Counter-fraud is generally better resourced in the NHS than other public sector bodies and there has been an increase in LCFS resource over recent years. There is a central team within the NHS Counter Fraud Service Wales which investigates complex, large scale frauds and provides a financial investigation resource. The team also provides guidance, intelligence and investigative support to the network of finance directors and LCFS at health bodies in Wales. In addition, Welsh Government Directions require that each health body should appoint at least one LCFS who is an accredited counter-fraud professional. These LCFS are the primary points of contact for counter-fraud work at their respective health bodies and have a key role in fraud prevention and detection. Increasing staffing levels above the minimum number is a matter of local discretion.

4.10   The mixture of LCFS and support and guidance from the NHS Counter Fraud Service and the Counter Fraud Steering Group has resulted in improved counter-fraud arrangements within the NHS sector in comparison to the other sectors. However, whilst LCFS staff are often shared between individual health boards, they are not pooled across the entire sector. As a result, the relatively low counter-fraud staff numbers in some health boards can cause issues if staff members are absent from work. Even within the NHS Wales, there is a general recognition that more proactive work should be undertaken.

4.11   The Counter Fraud Team at the Welsh Government is skilled and experienced and has secured a number of high-profile prosecutions over recent years. However, a recent Government Internal Audit Agency review of the Welsh Government in 2017 concluded that the counter-fraud function could achieve more with increased resources. The Counter Fraud Team is able to draw on resources from within the Welsh Government to assist with investigations where appropriate and there are plans to increase the resource in the team in the near future.

4.12   Our audit also found that public bodies in Wales bodies are generally following traditional counter-fraud approaches with a focus on detection and investigation rather than prevention. Most public bodies recognise that more proactive and preventative work should be done, but they acknowledge that the lack of time, resources and expertise are barriers to making this shift of focus.

4.13   We did not find many examples of public bodies in Wales outside the NHS pooling resources to help reduce duplication of effort and improve the efficiency and effectiveness of counter-fraud arrangements across sectors. Pooled resources could also help to improve continuity and add flexibility to adapt to changing needs going forward.

4.14   In 2018 the UK government launched the Counter-Fraud Profession to enhance overall counter-fraud capability across government. The profession develops the skills of specialist staff and moves beyond the traditional focus of investigations, placing greater emphasis on fraud prevention and the use of data analytics. Membership across UK Government Departments has been steadily increasing, and the Welsh Government is engaged with this initiative. Organisations joining the profession are required to have learning environments that support their staff to develop and maintain professional standards.

What can the Welsh public sector do to improve?

Recommendations

R8 All public bodies need to build sufficient capacity to ensure that counter-fraud work is resourced effectively, so that investigations are undertaken professionally and in a manner that results in successful sanctions against the perpetrators and the recovery of losses.

R9 All public bodies should have access to trained counter-fraud staff that meet recognised professional standards.

R10 All public bodies should consider models adopted elsewhere in the UK relating to the pooling and/or sharing of resources in order to maximise the availability of appropriately skilled staff.

Tools and data

05

Why is it important?

5.1 An effective counter-fraud function will ensure that those responsible for it are equipped with up-to-date methodologies and the right tools for the job. Counter-fraud staff must make best use of data and intelligence in order to:

    a   prevent fraud by 'fraud-proofing' systems and processes; and

    b   mounting an effective response to suspicions of fraud.

5.2 New fraud threats are continually emerging, both globally and nationally. It is important that public bodies have flexible, cutting-edge counter-fraud approaches that are fit for a digital age and agile enough to keep up with, or better still, ahead of the fraudsters.

5.3 Cyber-attacks are an alternative means of committing traditional frauds such as the theft of assets, cash or intellectual property. PricewaterhouseCoopers' most recent global economic crime survey found that cyber crime is now the most common fraud facing UK businesses, overtaking asset misappropriation for the first time since the survey began. We can see this in the explosion in number of cyber scams linked to the COVID-19 pandemic.

5.4 Preventing fraud is always preferable to responding to an instance. Many organisations are now looking to 'fraud-proof' systems at the point of entry using the latest developments in data analytics. For example:

    a   the Cabinet Office has developed on-line tools that can look at 10,000 records in seven seconds to provide due diligence checks on grant applications; and

    b   the Department of Work and Pensions have been trialling an Artificial Intelligence system that detects fraudulent claims by searching for certain behaviour patterns, such as benefit applications that use the same phone number or are written in a similar style. Any suspicious activity is then passed on to specialist investigators.

5.5 Data analytics provide an increasingly important tool in preventing fraud as well as in its detection. We look at how public bodies can share data to help find fraud in the next section of this report.

5.6 Sophisticated technology and data analytics are of little use if they are not used effectively and this requires adequately trained resource to understand it. Therefore, it is important that public bodies have access to staff adept in data analytics in order to achieve better counter-fraud results.

5.7   Knowing what to do in the event of a suspected fraud improves the chances of a successful enforcement action. It also re-enforces the tone from the top that the organisation does not tolerate fraud. Fraud response plans need to provide a clear direction to relevant parties so that bodies are able to respond to allegations quickly and appropriately. A response plan should be reviewed regularly to ensure that responses to fraud keep abreast with changing times and emerging risks. They should outline:

a   the fraud investigation process from receipt of allegation to outcome report;

b   roles and procedures for securing evidence and undertaking interviews;

c   details of how and when to contact the police;

d   a commitment to pursuing a range of sanctions;

e   reporting arrangements; and

f   how lessons learned will be used to strengthen system and process controls.

What did we find?

5.8   Generally speaking, we found that more work is needed to bring counter-fraud tools and methodologies up to date to reflect the new world of cyber attacks and digitally-facilitated crimes. Many local authorities and central government bodies we looked at as part of our fieldwork did not have information security policies that reflected the risks associated with cyber crime. The situation was more positive in NHS Wales bodies.

5.9   Our review identified only a few examples of data analytics being used as a means of preventing fraud. Data analytics are used more widely to detect fraud, in following up on NFI data matches, for example, but our previous audit work[4] has shown that the level of engagement with the NFI varies considerably across Welsh public bodies.

5.10   We found that some local authorities and central government bodies did not have a fraud response plan that was communicated to all staff and which made it clear that all allegations of fraud would be investigated. The Welsh Government had a fraud response plan, but this was in draft form at the time of our audit work and was not, therefore, available to staff. Again, the position was much more positive in NHS Wales.

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4   **Our October 2018 NFI report** stated that 'most Welsh public sector bodies participating in the NFI were proactive in reviewing the data matches, but a small number of participants did not review the matches in a timely or effective manner.

5.11 NHS bodies all use the same case management system to record and monitor the progress of potential fraud cases. In other sectors, few bodies have a case management system although some do have a spreadsheet log that records information. The variation in the information collected makes it very difficult to report an all-Wales position on the level of fraud taking place. The reasons that many local authorities and central government bodies do not have a case management system or detailed records was the very low numbers of fraud cases that were being identified and handled.

5.12 Most of the public bodies we looked at consider the full range of possible sanctions (disciplinary, regulatory, civil and criminal) against fraudsters and will seek redress including the recovery of assets and money where possible. However, many bodies report such low levels of fraud that it is impossible to substantiate their claims. For any internal frauds identified, most bodies tend to deal with the perpetrators through internal disciplinary procedures.

5.13 Most of the public bodies we looked at reflected on the weaknesses revealed by instances of proven fraud and corruption and fed back to departments and teams so that they might fraud-proof their systems. The arrangements at local NHS bodies were particularly robust because fraud cases in their case management system cannot be closed down without providing assurance that any system weaknesses have been considered and remedied if necessary.

What can the Welsh public sector do to improve?

Recommendations

R11 All public bodies need to develop and maintain dynamic and agile counter-fraud responses which maximise the likelihood of a successful enforcement action and re-enforce the tone from the top that the organisation does not tolerate fraud.

R12 All public bodies should explore and embrace opportunities to innovate with data analytics in order to strengthen both the prevention and detection of fraud.

Collaboration

06

Why is it important?

6.1 Fraudsters do not respect geographical or other boundaries. This means that individual public sector bodies cannot establish effective counter-fraud arrangements by themselves. They must work collaboratively to maximise the effectiveness of their response to fraud.

6.2 Collaboration is an increasingly important aspect of public service, particularly in the context of reduced funding and the need to do more with less. Collaboration is also one of the 'five ways of working' as defined in the Welsh Government's 'Well-being of Future Generations (Wales) Act 2015: the essentials'[5] document. It is therefore essential that collaboration and the sharing of intelligence and good practice take place between public, private and third-sector bodies across the UK and internationally.

6.3 Collaboration can mean sharing people or pooling resources and, more commonly these days, in the sharing of information. This information can be shared between departments, between bodies, across different elements of the public sector and with other key stakeholders such as law enforcement authorities and the private sector. The information shared can be about the nature of a fraud or information about the identities of the perpetrators.

6.4 The sharing of data to help find fraud is a rapidly evolving area and is being facilitated by changes in the law. In 2017, the Digital Economy Act became law, enabling public authorities to share personal data to prevent, detect, investigate and prosecute public sector fraud. The Act recognises that the wider use of data-sharing could improve the prevention, detection and investigation of fraud in a number of ways, including:

a improved targeting and risk-profiling of potentially fraudulent individuals;

b streamlining processes, enabling the government to act more quickly; and

c simplifying the legislative landscape.

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5 Well-being of Future Generations (Wales) Act 2015: the essentials',
Welsh Government (2015)

What did we find?

6.5 Our field work across forty public sector bodies in Wales found that collaboration was insufficiently developed, reinforcing the findings of our 2019 review.

6.6 Within local authorities and central government bodies there are some good examples of bodies working jointly and some regional networks, but these tend to be informal arrangements and there is no consistency in approach. Formalising arrangements can help improve accountability and governance and can influence commitment and results.

6.7 The picture is generally more positive across local NHS bodies and the Welsh Government than in local authorities and central government bodies. However, there is scope for all public bodies to work more closely with each other and with other stakeholders to tackle fraud.

6.8 Because of the tiered approach to counter-fraud within NHS Wales and established formal partnerships with the NHS Counter Fraud Authority, there is good access to specialist fraud investigation teams such as surveillance, computer forensics, asset recovery and financial investigations. The NHS Counter Fraud Service Wales provide the surveillance, asset recovery and financial investigations services to NHS Wales, while the NHS Counter Fraud Authority provides forensic computing services and other specialist support services to NHS Wales under the terms of their annual agreement with Welsh Government.

6.9 The existence of these formal access arrangements is less well established within other sectors, but most organisations told us that they could access specialist services if required. The low level of fraud being identified was one of the reasons given for the absence of formal partnerships between public sector bodies.

6.10 We also found wide variations in the amounts of data that are shared. In most bodies, the sharing of data was typically limited to the National Fraud Initiative (NFI), although not all central government bodies currently take part in NFI. We found that some local authorities do not invest much resource into following up NFI matches and these are often the same authorities in which counter-fraud arrangements were limited.

6.11 There were very few examples of organisations working frequently across internal and external boundaries and sharing information. Common reasons for this lack of collaboration was lack of time and resources, and concerns about the sharing of data.

What can the Welsh public sector do to improve?

Recommendations

R13 Public bodies should work together, under the Digital Economy Act and using developments in data analytics, to share data and information to help find and fight fraud.

Reporting and scrutiny

07

Why is it important?

7.1 Arriving at a reliable estimate for the cost of fraud is a difficult task. This is particularly so for the Welsh public sector as our 2019 report highlighted. Whilst the UK Government produces annual estimates, there is no breakdown of this estimate to each of the devolved administrations in the UK. CIPFA's most recent analysis estimates that fraud costs the UK public sector £40.3 billion annually. The Cabinet Office[6] estimates losses due to fraud and error at between 0.5% and 5% of budget. Applying this range to annual public expenditure in Wales of around £20 billion gives a possible estimated value of losses to fraud and error between £100 million and £1 billion per annum. The losses are therefore significant and take valuable funding away from our public services.

7.2 Fraud is often under-reported as some suspicious activity identified through NFI matches, for example, is not classified as fraudulent and therefore not reported. Also, some public bodies fail to report fraud as it can attract unwanted publicity and perceived reputational damage. This situation leads to an incomplete national intelligence picture.

7.3 The International Public Sector Fraud Forum[7] has recognised that 'finding fraud is a good thing' and this is one of their 'Key Fraud and Corruption Principles'. The Forum noted that, if bodies do not find fraud, then they are unable to fight it, and that a change of perspective is needed so that the identification of fraud is seen as a positive and proactive achievement.

7.4 Reporting fraud to those charged with the governance of public sector organisations is important as it provides managers and audit committees, for example, with the information and intelligence they need to challenge and scrutinise. To facilitate accountability, public bodies should provide copies of counter-fraud reports detailing numbers of cases and outcomes to audit committees so that they are fully informed of any issues of concern and can hold management and counter-fraud teams to account. Audit committees can also promote the message that fraud will not be tolerated, supporting the efforts of counter-fraud teams.

6   Cabinet Office Cross Government Fraud Landscape Report 2018

7   International Public Sector Fraud Forum A Guide to Managing Fraud for Public Bodies in Feb 2019

What did we find?

7.5   The arrangements in NHS Wales to record, collate and share information about fraud losses and recoveries are well established. The NHS Counter Fraud Service collates information on the number of fraud cases and recoveries from each health body as a matter of course. There are quarterly and annual Operational Performance Reports which summarise information about resources, referrals and the work of the Counter-Fraud Service and LCFS based at each health body. These reports are reviewed by the Counter Fraud Steering Group and shared with Directors of Finance and the audit committees of each health body, helping to facilitate meaningful comparisons within the sector. The NHS Counter Fraud Authority also reports to the Welsh Government on a quarterly basis.

7.6   In other sectors, audit committees are not generally provided with as much information:

   a   in the Welsh Government, the Audit and Risk Assurance Committee is not provided with, nor does it request, detailed information about fraud cases, although information about major cases and anti-fraud activity is included in the regular report from the Head of Internal Audit;

   b   in the local government sector, fewer than half the authorities report information about fraud cases, losses and recoveries to their audit committees on a regular basis; and

   c   even fewer central government bodies report on cases of fraud, reflecting a very low incidence of fraud being identified and managed.

7.7   The absence of both the reporting of information and arrangements to collate and share this information across the Welsh public sector is troubling for a number of reasons. It does little to help re-enforce a zero-tolerance message from the top of an organisation to both staff and external stakeholders. It may also send the wrong message to fraudsters that Wales does not see fraud as a priority and makes it difficult to assess the level of risk and how best to respond to it by senior public sector officials and politicians.

7.8   When frauds are identified, Internal Audit (or, where they exist, counter-fraud specialists) provide audit committees with reports and updates. On balance, however, audit committees outside of the NHS Wales have not been sufficiently proactive in recognising the increasing risk of fraud and in asking the searching questions necessary about the matching of resources to risk or about the lack of information being supplied about fraud risk.

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What can the Welsh public sector do to improve?

Recommendations

R14 Public bodies need to collate information about losses and recoveries and share fraud intelligence with each other to establish a more accurate national picture, strengthen controls, and enhance monitoring and support targeted action.

R15 Audit committees must become fully engaged with counter-fraud, providing demonstrable support and direction, monitoring and holding officials to account if insufficient information is being provided about counter-fraud activity.

Appendices

1 Audit methods

2 The Welsh Government's response to the July 2019 recommendations of the Public Accounts Committee

1　Audit methods

Our audit was structured around seven key lines of enquiry to help us answer the overall question: 'Are the arrangements for preventing and detecting fraud in the Welsh public sector effective?':

- Does the top tier demonstrate a commitment to counter-fraud and provide the necessary leadership to fight fraud?

- Does the organisation have a suitable structure and sufficient skilled resources to prevent and detect fraud?

- Does the organisation have a sound policy framework to support effective counter-fraud arrangements?

- Does the organisation have an effective fraud risk assessment together with appropriate responses to emerging issues?

- Does the organisation's internal control environment support effective arrangements for preventing and detecting fraud?

- Does the organisation have an appropriate response to fraud?

- Does the organisation have proper reporting and scrutiny in place to ensure its counter-fraud culture and framework is operating effectively?

The audit fieldwork was carried out by our local audit teams between November 2019 and February 2020. Their fieldwork included:

- structured interviews – interviews with key individuals in order to understand the counter-fraud arrangements in place at each audited body; and

- document reviews – where these existed, they typically included the counter-fraud strategy, risk assessment, work plans, corporate risk register, fraud response plan, Codes of Conduct, whistleblowing policy, guidelines and procedures for local fraud investigators and counter-fraud reports/updates provided to Audit Committee.

Teams also issued a core information request in order to gather some information directly from audited bodies.

The project team collated and reviewed the local findings to distil the key messages for inclusion in this report. Our audit teams have been providing tailored feedback on their local findings to relevant staff at each audited body.

The audited bodies included in this study are:

Local Government bodies:

- Blaenau Gwent County Borough Council
- Bridgend County Borough Council
- Caerphilly County Borough Council
- Cardiff Council
- Carmarthenshire County Council
- Ceredigion County Council
- Conwy County Borough Council
- Denbighshire County Council
- Flintshire County Council
- Gwynedd Council
- Isle of Anglesey County Council
- Merthyr Tydfil County Borough Council
- Monmouthshire County Council
- Neath Port Talbot County Borough Council
- Newport City Council
- Pembrokeshire County Council
- Powys County Council
- Rhondda Cynon Taf County Borough Council
- City and County of Swansea
- The Vale of Glamorgan Council
- Torfaen County Borough Council
- Wrexham County Borough Council

NHS Wales bodies:

- Aneurin Bevan University Health Board
- Betsi Cadwaladr University Health Board
- Cardiff and Vale University Health Board
- Cwm Taf Morgannwg University Health Board
- Hywel Dda University Health Board
- Powys Teaching Health Board
- Swansea Bay University Health Board
- Health Education and Improvement Wales
- Velindre University NHS Trust
- Public Health Wales Trust
- Welsh Ambulance Service NHS Trust

Central Government bodies:

- Welsh Government
- Welsh Revenue Authority
- Arts Council for Wales
- Higher Education Funding Council for Wales
- National Museums and Galleries Wales
- Natural Resources Wales
- National Library of Wales
- Sport Wales
- Senedd Commission

2 The Welsh Government's response to the July 2019 recommendations of the Public Accounts Committee

PAC Recommendation

Response from the Welsh Government's Permanent Secretary

We ask that the Welsh Government consider whether there is scope and potential to support a national counter fraud team to work across Wales to ensure that at least a basic level of counter fraud work is undertaken in each local authority area by suitably trained staff.

The Welsh Government recognises and fully supports local authorities addressing fraud within the £8 billion of their general revenue expenditure.

As independent democratically led organisations, the prime responsibility for the detection and prevention of fraud is for each of the 22 councils themselves. As such, we would expect all to be fully engaged in this work and for local politicians to understand and provide leadership.

To make sure that the recommendation is understood and given priority, officials will raise the matter with Ministers to secure an item on the Partnership Council agenda as well as its Finance Sub Committee. Subject to Ministers' agreement, we will agenda an item for the next possible meeting.

We ask that the Welsh Government consider how it can best provide stronger national leadership and better quality guidance on the sharing of information to help strengthen and improve the impact of counter fraud activities across the Welsh public sector.

I am supportive of any move to increase the understanding of fraud and the consistent application of best practice techniques across the Welsh Public Sector and there exists already a vehicle to bring together counter-fraud practitioners and other interested parties and drive forward a common understanding of this important area.

The Welsh Government's Head of Counter-Fraud is Deputy Chair of the Wales Fraud Forum (WFF), which is a not-for-profit company run by a strategic board of volunteers. Its aims are to help prevent fraud in Wales by raising awareness in the public and private sectors and amongst individuals. In particular, its stated objectives include to:

- bring the public and private sectors together to fight fraud and financial crime and to protect the economy of Wales;

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PAC Recommendation	Response from the Welsh Government's Permanent Secretary
	• promote fraud awareness amongst its membership, organisations and individuals throughout the region;
	• create good practice cultures by encouraging and developing anti-fraud strategies for its membership to utilise;
	• establish a best practice between its members for fraud prevention, investigation and detection; and
	• promote an open and co-operative environment between the membership in both the public and private sectors.

The Forum is held in high regard; in 2017 the current First Minister gave the keynote address at its annual conference and outlined his support for effective counter-fraud arrangements across Wales. Forum membership includes the Audit Wales as well as a number of public and private sector organisations.

Therefore, I believe the Welsh Government can achieve the outcome desired by identifying strategies to support the work of the Forum, raising its profile within the Welsh Public Sector and seek a high level of commitment to support it. I will ask Officials to engage with the Forum to discuss strategies for strengthening its effectiveness by the end of the calendar year.

We agree there is potential in the use of data sharing between Welsh public bodies to improve the impact of counter-fraud activities. The introduction of the Digital Economy Act gives the Welsh Government and certain scheduled Welsh public bodies useful new powers to share data with each other compliantly to identify potential fraud. Officials are working on setting up the appropriate governance for taking forward the use of these new powers in Wales, and are aiming for a panel to be in place by the end of the financial year to consider potential uses of the powers.

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Archwilio Cymru
Audit Wales

The National Fraud Initiative in Wales 2018-20

Report of the Auditor General for Wales

This is an interactive pdf

To navigate through the document please use the buttons on the left side of the page and the links marked with underlined text

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Since we last reported on the NFI in Wales in October 2018, outcomes valued at £8 million have been recorded. The cumulative outcomes from the NFI in Wales since 1996 are now £42.9 million. Across the UK, the cumulative total of NFI outcomes are now £1.93 billion.

NFI outcomes in Wales have increased by £2.7 million to £8 million in the 2018-20 exercise. This increase was due to local authorities becoming more proactive in cancelling ineligible claims for Council Tax Single Persons Discount.

Data sharing enables matches to be made between bodies and across national borders. Data submitted by Welsh bodies for the 2018-2020 NFI exercise helped other organisations in other parts of the UK to identify 94 cases of fraud and error with outcomes of £125,000.

Whilst the majority of Welsh NFI participants display a strong commitment to counter fraud and the NFI, as reported in my recent report on counter-fraud arrangements across Wales, some bodies do not demonstrate a commitment to address fraud and do not ensure that sufficient, skilled staff resource is in place to investigate matches, prevent frauds and correct errors.

The COVID-19 pandemic has brought significant challenges across the public sector as bodies seek to deliver services for individuals, communities and businesses in an extremely difficult time. Since the start of the pandemic, the risk of fraud has increased as organisations become stretched and controls and governance are changing.

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Recommendations

All participants in the NFI exercise should ensure that they maximise the benefits of their participation. They should consider whether it is possible to work more efficiently on the NFI matches by reviewing the guidance section within the NFI secure web application.

Audit committees, or equivalent, and officers leading the NFI should review the NFI self-appraisal checklist. This will ensure they are fully informed of their organisation's planning and progress in the 2020-22 NFI exercise.

Where local auditors have identified specific areas where improvements could be made, the public bodies should act on these as soon as possible.

All participants should be aware of emerging fraud risks e.g. due to COVID-19, and take appropriate preventative and detective action.

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National Fraud Initiative Outcomes

The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The NFI uses data sharing and matching to help confirm that services are provided to the correct people.

An NFI outcome describes the overall amounts for fraud, overpayments and error that are detected by the NFI exercise and an estimate of future losses that it prevents.

The NFI recorded outcomes of £8.0 million in 2018-20.

£ NFI outcomes cumulatively in the UK since 2006	£ NFI outcomes cumulatively in Wales since 2006	£ NFI outcomes across UK from the 2018-20 exercise	£ NFI outcomes in Wales from the 2018-20 exercise
£1.93 billion	**£42.9 million**	**£244.7 million**	**£8 million**

The background to the NFI is contained in **Appendix 1**
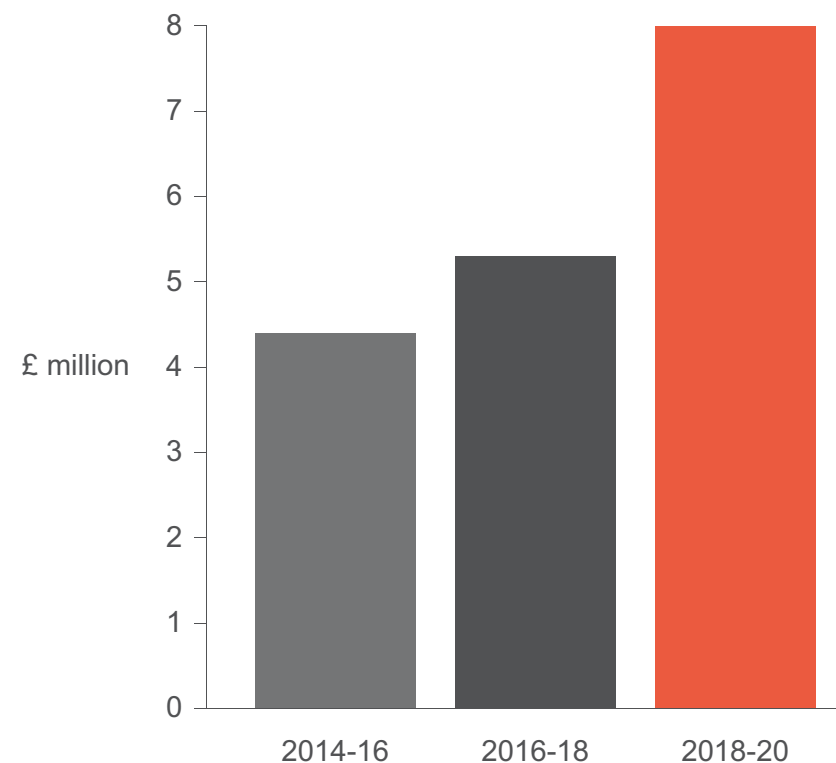
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Trends in outcomes

Outcomes in Wales have increased by £2.7 million to £8 million in the 2018-20 exercise. This was despite the fact that immigration data was not included in the 2018-20 exercise due to restrictions placed on it by the Home Office following the review into the treatment of the Windrush generation. The increase in outcomes is due to several Welsh local authorities becoming more proactive in reviewing matches between Council Tax Single Persons Discount and the electoral register.

Having fewer matches provides some assurance there do not appear to be significant problems in the areas covered by the exercise. However, participants still benefit from the deterrent effect the NFI creates.

Outcomes in Wales increased to £8.0m in the 2018-20 exercise

Due to a formula error in the NFI computer system, pensions outcomes in the 2016-18 exercise were overstated by £0.1 million. The 2016-18 outcome figure has been adjusted accordingly in the above chart.
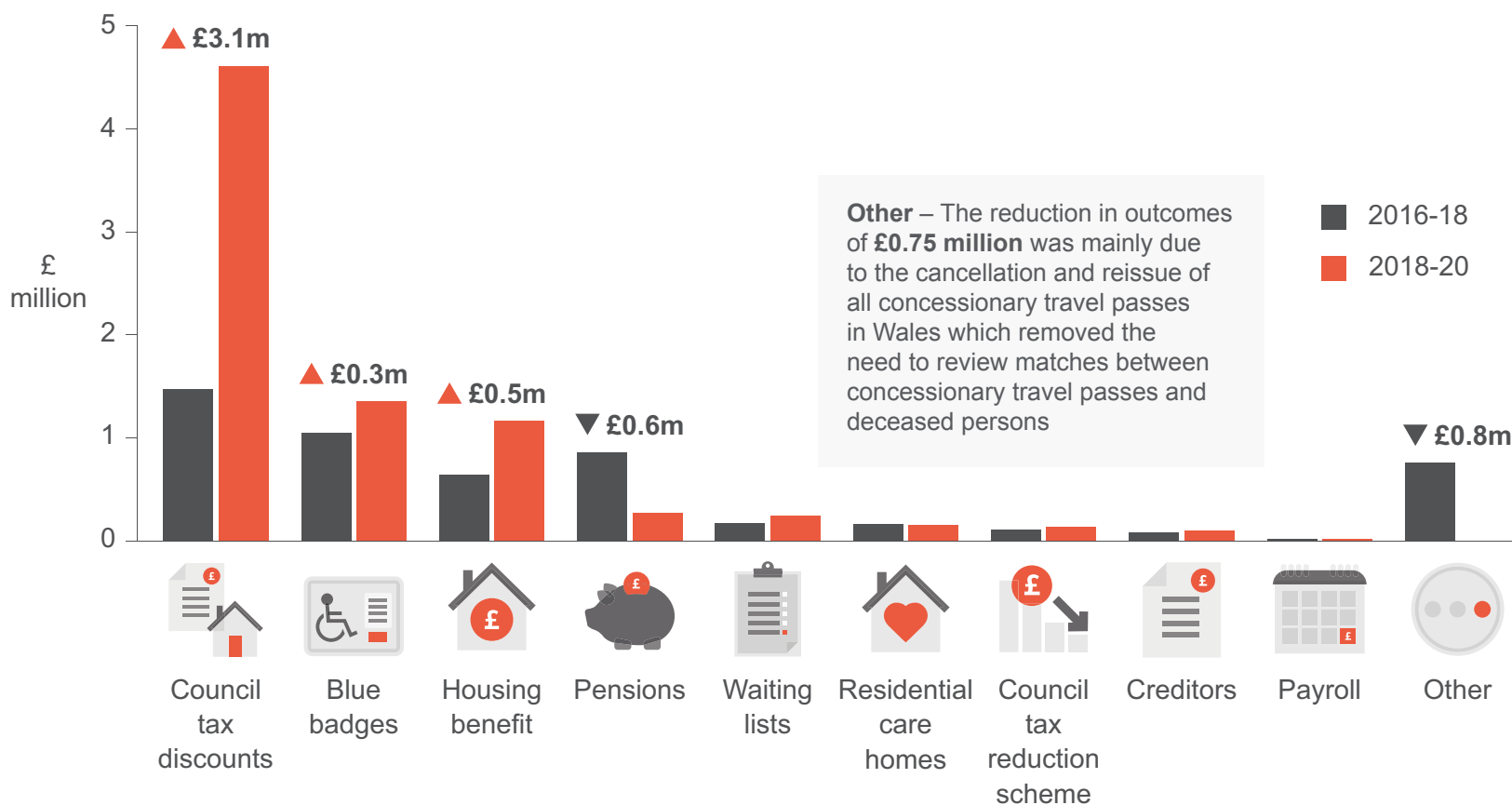
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How the latest outcomes compare to the last exercise

NFI outcomes in Wales have **increased** by **£2.7 million** to **£8.0 million** in the 2018-20 exercise.

Other – The reduction in outcomes of **£0.75 million** was mainly due to the cancellation and reissue of all concessionary travel passes in Wales which removed the need to review matches between concessionary travel passes and deceased persons

Chart legend:
- 2016-18
- 2018-20

Y-axis: £ million (0 to 5)

Bar categories and annotations:
- Council tax discounts — ▲ £3.1m
- Blue badges — ▲ £0.3m
- Housing benefit — ▲ £0.5m
- Pensions — ▼ £0.6m
- Waiting lists
- Residential care homes
- Council tax reduction scheme
- Creditors
- Payroll
- Other — ▼ £0.8m

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Seven areas generated almost 98% of outcomes

The areas which generated the most outcomes from the current exercise are as follows:

Category	£	Cases
Council tax discount	£4.6m	3939
Blue badges	£1.4m	2354
Housing benefit	£1.2m	179
Pensions	£0.3m	10
Waiting lists	£0.2m	74
Residential care homes	£0.2m	11
Council tax reduction scheme	£0.1m	11

When overpayments are identified, public bodies can take appropriate action to recover the money. As at 31 March 2020, 83% of overpayments had been recovered or were in the process of being recovered.

Results

Council tax discounts

People living on their own, or with no countable adults in the same household, are eligible for a 25 per cent single person discount (SPD) on their annual council tax bill.

Council tax SPD data is matched to electoral register data to help find where people who are receiving the discount, but are not the only countable adult at their residence.
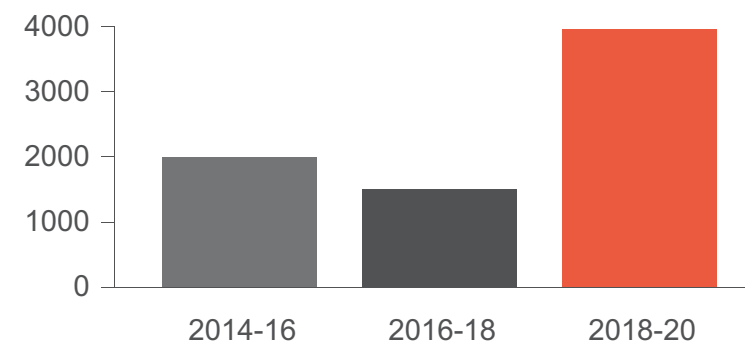
The 2018-20 NFI exercise found incorrectly awarded council tax discount totalling £4.6 million across Welsh councils. This is an average outcome of £1,003 for each case (£998 per case in the 2016-18 NFI). Review of the NFI matched led to the cancellation of 3,939 SPD claims.

The increase in outcomes is mainly due to local authorities becoming more proactive in investigating the matches.

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Outcomes of **£4.6 million** in 2018-20

£ million

| | 2014-16 | 2016-18 | 2018-20 |

4,588 cases in 2018-20

| | 2014-16 | 2016-18 | 2018-20 |

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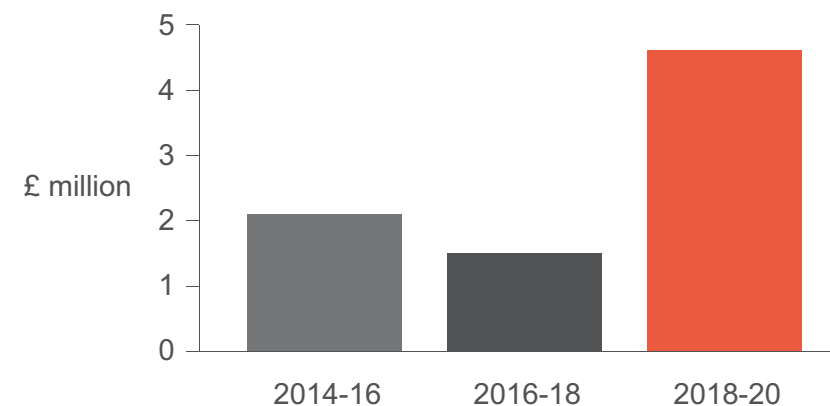
Process

Case Study: Council tax single persons discounts

Vale of Glamorgan Council

The Council has a proactive and comprehensive approach to reviewing NFI Council Tax discount matches. All matches are reviewed at the earliest opportunity. New matches are checked against NFI matches from previous exercises to eliminate cases dealt with before the new matches were released. All remaining matches are then reviewed against the Council's internal systems to try and establish current the household status of the claimant. Where no mitigating household circumstances are identified on the Council's systems, letters are sent to claimants asking them to provide evidence of entitlement. As a result of this action in NFI 2018-20 the Council has so far cancelled 175 claims and identified recoverable overpayments of £112,523. The Council is currently investigating a further 400 cases.

Pensions

The NFI provides councils that administer pensions an efficient and effective way of checking that they are only paying people who are alive.

The exercise found 10 instances where pensions had remained in payment after pensioners had died.

In total, pensions' outcomes for the 2018-20 NFI are £0.26 million. This equates to an average outcome of £26,000 per case.

This is a reduction of £0.59 million from the 2016-18 NFI exercise.

Pension outcomes have fallen due to the 'tell us once' reporting process having become more embedded over the last two years.

Pensions outcomes across the UK have fallen by 59 per cent from £136.9 million in 2016-18 to £55.5 million in 2018-20.

Outcomes of **£0.26 million** in 2018-20
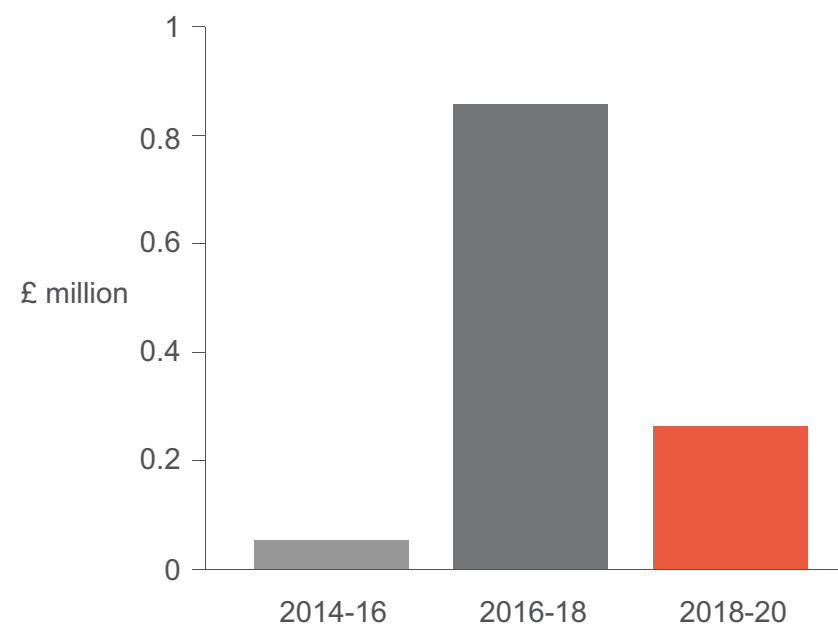
£ million

Due to a formula error in the NFI computer system, pensions outcomes in the 2016-18 exercise were overstated by £0.1 million. The 2016-18 outcome figure has been adjusted accordingly in the above chart.

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Case Study: Pensions

Cardiff Council

The Council proactively reviewed matches between pensions in payment and deceased persons. One match indicated that a pension scheme member had passed away during November 2016. Examination of Council records established that the recipient had moved away from the Council area before their death. The investigator confirmed the date of death of the pension scheme member and that £8,504 had been paid into the scheme member's bank account since the date of death.
The investigator identified an individual who had Power of Attorney. The Council carried out home visits and sent letters to the individual who had Power of Attorney to establish the circumstances that resulted in the overpayment. The individual did not respond. The investigator contacted the late pension member's bank, and established that the pension payments had not been withdrawn from the scheme member's account. The Council is in the process of recovering the overpayment.

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Housing benefits

The NFI provides councils and the Department for Work and Pensions (DWP) with the opportunity to identify a wide range of benefit frauds and errors.

Housing benefit data is matched to student loans, payroll, pensions, housing benefits, housing tenants, licences, deceased person and Amberhill data to help identify ineligible claims.

The value and number of housing benefit cases recorded with overpayments has risen from £0.6 million (169 cases) in the 2016-18 NFI to £1.2 million (179 cases) in the 2018-20 NFI.

Although the number of benefit cases has only increased slightly, the average value of overpayments in each case has increased from £3,781 in the 2016-18 NFI exercise to £6,496 in 2018-20.

Outcomes of **£1.2 million** in 2018-20

Cases

£000

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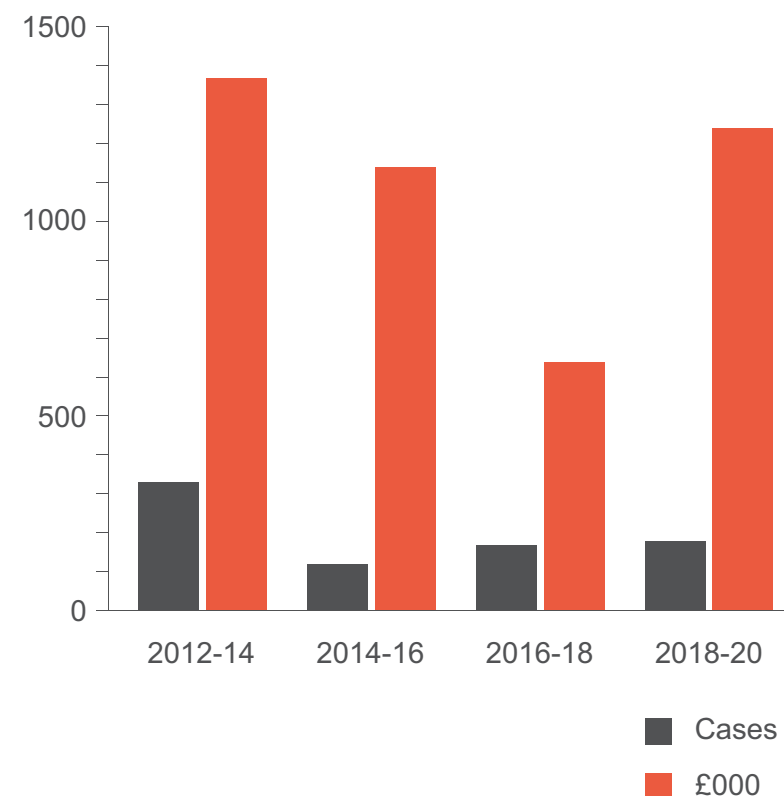
Process

Case Study: Housing benefits

Carmarthenshire County Council

Carmarthenshire County Council recognises the importance of NFI in protecting the public purse against fraud risks and uses NFI to assist in the detection and prevention of fraud. The 2018-20 exercise identified 138 Housing Benefits to student loan matches. The Council initially considered only checking matches marked as high risk matches, but based on positive results in previous years felt it beneficial to extend the checking process beyond the high risk cases. Review of the matches led to 12 fraud investigations, where it was established that the benefit claimants had failed to declare that they were in receipt of student finance/ loans These cases generated overpayments of benefits in excess of £34,000. The Council has recovered the overpayments, or is in the process of recovery through deductions from ongoing benefit payments.

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Blue badges
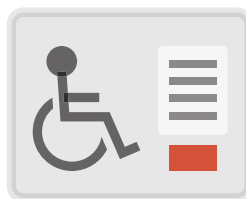
The blue badge parking scheme allows people with mobility problems to park for free at on-street parking meters, in 'pay and display' bays, in designated blue badge spaces, and on single or double yellow lines in certain circumstances.

Blue badge data is matched to deceased persons and Amberhill data.

Badges are sometimes used or renewed improperly by people after the badge holder has died. It is an offence for an unauthorised person to use a blue badge.

NFI 2018-20 resulted in the cancellation of 2,354 blue badges in Wales. The number of badges cancelled has increased in each NFI exercise since NFI 2012-14

2,354 outcomes in NFI 2018-20

Number cancelled

2500	
2000	
1500	
1000	
500	
0	2012-14 2014-16 2016-18 2018-20
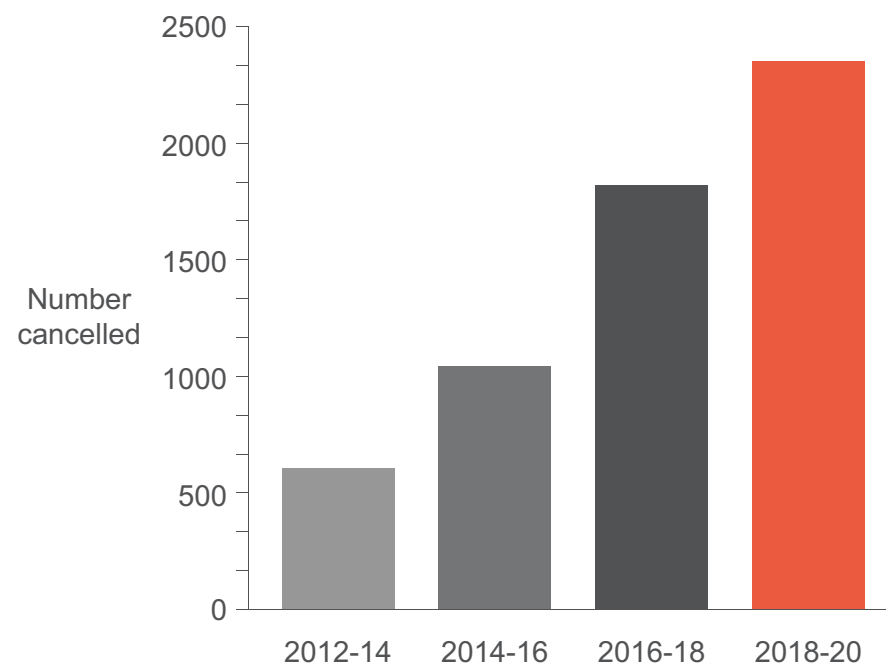
Key messages
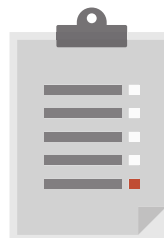
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Housing waiting lists

The aim of the NFI using housing waiting list data is to identify possible cases of waiting list fraud. This happens when an individual has registered on the waiting list but there are possible undisclosed changes in circumstances or false information has been provided. This was a new data set for the 2016-18 NFI exercise.

Housing waiting list data is matched to waiting list, housing benefit, housing tenants, deceased persons and Amberhill data.

Councils identified 74 cases where applicants were removed from waiting lists.

The estimated value of these cases is £0.24 million based on a calculation of the annual estimated cost of housing a family in temporary accommodation and the likelihood a waiting list applicant would be provided a property.

Outcomes of **£0.24 million** in 2018-20

Number of properties
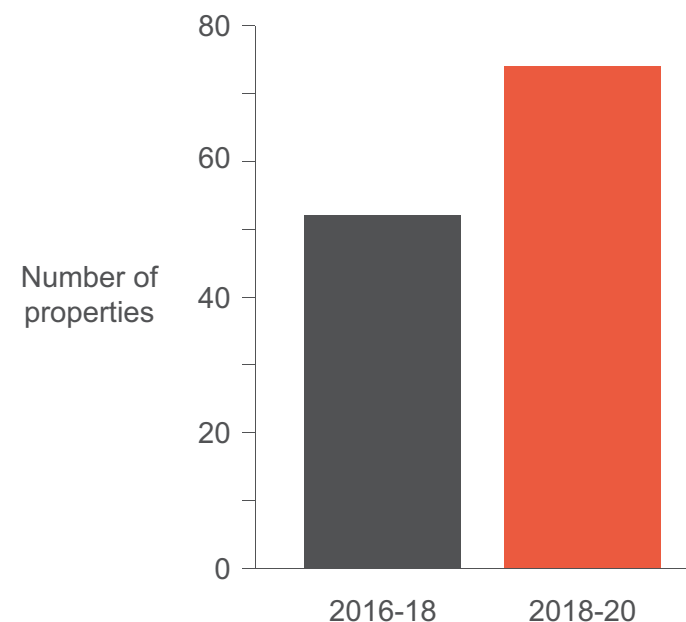
Key messages

Outcomes
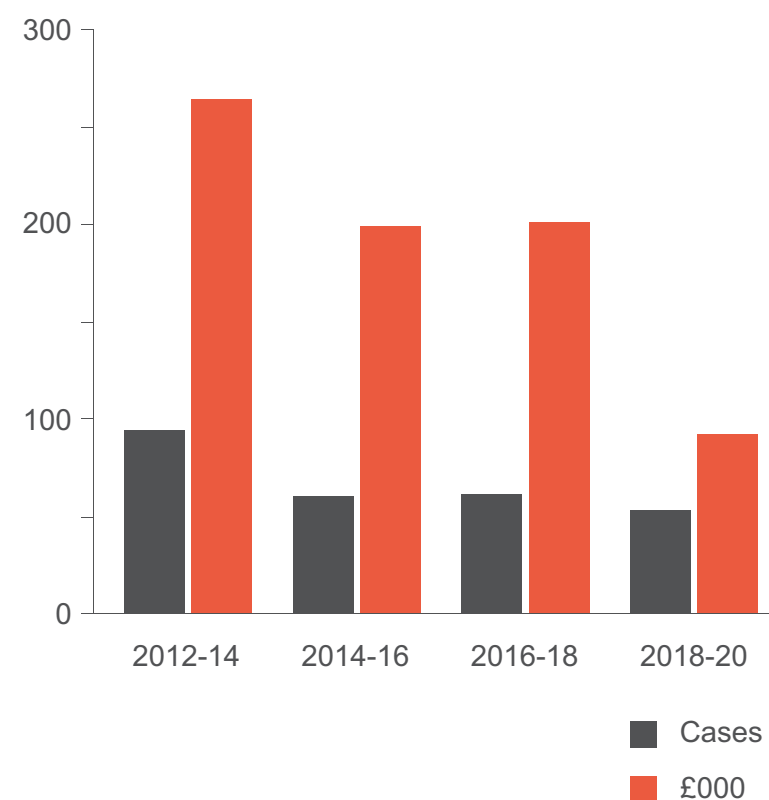
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Process

Creditors

The NFI provides an efficient way to check for duplicate payments and that payments are only made to appropriate creditors.

Creditor data is matched to creditor and payroll data.

NFI 2018-20 has resulted in 53 creditor outcomes of £0.1 million compared to 61 outcomes worth £0.2 million in 2016-18. Recovery action is taking place for 100% of these overpayments.

Creditor outcomes have reduced over NFI exercises as participating bodies have improved their internal system controls.

Outcomes of **£0.1 million** in 2018-20

Cases

£000

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Payments to residential care homes

The NFI identifies cases where a care home resident has died, but the local authority may not have been notified and so continue to make payments.

Residential care home data is matched to deceased persons and Amberhill data.

Councils have identified 11 cases of overpayments valued at £0.16 million to care providers for people who have died.
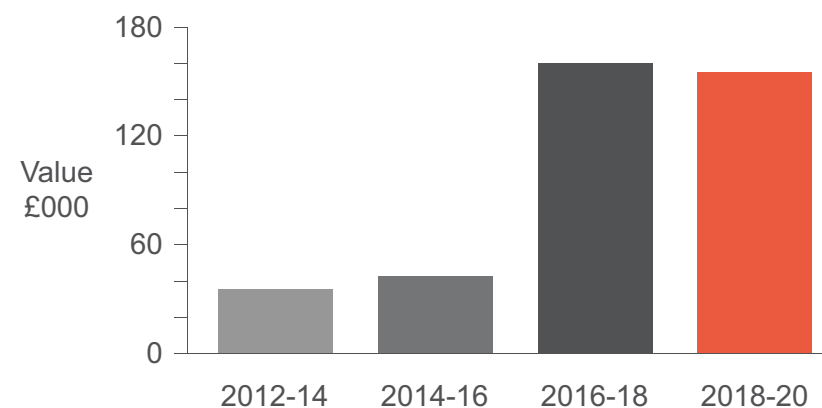
The average value of each case was £14,545.

93% of the overpayments have or are being recovered.

Number of cases of payments to private residential care homes for deceased residents
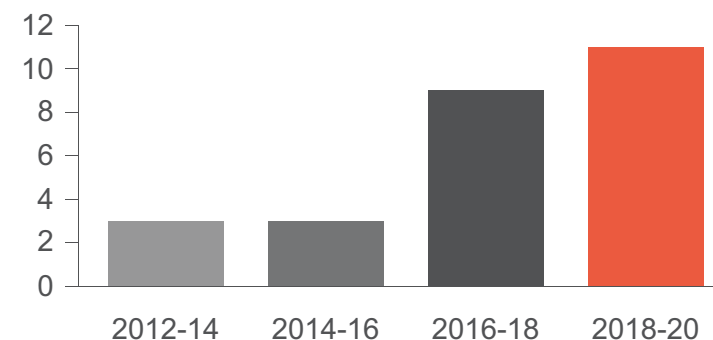
Outcomes of **£0.16 million** in 2018-20

Key messages

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Council tax reduction

Council tax reduction helps those on low incomes to pay their council tax bills.

The NFI provides councils with the opportunity to identify a range of council tax reduction frauds and errors.

Council tax reduction data is matched to council tax reduction, payroll, pensions payroll, housing benefits, housing tenants, licences, deceased persons and Amberhill data.

The 2016-18 NFI was the first time council tax reduction data sets were included within the NFI.

Outcomes of £0.13 million were identified in the 2018-20 NFI and claims for council tax reduction were amended or cancelled in 90 cases.

The average value of each case was £1,457 compared to £1,887 in NFI 2016-18 suggesting that fraud and error is being identified earlier.

Outcomes of **£0.13 million** in 2018-20

Cases
£000
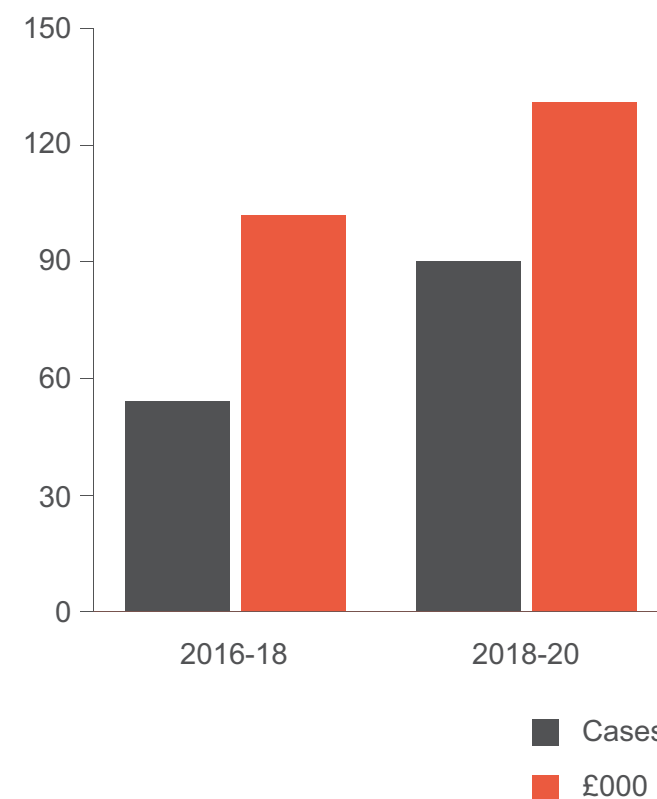
COVID-19

Fraud risks associated with COVID-19

The COVID-19 pandemic has brought significant challenges across the public sector as bodies seek to continue to deliver services for individuals, communities and businesses in an extremely difficult time. This includes additional fraud risks that will be important for public bodies to identify and manage.

Good governance and sound controls are essential in such crisis situations.

The risks include, but are not limited to:

government stimulus packages to support individuals and businesses being provided quickly with a lower level of scrutiny and due diligence than has previously been in place for similar schemes
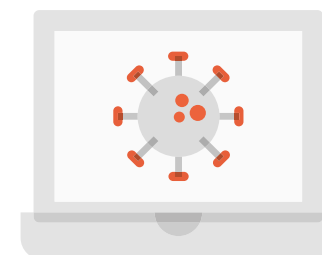
an increase in cyber-crime as more public sector staff connect remotely

- Many public sector bodies have been working together in order to try to address these risks through data matching and sharing information. Additional assurance activity is also planned by many public sector bodies once the COVID-19 crisis is over.

- The Auditor General has been working with the Cabinet Office in order to promote the use of data matching as a means of preventing COVID-19 related fraud.

- Facilities to allow councils to carry out additional checks on bank accounts and company status in relation to business support grants have been rolled out to Welsh NFI participants.

an increase in phishing emails and scams trying to tempt staff working under pressure to click on links which allow fraudsters access to public sector systems

public sector staff working under extreme pressure

public sector staff working remotely

Key messages

Outcomes

Results

COVID-19

Process

Key messages

Outcomes

Results

COVID-19

Process

◀ Process

Matches benefiting other public bodies

One key benefit of a UK wide data matching exercise is that it enables matches to be made between bodies and across national borders. Data provided by Welsh participants for the 2018-20 NFI exercise helped other public bodies outside Wales identify outcomes worth almost £125,000.

Most of these outcomes relate to housing benefits, housing waiting list and council tax reductions where, for example, payroll data from a health board may allow a council to identify a housing benefit overpayment.

For those public bodies taking part in the NFI which may not always identify significant outcomes from their own matches, it is important to appreciate that other bodies and sectors may do so.

Sector of source data	£	number of outcomes
Local authorities	99,552	76
NHS	24,538	17
Fire	898	1
Total	**124,989**	**94**

Key messages

Outcomes

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COVID-19

Process

How bodies work with the NFI

The success of NFI is dependent on the proactivity and effectiveness of participant bodies in investigating the data matches.

Most participating Welsh public bodies managed their roles in the 2018-20 NFI exercise well.

However, some bodies could be far more pro-active in their approach to the NFI. In particular some local authorities reviewed very few of the matches they received, and as a consequence did not do sufficient work to address potential frauds. This was due to a failure to allocate adequate skilled counter-fraud resource to investigate the NFI matches.

We recommend that all bodies use our checklist to self-appraise their involvement in the NFI before and during the 2020-22 NFI exercise.

Key messages

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Future developments

- The COVID-19 pandemic and the resulting emergency support packages put in place have led to a greater risk of fraud. The Auditor General has been working with the Cabinet Office to identify, develop and promote data matching facilities to help address some of this increased fraud risk. Work will continue in this area into the 2020-22 NFI exercise.

- The Auditor General has mandated that Welsh local authorities submit data on COVID-19 business support grants to NFI 2020-22 for data-matching to address fraud in this area.

- The 2020-22 NFI is now underway. Data sets have been reviewed following a period of consultation and NFI participants are starting to submit data for matching.

- The Auditor General continues to work with the Cabinet Office in developing new ways to prevent and detect fraud.

- The Auditor General continues to work with the Welsh Government in promoting and enhancing participation in the NFI across Wales.
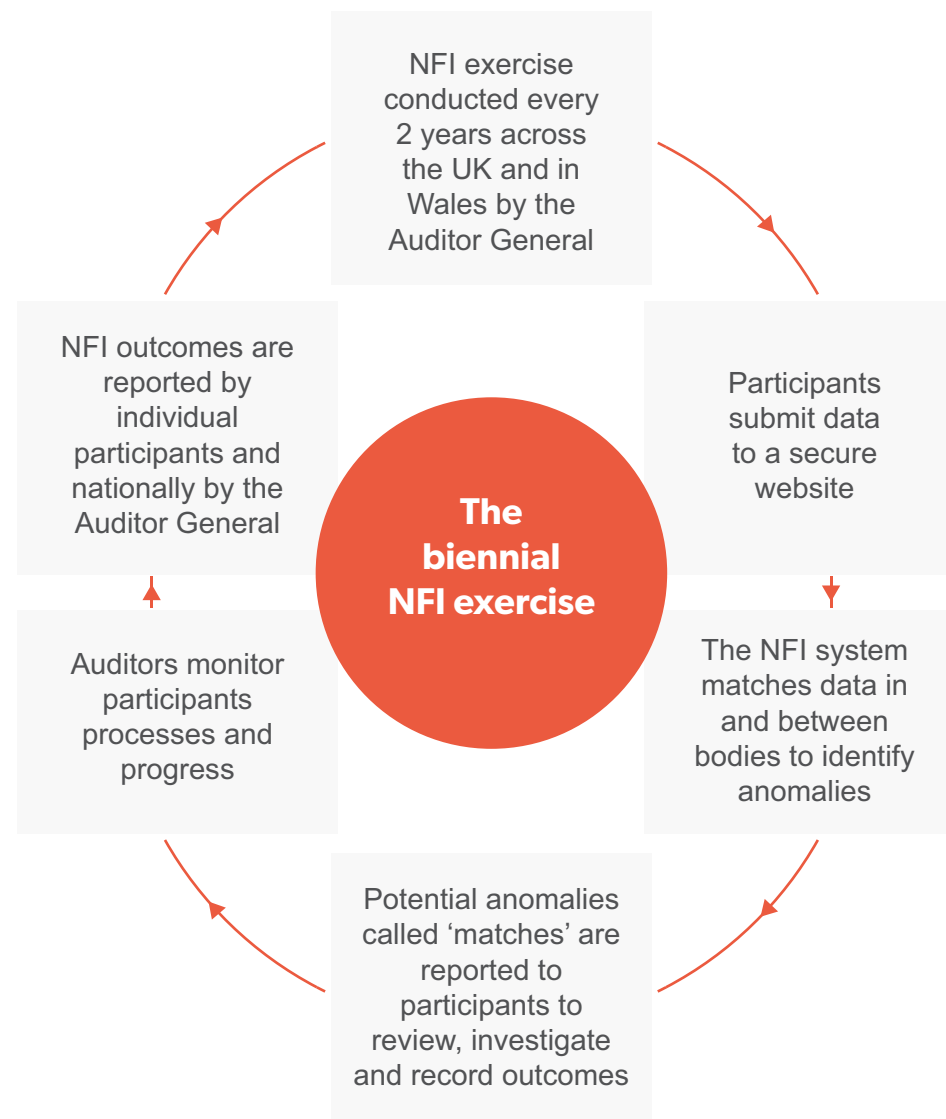
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◀ Appendix 1 – Background to the NFI

The NFI is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The Auditor General, Cabinet Office, Audit Scotland and the Northern Ireland Audit Office lead the exercise in Wales, England, Scotland and Northern Ireland respectively. The NFI takes place biennially and enables public bodies to use computer data matching techniques to detect fraud and error.

The main purpose of the NFI is to ensure funds and services are provided to the correct people, but NFI can also identify individuals entitled to additional services or payments e.g. housing benefit matches may identify customers entitled to council tax discount or reduction.

We carry out the NFI process under powers in the Public Audit (Wales) Act 2004. It is important for all parties involved that this exercise is properly controlled and data handled in accordance with the law. The Auditor General's Code of Data Matching Practice summarises the key legislation and controls governing the NFI data matching exercise is available from the Audit Wales website.

The biennial NFI exercise

- NFI exercise conducted every 2 years across the UK and in Wales by the Auditor General
- Participants submit data to a secure website
- The NFI system matches data in and between bodies to identify anomalies
- Potential anomalies called 'matches' are reported to participants to review, investigate and record outcomes
- Auditors monitor participants processes and progress
- NFI outcomes are reported by individual participants and nationally by the Auditor General

Key messages

The Auditor General is independent of the Senedd and government. He examines and certifies the accounts of the Welsh Government and its sponsored and related public bodies, including NHS bodies. He also has the power to report to the Senedd on the economy, efficiency and effectiveness with which those organisations have used, and may improve the use of, their resources in discharging their functions.

Outcomes

The Auditor General also audits local government bodies in Wales, conducts local government value for money studies and inspects for compliance with the requirements of the Local Government (Wales) Measure 2009.

The Auditor General undertakes the National Fraud Initiative in Wales under Part 3A of the Public Audit (Wales) Act 2004 which empowers him to conduct data matching exercises for the purpose of assisting in the prevention and detection of fraud in or with respect to Wales and to publish the results of any such exercise.

Results

The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office, which is a statutory board established for that purpose and to monitor and advise the Auditor General.

Audit Wales is the umbrella brand of the Auditor General for Wales and the Wales Audit Office, which are each separate legal entities with their own legal functions. Audit Wales is not itself a legal entity. While the Auditor General has the auditing and reporting functions described above, the Wales Audit Office's main functions are to providing staff and other resources for the exercise of the Auditor General's functions, and to monitoring and advise the Auditor General.

COVID-19

Process

For further information, or if you require any of our publications in an alternative format and/or language, please contact us by telephone on 029 2032 0500, or email info@audit.wales. We welcome telephone calls in Welsh and English. You can also write to us in either Welsh or English and we will respond in the language you have used. Corresponding in Welsh will not lead to a delay.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

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Archwilio Cymru
Audit Wales

'Raising our Game': tackling fraud in Wales

A national and local picture

The scale of fraud I

- The Crime Survey for England and Wales recognises fraud as one of the most prevalent crimes in society today.

- The Association of Certified Fraud Examiners (ACFE) estimates that organisations lose 5% of their annual revenues to fraud. Worldwide, this yields an annual economic loss of £60 trillion.

- Cabinet Office estimate an upper and lower range for likely losses in government spend between 0.5% and 5% of expenditure.

- Applying the Cabinet Office estimates to annual devolved expenditure in Wales of around £20 billion gives a possible estimated value of losses to fraud and error in the Welsh public sector of £100 million to £1 billion per annum.
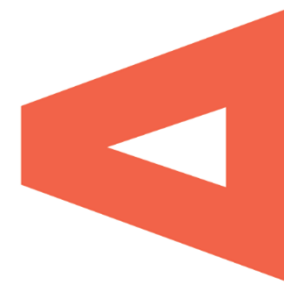
The scale of fraud II

- Some public sector leaders are sceptical about the levels of fraud within their organisations.

- They put little resource into counter-fraud arrangements and assign a low priority to investigating cases of potential fraud identified to them by the National Fraud Initiative.

- Their stance runs contrary to all the research being done by recognised leaders in the field such as CIPFA and the UK Government.

- Such scepticism is not based on any significant local counter-fraud work or fraud risk assessments.

- Fraudsters appear the very instant that an opportunity presents itself. Fifteen individuals have to date been jailed for fraud in the light of the Grenfell fire tragedy. Scammers were quickly on the scene whilst the flooding in South Wales was ruining the homes and lives of local people. There has been an explosion in fraudulent activity, and especially in cyber-crime, during the current Covid-19 pandemic.

Counter fraud Phase I Study

- Our Phase 1 report (June 2019) provided an overview of the counter-fraud landscape across the Welsh public sector.

- The report does not examine the scope or effectiveness of arrangements at a local level. But:

➢ the losses caused by fraud in the public sector are significant. In a time of austerity, every pound lost to fraud is a pound that could be spent on public services;

➢ fraud in all its forms is constantly evolving, so counter-fraud measures need to keep pace with the fraudsters; and

➢ resources devoted to counter-fraud activity vary widely across the public sector in Wales. We believe there is scope for greater collaboration and cross-agency working to combat the fraudsters.

Phase II study

We asked the following questions at 40 audited bodies in Wales:

➢ Does the top tier demonstrate a commitment to counter-fraud and provide the necessary leadership to fight fraud?

➢ Does the organisation have a suitable structure and sufficient skilled resources to prevent and detect fraud?

➢ Does the organisation have a sound policy framework to support effective counter-fraud arrangements?

➢ Does the organisation have an effective fraud risk assessment together with appropriate responses to emerging issues?

➢ Does the organisation's internal control environment support effective arrangements for preventing and detecting fraud?

➢ Does the organisation have an appropriate response to fraud?

➢ Does the organisation have proper reporting and scrutiny in place to ensure its counter-fraud culture and framework is operating effectively?

Key national findings

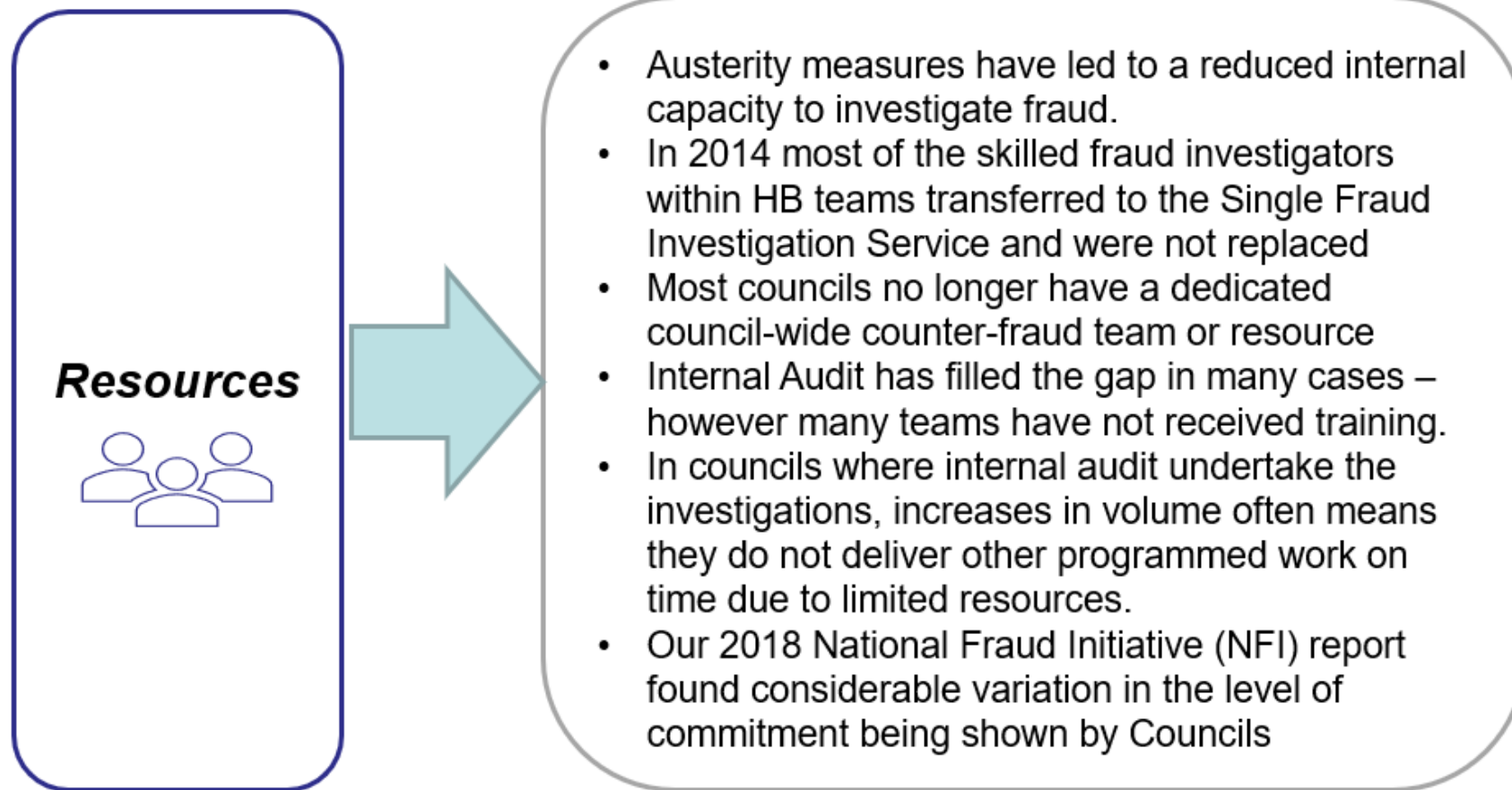We have identified a number of improvement opportunities to:

➢ strengthen strategic leadership, co-ordination and oversight for counter-fraud across the Welsh public sector;

➢ increase counter-fraud capacity and capabilities, especially across local government, and exploring the potential for sharing resources and expertise across public bodies;

➢ get the right balance between proactive and reactive counter-fraud activities;

➢ improve awareness-raising and staff training in counter-fraud; and

➢ better evaluate fraud risks and sharing of fraud information, both within and across sectors.

Key national findings: Sector Specific

- Choose which sector specific slides you want to use from the following three:
➢ Central Government
➢ NHS
➢ Local Government
- Use your discretion how much Phase 1 background/descriptive information you want to have in the local feedback – you may have fed this back previously.
- For central government bodies you may wish to remove the Welsh Government specifics from the sector issues as WG stands alone and had been identified in its own right in the national report narrative.

Phase I overview of sector: Local Government

Resources

- Austerity measures have led to a reduced internal capacity to investigate fraud.
- In 2014 most of the skilled fraud investigators within HB teams transferred to the Single Fraud Investigation Service and were not replaced
- Most councils no longer have a dedicated council-wide counter-fraud team or resource
- Internal Audit has filled the gap in many cases – however many teams have not received training.
- In councils where internal audit undertake the investigations, increases in volume often means they do not deliver other programmed work on time due to limited resources.
- Our 2018 National Fraud Initiative (NFI) report found considerable variation in the level of commitment being shown by Councils

Slide 15

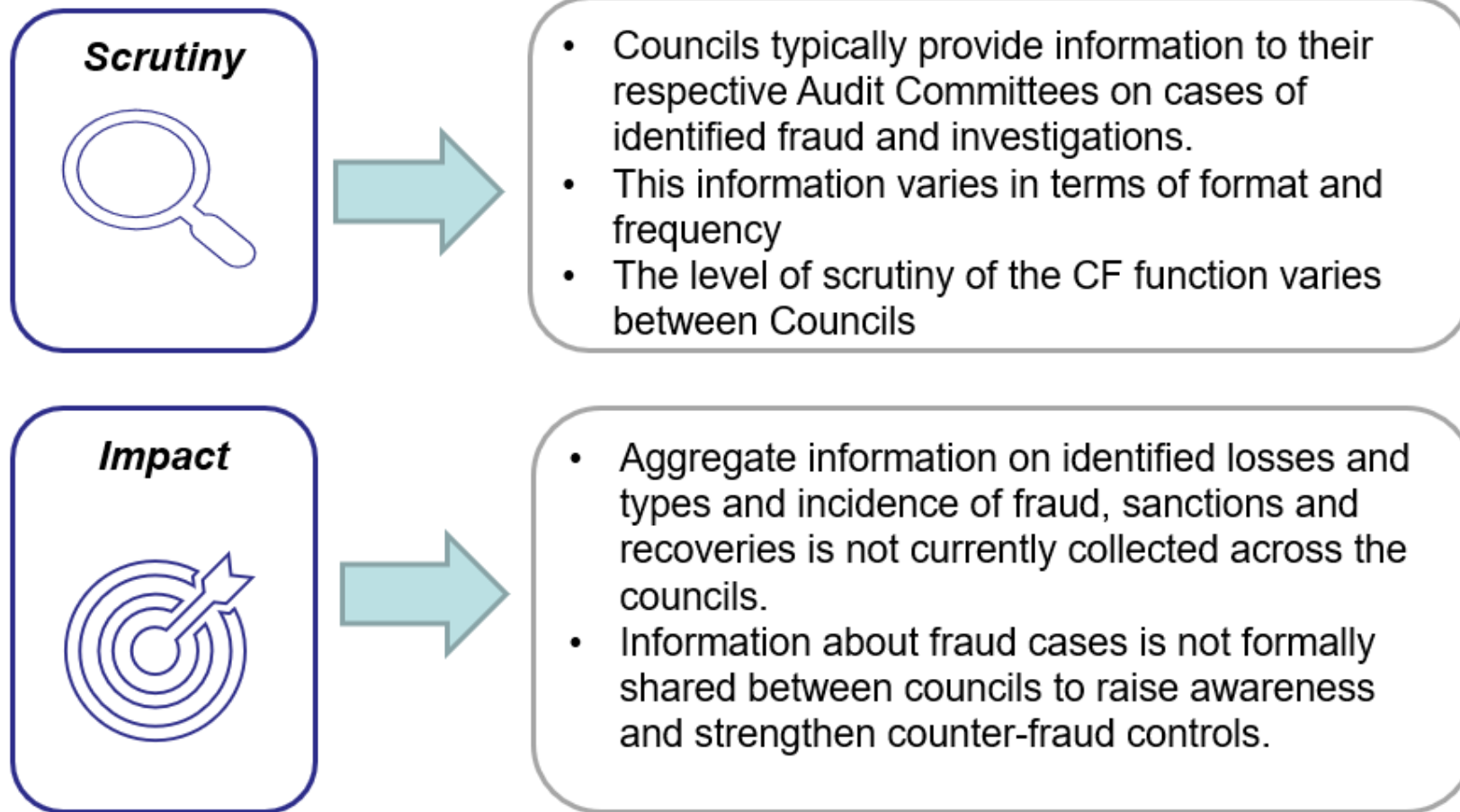# Phase I overview of sector: Local Government

Work and Collaboration

- Individual councils are responsible for developing their own counter-fraud policies and culture.
- Councils tend to focus more on investigations rather than prevention due to a lack of resources and competing priorities.
- There are some informal local networks in regions e.g. North Wales Chief Auditors, South Wales creditors group which act as an additional forum to discuss counter-fraud issues
- The Welsh Chief Auditors group meets twice a year but counter-fraud is not a standing agenda item for this forum.
- Councils recognise the benefit of collaboration, but barriers of time, cost and data sharing sensitivities, are some of the reasons preventing this from happening

Phase I overview of sector: Local Government

Scrutiny

- Councils typically provide information to their respective Audit Committees on cases of identified fraud and investigations.
- This information varies in terms of format and frequency
- The level of scrutiny of the CF function varies between Councils

Impact

- Aggregate information on identified losses and types and incidence of fraud, sanctions and recoveries is not currently collected across the councils.
- Information about fraud cases is not formally shared between councils to raise awareness and strengthen counter-fraud controls.

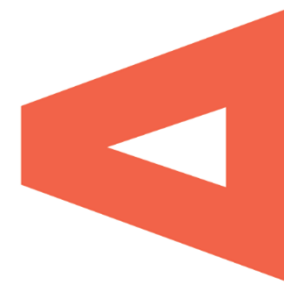# Key national findings: Local Government

- Across local authorities there is an absence of sector-wide strategic leadership, guidance, co-ordination and oversight of counter-fraud.

- Within the individual authorities we found statements espousing a zero tolerance of fraud in policies and strategic documents but there is much more that can be done to re-enforce the tone from the top at a practical level.

- Many local authorities have invested so little in counter-fraud arrangements that they have only a few of the key components in place.

- Many local authorities have not prepared a fraud risk assessment for several years.

- Lack of capacity remains a challenge as reported in phase I.

- A small number of authorities have retained experienced and skilled counter-fraud staff, but the workload has mostly fallen on Internal Audit teams.

- Counter-fraud arrangements are generally more advanced in the local authorities that retained a dedicated and specialist counter-fraud resource.

- Where Internal Audit teams carry out the counter-fraud work we found a trade-off between counter-fraud work and the general programme of assurance work due to limited resources and competing priorities.

Key national findings: Local Government
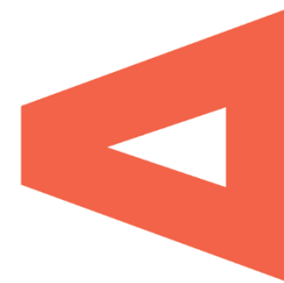
- Pooling and sharing resources needs to be considered as a solution.

- Other than NFI, only a few examples found of data analytics being used as a means of preventing fraud.

- Within some local authorities, several teams play a role in counter-fraud work; for example, Internal Audit, Council Tax, and Human Resources teams all contribute. Whilst helpful in terms of adding capacity, this can result in a lack of coordination and integration between these teams and a lack of clarity in the overall picture of counter-fraud activity.

- Some local authorities did not have a fraud response plan that was communicated to all staff and which made it clear that all allegations of fraud would be investigated.

- There were very few examples of local authorities working frequently across internal and external boundaries and sharing information. Common reasons for this lack of collaboration was lack of time and resources, and concerns about the sharing of data.

- Fewer than half the authorities report information about fraud cases, losses and recoveries to their audit committees on a regular basis

- Audit committees outside of the NHS Wales have not been sufficiently proactive in recognising the increasing risk of fraud and in asking the searching questions necessary about the matching of resources to risk or about the lack of information being supplied about fraud risk.

Key local findings

We carried out the local work in late 2019/early 2020. Key findings were:

➢ Senior management indicated that that the Council demonstrates a commitment to counter-fraud and has a zero-tolerance to fraud but there was little evidence to confirm that this message is actively promoted across the Council on an on-going basis

➢ The approach to counter fraud work and activity was uncoordinated and there was a lack of clarity in terms of the roles and responsibilities of staff involved in Counter Fraud work (e.g. Internal Audit & Income & Awards)

➢ The Income & Awards team has two officers that accredited Counter Fraud investigators and also employs two former police officers

➢ At the time of undertaking the work, key policies to support effective counter fraud arrangements were either out of date or could not be located. A number of these have since been updated (e.g. Anti Fraud Policy, Anti Money Laundering Policy and Fraud Prosecutions and Sanctions Policy)

Key local findings continued
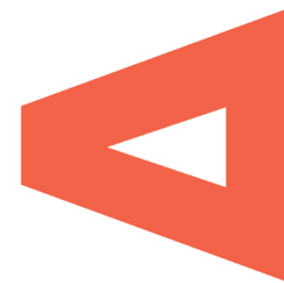
- ➢ The Council did not have an appropriate fraud response plan in place
- ➢ The Integrated Business Plans completed by services / directorates did not consistently consider any risk assessment on the potential for fraud to impact on the delivery of the service or cost of providing the service
- ➢ The extent of any counter-fraud training undertaken across the Council has been very limited