

Meeting of:	Audit Committee
Date of Meeting:	Monday, 16 December 2019
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	Corporate Fraud Update
Purpose of Report:	To inform Audit Committee of the actions undertaken in relation to Fraud and Irregularity
Report Owner:	Head of the Regional Internal Audit Service
Responsible Officer:	Head of Finance & Section 151 Officer
Elected Member and Officer Consultation:	No Elected Members have been consulted. Legal Services and Head of Finance
Policy Framework:	The proposals in this report are in accordance with the policy framework and budget
<p>Executive Summary:</p> <ul style="list-style-type: none"> • This report provides an update in relation to how the Council manages the risk of fraud with the aim of prevention, detection and subsequent investigation and reporting of fraud. • The Fraud Strategy and Framework 2018/19 - 2020/21 included reactive and proactive work, the proactive work being presented in an action plan. This action plan has been updated and is shown at Appendix A. Progress against the actions is being made which will assist staff across the Council understand and be able to identify potential frauds and have adequate reference material and policies available to them to understand what action must be taken. • Reactive work is also carried out when required. A summary of the fraud and irregularity work from 1st April 2019 to 30th November 2019 is shown at Appendix B. To date 9 reviews have been undertaken resulting in recommendations being made to improve the control environment or fact-finding reports being issued for Managers to consider disciplinary action. 	

Recommendations

1. Members are asked to note this report, the measures in place and the work being undertaken to prevent and detect fraud and error.

Reasons for Recommendations

1. To ensure effective monitoring of fraud and irregularity is undertaken.

1. Background

- 1.1 The Fraud Strategy and Framework 2018/19 to 2020/21 was reviewed and reported to Audit Committee in November 2018 and it continues to underpin the Council's commitment to prevent all forms of fraud, bribery and corruption, whether it be attempted externally or from within. There has been no new guidance since this date and therefore no changes are proposed to the existing strategy.
- 1.2 The Fraud Strategy and Framework includes reactive and proactive work and the proactive work was presented in an action plan which sets out the developments the Council proposes over the medium-term future to further improve its resilience to fraud and corruption. The Action Plan is attached at Appendix A and has been updated to illustrate the progress being made.

2. Key Issues for Consideration

- 2.1 The Council's Corporate Investigation Officer continues to develop his role and work through the action plan which is included at Appendix A. A Fraud Risk Register template has been produced and a Fraud page has been updated which will be a point of reference for staff on the Council's intranet. Fraud awareness training sessions continue to be delivered which are providing staff with the knowledge and skills to identify potential frauds. A school's anti-fraud toolkit has been produced together with a supporting self-assessment health check and these have been published on the school's intranet site.
- 2.2 The Whistleblowing Policy is currently being reviewed and updated to ensure that it is clear and easy for staff to refer to and use if required.
- 2.3 A detailed NFI report was presented to Audit Committee in September 2019. The Corporate Investigation Officer continues to monitor the activity to ensure that

outstanding matches are being reviewed and is meeting with the relevant Officers to provide training and offer advice where required.

- 2.4** There has also been some reactive work, whereby fraud or irregularity is suspected. To date, 9 reviews of this nature have been undertaken and these are listed in Appendix B. This work can be generated in a number of ways, by whistleblowing or complaint referrals; by Managers who may have concerns over a certain issue or individual or as a result of an audit review. The 9 reviews undertaken this year are the result of concerns identified by Managers. Of the 8 reviews completed, 6 were fact finding reports which are then referred back to Managers to consider the next course of action, such as disciplinary action. The remaining 2 have resulted in limited assurance audit reports being issued as it was identified that the control environment required improvement and recommendations were made accordingly. To date 8 recommendations have been made to improve the existing systems to help prevent any further fraud or error.
- 2.5** The WAO are due to commence a review across a range of Welsh public sector bodies including all unitary authorities to examine how effective counter fraud arrangements are in practice and to make recommendations for improvement. The aim is for the report to be published in June 2020 . The client briefing is attached at Appendix C for information.

3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?

- 3.1** These measures aim to prevent or reduce the risk of fraud occurring. The programme of fraud awareness training and participation in the national data matching exercise demonstrates collaboration with others with the aim of making improvements over the longer term.

4. Resources and Legal Considerations

Financial

- 4.1** To ensure that the Council funds and resources are used appropriately.

Employment

- 4.2** There is a resource impact in relation to the investigation and resolution of potential fraud matters. The impact is borne by Directorates and Internal Audit

Legal (Including Equalities)

- 4.3** Public Service organisations have a responsibility to embed effective standards for countering fraud, corruption and bribery into the organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management. The Council's Anti-Fraud and Bribery Policy incorporates reference to the Bribery Act 2010 which provides a more effective legal framework to combat bribery.
- 4.4** The CIPFA Code of Practice on Managing the Risk of Fraud & Corruption published in October 2014, sets out the principles that define the governance and operational arrangements necessary for an effective counter fraud response.

5. Background Papers

None

Fraud Strategy and Framework Action Plan

Activity	Scope	Responsible	Progress
Fraud Risk Registers	To develop Fraud Risk Register(s) and align to complement the existing risk management approach.	Investigation Officer	Fraud/Incident Register produced, along with supporting Standard Operating Procedures (SOP's). Implementation being considered
	Maintain the fraud risk register and regularly monitoring trends to identify areas of high risk		
National Fraud Initiative (NFI)	To facilitate the timely delivery of NFI 2018 /19 data matches.	Investigation Officer	All data been extracted, and the matches been returned
	Undertake integrity checks on a sample of cleared matches to ensure robustness / quality of review and select of sample of high-risk matches across the spectrum to investigate.		This activity is currently in progress with random checks already raised in certain areas.
	Regularly monitor progress against recommended matches throughout the duration of the exercise.		The majority are complete and outstanding matches being monitored
Develop devoted fraud internet / intranet pages	To enable a clear and concise point of reference for necessary information on fraud and irregularity maximising the potential of digital to enhance the user experience.	Investigation Officer	Staffnet pages are being updated to include a fraud / investigation page
	Maintain the fraud internet / intranet pages to ensure they are kept up to date.		
Training & Awareness	Develop an effective fraud awareness-training programme for Members and Officers.	Investigation Officer	Module and a suite of questions have been developed, and training and awareness sessions are in progress.
	Provide ongoing training as required for the duration of the action plan		Training and awareness sessions are in progress
Data Analytics	To maximise the use of data analytics and data matching to match electronic data to detect and prevent fraud.	Investigation Officer / Auditors	OHMS and Academy systems are being used and more systems will be incorporated moving forward.

Activity	Scope	Responsible	Progress
Develop alerts and newsletters to raise awareness and notify readers of new and potential fraud risks.	<p>Develop alerts and newsletter across the Council.</p> <p>Produce Newsletters at regular intervals throughout the duration of the action plan.</p>	Investigation Officer	Newsletter will be introduced along with the Fraud / Investigation site on staffnet.
No Recourse to Public Funds	With a national increase in applications, there has been a consequent increase in attempts by fraudsters to obtain public funds via false applications. In addition, a developing trend for individuals to make multiple applications across different authorities. This can be linked to the NFI 2018 data matching exercise.	Investigation Officer	The Housing and Benefit Teams are using AppCheck to varying degrees. However, recruitment and Licensing have yet to commit following initial meetings
Annual Report on Fraud & Irregularity	To produce an end of year report to those charged with governance covering all reactive and proactive fraud initiatives.	Head of Audit & Investigation Officer	Report produced
Schools	Conduct a “Fraud Health Check” across school establishments to attain assurance over the controls and governance in place to mitigate the potential for fraud.	Investigating Officer	A schools anti-fraud toolkit has been produced and the staffnet school site has been updated.

Counter Fraud & Corruption Work 1st April 2019 to 30th November 2019

Counter Fraud & Corruption Work 2019/20	Assurance Opinion & Action	Recommendations Raised	
		Fundamental High	Significant Medium
Youth Services Missing Laptop	Limited assurance, 3 recommendations made to improve the control environment		3
Email & Internet Use	Review of individual Officer's email and internet activity where concerns have been raised that the Council's Code of Conduct for ICT has been breached. Fact finding reports produced for consideration under the Council's policies including the disciplinary policy.		
EMail Internet Review			
Team Email & Internet Review			1
Email & Internet Update			
School Cleaners Timekeeping	Fact finding report issued together with a recommendation which will improve the controls in place.		1
Youth Services Petty Cash	Limited assurance, 3 recommendations made to improve the control environment		3
School Grievance	Fact finding report produced for consideration under the Council's policies including the disciplinary policy		
Total Reviews to date (9)			8



Date issued: 17 September 2019

Client Briefing: A review of the effectiveness of counter-fraud arrangements in the Welsh Public Sector

Background

- 1 On 11 June 2019 the Auditor General published an [overview for the Public Accounts Committee](#) describing counter-fraud arrangements in the Welsh public sector. The report was a high-level, descriptive review of the arrangements in place within the Welsh Government, the NHS and local government (unitary authorities only), and highlighted some important messages:
 - 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.
- 2 The Public Accounts Committee convened a stakeholder event on 1 July 2019 to discuss and share good practice on Counter Fraud in the Public Sector. Stakeholders included Welsh Government officials, Local Authorities, the NHS, CIPFA and the Assembly Commission.
- 3 The Committee endorsed the Auditor General's proposal to undertake a Phase 2 review across a range of Welsh public sector bodies to examine how effective counter-fraud arrangements are in practice and to make recommendations for improvement.

Why are we doing this work

- 4 We are doing this work to build on the foundations laid in our Phase 1 overview and to be able to comment on how effective counter-fraud arrangements are in the Welsh public sector.
- 5 Our Phase 1 review highlighted that losses to fraud and error may be anywhere between £100 million and £1 billion per annum. Although these headline estimates should be treated with considerable caution, they do give an indication of the magnitude of the potential risks from fraud facing the Welsh public sector.

Organisations can mitigate against these risks by having the right organisational culture supported by effective counter-fraud arrangements.

Audit Approach

- 6 Our Phase 2 follow up review addresses the following overall question: **‘Are the arrangements for preventing and detecting fraud in the Welsh public sector effective?’** More specifically, we are considering the following issues:
- 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?
- 7 The local fieldwork will include structured interviews, document reviews and data analysis. Where needed, we are also issuing a core information request, in order to gather some information directly from audited bodies.

Timing of the work

- 8 Our intention to consider the effectiveness of public bodies’ arrangements for counter-fraud was set out in [Our Work Programme 2019-20](#). As part of our Phase 1 work, we engaged widely with stakeholders including the Public Accounts Committee, NHS Counter Fraud Specialists, the Welsh Government and the Welsh Chief Auditors Group. All supported the need for a more detailed review of counter-fraud arrangements. Our intention to undertake local examinations was also highlighted at recent Good Practice Exchange events on the topic of counter-fraud.
- 9 We are aiming to publish our Phase 2 report in June 2020. This national report will concentrate on the key messages rather than ranking or describing in detail the actual arrangements in place at audited bodies. That said, we anticipate that our local audit teams will provide tailored local feedback to audited bodies in order to help generate improvements.

- 10 Where we process personal data, this is in accordance with data protection legislation, including the Data Protection Act 2018 and General Data Protection Regulation. Further information on how we will use collected information is included in our Fair Processing Notice attached at Appendix 1.

Appendix 1 – fair processing notice

This privacy notice tells you about the potential collection of your personal information by the Auditor General for Wales (and by the Wales Audit Office on his behalf).

Who we are

The Auditor General for Wales examines how public bodies manage and spend public money, and the Wales Audit Office (WAO) provides staff and resources to enable him to carry out his work.

Data Protection Officer (DPO)

Our DPO is Martin Peters, who can be contacted by telephone on 029 2032 0500 or by email at infoofficer@audit.wales.

Purpose of processing

We are collecting your personal information for our work, which includes audit and other professional, technical or administrative work. We are collecting information to help us to assess whether public bodies have proper arrangements in place to secure economy, efficiency and effectiveness in the use of their resources and whether these could be improved. The information collected will be used for this review and may also be used in our wider statutory audit work (such as Structured Assessments and Annual Audit Reports).

The relevant laws (legal basis)

We process personal data in accordance with the Data Protection Act 2018 (DPA) and the General Data Protection Regulation (GDPR). Our lawful basis for processing is the statutory powers and duties under legislation including Public Audit (Wales) Act 2004, Public Audit (Wales) Act 2013, Government of Wales Act 1998, Government of Wales Act 2006, Well-being of Future Generations (Wales) Act 2015.

What we will do with your information

We are asking for opinions and information about the arrangements that are in place to counter-fraud. This includes pro-active activities for fraud prevention, systems and controls that help deter and detect fraud, and the ways in which suspected instances of fraud are investigated. We are also asking for information about the levels of fraud and the amount which is recovered. Some of this information may be information about identifiable individuals, which would make it personal information, even though the purpose of our work is not in itself to collect information about identifiable individuals.

Who will see the data?

The Auditor General and the WAO study team will have access to the information you provide. We may share some information with senior management at the audited body(ies) and our published report may include some information.

How long we keep the data?

We will keep any personal data for a period of seven years following publication of our report, or 25 years if published within a report, and we will hold your data securely in accordance with our Information Security Policy.

Our rights

The Auditor General has rights to information, explanation and assistance under paragraph 17 of schedule 8 Government of Wales Act 2006 and/or section 52 Public Audit (Wales) Act 2004 and/or section 26 of the Local Government (Wales) Measure 2009. It may be a criminal offence, punishable by a fine, for a person to fail to provide information.

Your rights

You have rights to ask for a copy of the current personal information held about you or to object to data processing that causes unwarranted and substantial damage and distress. Contact the Information Officer, Wales Audit Office, 24 Cathedral Road, Cardiff, CF11 9LJ or email infoofficer@audit.wales.

The ICO

To obtain further information about data protection law or to complain about how we are handling your personal data, you may contact the Information Commissioner at: Information Commissioner's Office, Wycliffe House, Water Lane, Wilmslow, Cheshire, SK9 5AF, or by email at casework@ico.gsi.gov.uk or by telephone 01625 545745.