



GOVERNANCE AND AUDIT COMMITTEE – 8TH JUNE 2021 (DEFERRED FROM 20TH APRIL 2021)

**SUBJECT: CCBC RESPONSE TO “RAISING OUR GAME - TACKLING FRAUD
IN WALES”**

REPORT BY: ACTING INTERNAL AUDIT MANAGER

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1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide the Governance and Audit Committee with a response to the report by the Auditor General together with information on any findings that are pertinent to Caerphilly and any future actions that may need to be considered.

2. SUMMARY

- 2.1 As reported to the Audit Committee in January 2021, the Auditor General for Wales published a report in June 2019 titled “Counter fraud arrangements in the Welsh Public Sector” . This report “Raising Our Game - Tackling Fraud in Wales” is based on more extensive work and a number of recommendations have been made by the Auditor General.

3. RECOMMENDATIONS

- 3.1 Members note the Caerphilly responses to the report and consider future actions that may be needed.

4. REASONS FOR THE RECOMMENDATIONS

- 4.1 To ensure that the Governance and Audit Committee has an up to date view on the current counter fraud position in Wales and how Caerphilly CBC is responding.

5. THE REPORT

- 5.1 The Auditor General published a report in June 2019 titled ‘Counter-Fraud Arrangements in the Welsh Public Sector’, the report gave 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. The report was followed by a one-day conference organised by the Public Accounts Committee in July 2019. The report was presented to Audit Committee in October 2019.

- 5.2 A subsequent report of the Auditor General for Wales, 'Raising Our Game' Tackling Fraud in Wales, was published in July 2020. This latest report was based on a more extensive programme of fieldwork, between November 2019 and February 2020, at a sample of Public Sector organisations in order to understand counter-fraud arrangements in place at each audited body.
- 5.3 This report was presented by Audit Wales to the Audit Committee in January 2021. The report refers to the scale of fraud in the Welsh public sector and it was suggested in the 2019 report that the sums lost annually in Wales to fraud could be anywhere between £100 million and £1 billion, although the precise figures are unknown they do give an indication of the magnitude of the potential risk to Welsh public sector finances. The report also highlighted the importance of appropriate investment in counter-fraud arrangements
- 5.4 The foreword notes the Welsh Government's positive response to the June 2019 publication, and the conference organised by the Public Accounts Committee in July 2019, and the Permanent Secretary's commitment to provide Wales-wide leadership in raising the profile of counter-fraud activity. The foreword concludes, with a recognition of the risk of fraud associated with the COVID-19 pandemic and outlines the extended scope of the National Fraud Initiative (NFI) to help identify fraudulent COVID-19 support grant claims.
- 5.5 The report examined seven 'key themes' that it considered all public bodies need to focus on, in raising their game to tackle fraud more effectively. The overall question was "Are the arrangements for preventing fraud and detecting fraud in the Welsh public sector effective?" In particular: -
 - Leadership and Culture – Does the top tier demonstrate a commitment to counter -fraud and provide the necessary leadership to fight fraud?
 - Risk management and Control framework – Does the organisation have a suitable structure and sufficient skilled resources to prevent and detect fraud?
 - Policies and Training – Does the organisation have a sound policy framework to support effective counter-fraud arrangements?
 - Capacity and Expertise – Does the organisation have a sound policy framework to support effective counter-fraud arrangements?
 - Tools and Data - Does the organisation's internal control environment support effective arrangements for preventing and detecting fraud?
 - Collaboration – Does the organisation have an appropriate response to fraud?
 - Reporting and Scrutiny – Does the organisation have proper reporting and scrutiny in place to ensure counter-fraud culture and framework is operating effectively?
- 5.6 The report has 15 recommendations which have been raised on a national basis under each of the themes noted above: -
 - **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 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. All 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**

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 strengthen 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.

5.7 Caerphilly's current position regarding the 7 themes examined and the recommendations detailed above can be reported as follows.

5.8 **Leadership and Culture**

The Council sets high standards for Members and Officers and allegations are always robustly dealt with. The Council developed a number of Anti-fraud policies, and these can be found on the Council's intranet pages. These are The Anti-Fraud Bribery and Corruption Policy, Anti Money Laundering Policy and Payment Card Industry Policy, Whistleblowing Policy, IT Security Policy and Codes of Conduct. Since these policies were first developed the nature and types of fraudulent activity has expanded to exploit every opportunity that presents itself, and the current COVID pandemic has intensified this, so it is considered that these policies will benefit from a review and refresh if necessary, particularly to reflect the current situation with staff working in an agile fashion. It should be noted that the IT Security Forum agreed to pause the review of the IT Security Policy until a clear stance on agile working was agreed, in order to future proof the policy as much as possible.

5.9 In addition to the refresh or updating of these policies these should also be linked with the development of a holistic Counter Fraud Strategy in order to ensure we are remaining up to date with the evolving nature of fraud risk.

5.10 Audit staff have contacted the Wales Fraud Officers group with a view to engaging with them and events organised by the Audit Wales Good Practice Exchange have also been attended, and the Head of Financial Services & S151 Officer is considering whether we should engage with the fraud prevention service CIFAS. The Acting Internal Audit Manager has also contacted NAFN (National Anti-Fraud Network) with a view to registering for their notifications and alerts.

5.11 While errors, such as duplicated payments are identified and irregularities such as cash and bank issues and on rare occasions frauds are sometimes detected during audit work, frauds identified are quite rare. However, it is accepted that some proactive counter fraud work needs to be included in the audit plan, and this may need to be supported by resources such as training.

5.12 **Risk management and Control framework**

The Council acknowledges the increasing risk of fraud and the evolving and developing threats of fraud, particularly in relation to Cyber fraud, and acknowledges that work is required to perform an assessment on how the Council prevents, detects, and pursues monies or assets obtained fraudulently and considers how services that are more susceptible to fraud manage that risk.

5.13 Fraud risk has been identified as an issue that will need to be more clearly linked to all plans and strategies going forward, this will also be considered when the Counter-Fraud strategy is undergoing consultation and development.

5.14 Cyber fraud risk has been identified as a particular threat nationally and internationally as a result of the COVID-19 pandemic as working from home practices have evolved rapidly in response the pandemic and the need for a separate Cyber Risk strategy has been considered. The WG has commissioned Bobs Business to undertake a managed phishing exercise that will be undertaken this year. The IT Section is developing a Cyber Security Strategy which will raise the profile of cyber security across the organisation. The Corporate Management Team (CMT) receives a monthly cyber security briefing.

5.15 The Internal Audit Section does consider risk in the preparation of the annual plan and it would be anticipated that the work on fraud risk assessment will inform future Internal Audit plans.

5.16 **Policies and Training**

As previously mentioned, the Council has a number of policies, procedures, and reporting mechanisms to prevent and detect fraud, bribery, and corruption. These include The Anti-Fraud Bribery and Corruption Policy, Anti Money Laundering Policy and Payment Card Industry Policy, Whistleblowing Policy, IT Security Policy, Register of Gifts and Hospitality, and Codes of Conduct, and also appropriate Data Governance policies. However, it is acknowledged that some of these may need review and refreshing / updating particularly to reflect the current situation with staff working in an agile fashion. Therefore, consideration should be given to formally developing a Fraud Risk Assessment and a Corporate Anti-Fraud Strategy and further consideration be given to how to integrate these documents into the general risk management framework and other policy documents. In addition, with the current increased risk challenges that are arising from the COVID-19 pandemic and changes in working practices including remote working and reliance on IT records, further new policies may be needed to address these issues.

5.17 Detailed data / information governance training material has been developed by the information governance team and templates have been devised which could be utilised for counter fraud training purposes. This approach is being adopted in PCI (Payment Industry Card) training where staff who accept card income must complete an annual refresh of training. The council also has a new learning management system which could be adopted as this system has the advantage of tracking completed training and identifying those who have not yet undertaken training. These options will need further exploration in order to identify the optimum solution.

5.18 The Information Unit has issued training on Information Governance and undertaken awareness raising for staff via Management Network on Data and Cyber Security. Consideration could be given to delivering further fraud awareness, training and updates using Management network. Also, the use of IT in preparing video or webinar sessions could also be investigated. All staff are required to undertake Data

Governance training annually, and this is monitored and reported via the Service area Information Governance Stewards.

5.19 IT security, OLAS Purchase Ledger and Proactis teams will send out alerts to users where they have become aware of attempted frauds or phishing emails, however consideration will need to be given to developing more formal anti-fraud awareness training and this could also be included in the Intranet as a resource for staff when the Intranet is redeveloped. One of the Service Reviews commissioned as part of the Team Caerphilly initiatives covers increasing awareness and training on Financial Regulations and Best Practice and it is considered that the issue of Fraud awareness could be reviewed as part of this process

5.20 **Capacity and expertise**

As already reported the Council does not have a formal fraud risk assessment process or a fraud response plan in place so these will need to be considered when the Anti-Fraud Strategy is developed.

5.21 The Head of Financial Services & S151 Officer purchased a specialist piece of software called AP Forensics which is able to undertake a number of data matches and fuzzy logic searches on purchase ledger files, and this tool has been very successful in identifying duplicated payments. This is a very powerful tool and is able to also identify other issues such as payroll /purchase ledger matches or VAT issues, but the creation of the reporting routines and subsequent monitoring of the output would benefit from some additional resource.

5.22 The Council needs to identify if it needs to become more proactive in relation to fraud risk and capture and respond to emerging threats and in order to do this anti-fraud awareness may need to be further embedded within the culture of the organisation. One way to do this could be by means of considering fraud risk as an element of the Corporate Reviews, however detailed procedures will need to be developed and adopted within the process.

5.23 Like most authorities in Wales specific fraud investigation officers were redeployed when the DWP Single Fraud Investigation Service was set up. Internal Audit have undertaken or supported investigations since that time although no specific officers are allocated to these roles. Internal Audit will investigate frauds that are reported to them or identified as part of their work; however, this specific work is not resourced separately and may divert time from other areas of the audit plan.

5.24 **Tools and Data**

Notwithstanding the above, the results of AP forensics, NFI data matches and Data tank who undertake the Council tax single person discount checks, tend to indicate that the number of identified frauds are low. The Council is an active participant in the NFI and the outcomes of the NFI work is reported to the Governance and Audit Committee when the work is completed. Any specific issues identified are also reported to individual service managers for investigation if necessary.

5.25 Where frauds have been identified they are fully investigated and passed to the appropriate bodies such as DWP Single Fraud Investigation Service (SFIS) or Police where appropriate and external investigations are supported.

5.26 The Acting Internal Audit Manager has attended a presentation by CIFAS in relation to subscribing and receives the 2-weekly Fraud Threat update, which is a newsletter that summarises the current intelligence on fraud threats and latest phishing emails,

cyber threats and other issues identified by them. Subscribers can access a daily briefing which provides more detailed information. The Acting Internal Audit Manager has also requested to register for NAFN which is an organisation that also provides alerts on frauds and other relevant issues.

5.27 Collaboration

Caerphilly CBC is an active participant in the NFI and has constructive dialogue with them and the Acting Internal Audit Manager is the point of contact for the exercise. Consideration is being given to joining an All -Wales group membership of CIFAS as this facility can be used for Insurance, Council Tax, NNDR Grants, procurement and other financial data matching. The Council also subscribes to the CIPFA fraud updates and the CIFAS fortnightly update. The Acting Internal Audit Manager has made contact with the Wales Fraud officers group and has requested to be included on information exchanges that occur when authorities alert this group of known fraud attempts. Events organised by the Audit Wales Good Practice Exchange have also been attended by Internal Audit staff. Officers are also members of other groups that share information in relation to fraud alerts and notifications. Where Internal Audit becomes aware of national or regional alerts and notifications e.g. suspected phishing attempts or bank mandate fraud etc this is passed onto relevant sections internally such as IT security, payroll, and purchase ledger.

5.28 The Council always responds promptly to information received via direct or anonymous reports which are filtered through the Internal Audit Section to the appropriate service areas for further investigation and in some cases these are also referred to external bodies such as the Police or the DWP SFIS if relevant.

5.29 Where fraud is found as a result of work performed it is shared with relevant departments, HR or with other bodies such as the Police as necessary.

5.30 In order to have a clear fraud response plan it will be necessary to ensure that staff are aware of what to do and who to contact if they have concerns or need advice. This needs to be set out clearly in policies and supporting documents such as Financial Regulations and underpinned with awareness raising and further embedded in the corporate culture of the organisation. As indicated above the development of an Anti -Fraud strategy together with a refresh of the relevant policies will do this.

5.31 Reporting and Scrutiny

One of the Governance & Audit Committee's core functions is to consider the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements. Regular reports are provided to keep members updated. In addition, the Committee also reviews the risk register on a regular basis and is able to request officers attend as necessary if further information or reports are required on any specific matters.

5.32 However, it should be noted that Whistleblowing reports go to the Standards Committee, so it is necessary to consider an appropriate process to ensure that the Governance and Audit Committee sees the whole picture.

5.33 It also needs to be recognised that where potential fraud is under investigation or frauds have been identified, investigations may take some time particularly where third parties such as the DWP SFIS or the Police are involved, and it may be longer if cases are taken to court. In these cases only limited information may be provided to members until these investigations are concluded. However, it is important to

understand that this is necessary so that cases can be successfully concluded.

- 5.34 The Council has in the past publicised investigations and prosecutions so this approach could be reviewed as appropriate. The Council will need to determine its appetite for publishing frauds, this needs careful consideration and may need a case by case approach depending on the specific issues of each case.
- 5.35 Furthermore consideration may need to be given as to whether the reporting is effective or could be improved so that cases being reported to the right people at the right level in the organisation at the right time.

Conclusion

- 5.36 The Governance and Audit Committee is asked to note the report and also consider what if any further action or information is needed in order that the authority is able to meet the recommendations noted in the report.

6. ASSUMPTIONS

- 6.1 There are no assumptions in this report.

7. SUMMARY OF INTEGRATED IMPACT ASSESSMENT

- 7.1 The Council will be unable to deliver its Well-being objectives in the absence of effective corporate governance arrangements.
- 7.2 Strong corporate governance arrangements are a key element in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met, in that a prosperous Wales and a resilient Wales requires an effective Internal Audit service to protect public funds.
- 7.3 There are no other equalities implications arising from this report in relation to other equalities issues.

8. FINANCIAL IMPLICATIONS

- 8.1 There are no direct financial implications arising from this report.

9. PERSONNEL IMPLICATIONS

- 9.1 There are no personnel implications arising from this report.

10. CONSULTATIONS

- 10.1 Any comments received from consultees have been included within the report.

11. STATUTORY POWER

11.1 Local Government and Elections Act 2021

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Appendices:

Appendix 1 https://www.audit.wales/sites/default/files/2020-11/raising_our_game_tackling_fraud_in_wales_english.pdf