



Report of the Chief Auditor

Governance & Audit Committee - 13 July 2021

Internal Audit Section – Fraud Function Annual Report for 2020/2021

Purpose:	This report provides a summary of the work completed by the Fraud Function of Internal Audit in 2020/21.
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1. Introduction

1.1 This report provides a summary of the activities of the Fraud Function for 2020/21 and reviews achievements compared to target outcomes contained in the Fraud Function Anti-Fraud Plan for 2020/21.

2. The Value of the Function

2.1 The fraud function contributes to the Council's corporate vision and priorities by investigating allegations of fraud and corruption against the Authority, both from within the organisation and from external third parties.

2.2 The value of this function to the Authority can be measured via the following headings:

2.2.1 Deterrent value

The deterrent value of having a fraud function is invaluable. It offers a confidential mechanism to report concerns, showing that those concerns are acted upon, taking appropriate sanctions such as disciplinary action or criminal prosecutions, and reporting outcomes as appropriate.

2.2.2 Strengthening procedures & workforce relationships

Internal investigations may not yield immediately quantifiable financial outcomes. However, they can and have had a positive effect as a consequence of:

- Changing policies and procedures that reduce the potential for subsequent loss by fraud or error by enhancing robustness and delivering efficiencies.
- Stopping inappropriate practices can increase morale and enhance relationships between colleagues and managers and service users thereby positively effecting performance.

2.2.3 Outcomes with financial implications

Activities may identify money, or assets that have been claimed or misappropriated via fraud or error, which are targeted for recovery. For example:

- Overpayments of Housing Benefit, Council Tax Benefit, Council Tax Reduction.
- Council properties returned to stock
- Money resulting from action taken under the Proceeds of Crime Act 2002.

Activities may also result in additional liability being created. For example via the removal of Council Tax discounts and exemptions.

3. Overview of Activities

3.1 Activities broadly fall into two main categories:

- Allegations and cases solely investigated by the team including: council tax reduction, social housing tenancy fraud, direct payments for social care, employee and special investigations, and fraud awareness.
- Suspicious Council Tax Reduction claims considered as part of Joint Working with the Department for Work and Pensions (DWP).

3.2 The team have now commenced the management of the National Fraud Initiative NFI20 following the receipt of the data output in late January 2021. (See section 4.2)

3.3 For 2020/21 the team has also undertaken a significant amount of work on the Covid-19 grant support schemes, developing preventative procedures, risk assessments and post-assurance checking in addition to investigating potential cases of fraud. (See section 4.6)

3.4 The volume of reports received by the team during 2020/21 significantly increased by almost 50% in addition to the unplanned Covid-19 work, details of which are shown in the appropriate tables as follow. This increase continues to reflect the heightened awareness and visible profile of the team as the repository for external and internal allegations relating to the Councils functions.

3.5 It should be noted that not all of these reports resulted in full fraud investigations. Often cases are rejected due to insufficient information being provided, reports being more appropriate to another service area or advice on prevention being provided to client departments.

Table 1 - Volume of reported cases 2020/21

Type	Joint Working with DWP	Fraud Function only	Total
Brought forward from 2019/20	7 (15)	34 (43)	41 (58)
New cases in 2020/21	1 (4)	301 (212)	302 (216)
Total	8 (19)	335 (255)	343 (274)

(Figure in italics refer to 19/20)

- 3.6 Despite the increased volume in reports the turnover of these reports has improved in 2020/21 as can be seen in Table 2 below. However, the initial time taken to evaluate some reports has been impinged by the Covid 19 support work.

Table 2 – Case status as at 31/3/21

Type	Joint Working with DWP	Fraud Function only	Total
Cases closed	1 (12)	254 (221)	255 (233)
Cases to be evaluated	0 (0)	32 (0)	32 (0)
Cases under investigation	7(7)	49 (34)	56 (41)
Total	8 (19)	335 (255)	343 (274)

(Figure in italics refer to 19/20)

- 3.7 An analysis of the data shown in Table 3 below shows that a number of the areas which have seen an increase in reports are due to the success of the on-line public reporting tool, which members of the public are increasingly using as the platform to report concerns. It is also believed that changing working practices during the pandemic may have resulted in residents becoming more aware of possible concerns in their communities.
- 3.8 The volume of reports in the social housing sector has been maintained due to well-established relationships with this department.
- 3.9 A new service area for Covid 19 has been created for 2020/21. This figure represents actual fraud investigation cases and additional information is provided on the Covid grant support work at Section 4.6.

Table 3 – Fraud Reports by Service Area 2020/21

Fraud Reports By Service Area				
	Number of Cases		Percentage Change	Percentage Of Cases
	2019/20	2020/21		
Blue Badge	32	25	-28.0%	7.5%
Business Rates	1	5	80.0%	1.5%
Council Tax Reduction	19	25	24.0%	7.5%
Council Tax Liability	33	62	46.8%	18.5%
Covid 19	0	37	100.0%	11.0%
DWP Benefit	72	86	16.3%	25.7%
Education	7	5	-40.0%	1.5%
Employee Cases	34	23	-47.8%	6.9%
Grant Fraud	0	0	-	0.0%
Money Laundering	1	0	-	0.0%
Procurement	5	3	-66.7%	0.9%
Parking Permits	1	1	0.0%	0.3%
Social Housing	38	39	2.6%	11.6%
Social Services Finance	3	6	50.0%	1.8%
Other	9	18	50.0%	5.4%
Total	255	335	23.9%	

3.10 The Chief Auditor and the Corporate Fraud Investigators have also worked closely with representatives from Audit Wales to assist with their review of counter fraud arrangements across the Welsh Public Sector.

3.11 Audit Wales published a report in June 2019 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. A further report was published in July 2020, which was based on a more extensive programme of field work, and identified a range of opportunities to improve on the current national position.

3.12 In response to the latest report, an action plan was compiled to address the areas of improvement that had been suggested by Audit Wales. The actions are currently being implemented.

3.13 Also in response to the latest report, a new 'Reducing and Tackling Fraud' risk was added to the Corporate Risk Register.

4 Key Activities 2020/2021

4.1 Joint work with DWP's Counter Fraud, Compliance & Debt Service (CFCD)

4.1.1 As previously reported since the introduction of the DWP's Single Fraud investigation Service (SFIS), the DWP became solely responsible for investigating all welfare benefit frauds, including Housing Benefit that is still administered by the Local Authority.

4.1.2 However the team continue to work jointly with DWP where there is also a Council Tax Reduction (CTR) offence.

4.1.3 Data outcomes for this work is shown at Table 4 below. Although the number of reported cases has risen to 86 in 2020/21 there has been a significant decrease in the number of cases investigated and as a result the value of overpayments realised has also decreased. The reasons for this reduction are two-fold. Firstly, this follows a downward trend in the volume of reported cases being taken through to joint investigations and secondly the direct impact that Covid 19 had on the available resources for CFCD to undertake joint investigation work. It is planned for discussions with the DWP to resume in relation to this in 2021/22. The Crown Prosecution Service successfully prosecuted one joint case resulting in a prison sentence for a repeat offender.

Table 4 – DWP Joint Working Data Outcomes

Joint Working with DWP cases			
Created via FF		Created via DWP	
CTR	Other	HB & CTB	DWP
£2,413.20 <i>(£16,499.54)</i>	0.00 <i>(£6,419.00)</i>	£0.00 <i>(£88,730.20)</i>	£33,210.66 <i>(£120,627.64)</i>
£2,413.20 <i>(£22,918.54)</i>		£33,210.66 <i>(£209,357.84)</i>	
£35,623.86 <i>(£232,276.38)</i>			

FF only cases
CTR & Other
£11,203.06 <i>(£3,261.52)</i>

(Figures in italics refer to 19/20)

Total of all overpayments
£46,826.92 <i>(£232,276.38)</i>

4.2 National Fraud Initiative 2020

4.2.1 NFI is a bi-annual data matching exercise delivered by the Cabinet Office.

4.2.2 Data matching involves comparing data records held by one organisation against data records held by the same or another organisation to identify matches. Not all data matches are cases of fraud. They identify where organisations need to consider if the match is permissible or there is an anomaly and needs further investigation.

4.2.3 Areas that are subject to data matching include:

- Blue Badge & Residents Parking Permits
- Creditors/Contractors
- Council Tax Reduction
- Housing Benefits
- Housing tenants
- Housing waiting lists

- Immigration
- Market traders
- Payroll
- Pensions
- Personal alcohol licences
- Personal budgets for social care
- Student loans
- Taxi licenses
- VAT overpaid

4.2.4 The data output for NFI20 was received in late January 2021 and the examination of matches has commenced across a number of service areas. Just under 10,000 matches have been received across 90 reports of which 1285 are considered High Risk.

4.2.5 Internally, the exercise is coordinated by the Chief Internal Auditor and the Fraud Function, and matches are allocated to officers based within the authority for scrutiny.

4.2.6 For NFI 2020 an additional data set was included to identify matches in relation to Covid 19 Grant Support payments.

4.3 Fraud Awareness

4.3.1 The team continues to act as the hub for the receipt of Intelligence and Scam alerts from the National Anti-Fraud Network. The volume and frequency of these alerts increased significantly in 2020/21 due to the threats and risks associated with Covid 19 Grant Support payments.

4.3.2 The team also receives alerts from other organisations and bodies such as the Council's Bankers and the Credit Industry Fraud Avoidance Service, and again relative actions and information is then circulated to the appropriate departments e.g. Phishing scams, Mandate fraud.

4.3.3 Annual Fraud Awareness training was not delivered to the Audit Committee in the 2020/21 cycle and this will be addressed in the 2021/22 municipal year.

4.3.4 A member of the team was invited to present a paper at the Inside Government Fraud Symposium on the emerging threats and management of Covid 19 fraud.

4.3.5 The team also continued to attend a number of online training events to ensure knowledge of current threat and trends and to ensure their own continual professional learning.

4.4 Inter-Agency work and Data Exchange

4.4.1 During 2020/21 the team has continued to develop its role in inter-agency working and data exchange. There was a need for this to be further enhanced at pace this year due to the new and emerging threats from Covid 19 related frauds.

4.4.2 Staff have continued to lead regular meetings and continued to shape the development of the Welsh Fraud Officers group and extended this forum to have regular dialogue with Welsh Government Fraud, Audit Wales and the Welsh Chief Auditors Group.

- 4.4.3 Staff have also continued to attend regular online inter agency meetings with other government agencies tackling organised crime and sit on the Local Organised Crime Board.
- 4.4.4 During the year, the function received 643 requests for information from other government agencies, representing an increase of just over 37% on 2019/20.

4.5 Employee related Investigations

- 4.5.1 The volume of employee referrals decreased in 2020/21. Equally it was pleasing that this figure has not increased given the change in working practices arising from Covid 19 and possible risks that could have occurred from this.

Table 5 – Number of employee cases reported 2020/21

Type	Cases
Brought forward from 2019/20	10 (16)
New cases in 2020/21	13 (18)
Total	23 (34)

(Figure in italics refer to 19/20)

- 4.5.2 The reason for the report and outcomes are shown in the following two tables.

Table 6 – Reason for reporting 2020/21

Reason	Cases
Abuse Of Position	3 (5)
Expenses	1 (2)
Flexi Abuse	1 (10)
False Accounting	1 (1)
Theft	7 (8)
Secondary Employment	3 (4)
Working whilst on sick leave	1 (1)
Other	6 (3)
Total	23 (34)

(Figure in italics refer to 19/20)

Table 7 – Employee Outcomes 2020/21

Employee Outcomes	
Type	Number
Advice Provided	5 (6)
Fraud Not Proven	2 (1)
Discontinued	1 (3)
Resigned	0 (1)
Disciplinary – Dismissal	0 (6)
Disciplinary – Warning	0 (6)
Rejected	2 (0)
Other Action taken	2 (1)
Ongoing investigation	11 (10)
Total	23 (34)

(Figure in italics refer to 19/20)

4.6 Covid 19

- 4.6.1 As reported to Audit Committee on the 1st June 2020 there were a number of emerging fraud risks associated with Covid 19 that were not planned for when the Annual Plan for 2020/21 had been prepared.
- 4.6.2 For the entire year the majority of the functions resources were diverted into previously unknown and newly designed areas of expenditure. In particular extensive resources were diverted to support the effective and timely administration of a multitude of grant support schemes and ensuring that fraud prevention processes were developed to minimise the risk of fraud whilst delivering new products at a pace never previously experienced.
- 4.6.3 The team provided significant advice to develop and implement front-end checks that could be undertaken by officers administering grant applications and then for those schemes shown in Tables 8 & 9 below, provided 100% second stage checking. As a consequence 25% of grants applications were rejected at first stage checks with an additional 11% being rejected at second stage fraud checks.
- 4.6.4 It is acknowledged that not all of the 36% of applications rejected were as a result of deliberate fraud and a large percentage of those applications were erroneous. However as a result of this high level of support £2,422,500 was not awarded incorrectly and applicants could be signposted to access other appropriate support schemes.
- 4.6.5 The team have collaboratively worked with other Local Authorities and other Government departments throughout to ensure that fraud data/intelligence has been shared to prevent fraud occurring where possible. Eight high level Covid Fraud Alerts were received from the National Anti-Fraud Network which had identified multiple fraudulent attacks and hundreds of bank accounts being fraudulently used in order to obtain grants.

- 4.6.6 The team have worked with South Wales Police and NATIS (Police National Investigation Service) on a number of high profile organised crime cases in relation to fraudulent grant applications.
- 4.6.7 Some post event assurance on a pan Wales level has already commenced but the large scale post event assurance exercise in relation to the payment of Business Support Grants has been incorporated into the NFI 2020 exercise.
- 4.6.8 The diversion of these resources clearly had an impact on deterring, preventing and detecting fraud risks associated with Covid 19.

Table 8 – Fraud Assurance for Covid Grant Support Schemes by Volume

Applications Reviewed by Grant Type				
	Total Applications	Rejected At Source	Rejected By Fraud	Approved
Firebreak Grant	1085	507	97	481
Restrictions Business Fund(BF)	933	269	170	494
RBF Extended	749	75	77	594
Freelancer Grant	437	n/a	9	428
Premises Adaptation Grant	110	n/a	0	166
Start Up Grant	79	n/a	4	75
Total	3393	851 (25%)	357 (11%)	2182 (64%)

Table 9 – Fraud Assurance for Covid Grant Support Schemes by Monetary Value

Monetary Value of Applications Reviewed by Grant Type (£)				
	Total Applications	Rejected At Source	Rejected By Fraud	Approved
Firebreak	2,170,000	1,014,000	194,000	962,000
Restrictions Business Fund(RBF)	1,866,000	538,000	340,000	988,000
RBF Extended	1,498,000	150,000	154,000	1,188,000
Freelancer Grant	1,092,500	n/a	22,500	1,070,000
Premises Adaptation Grant	582,945	n/a	0.00	n/a
Start Up Grant	197,500	n/a	10,000	187,500
Total	7,406,945	1,702,000 (23%)	720,500 (10%)	4,978,445 (67%)

5 Review of Outcomes against the Fraud Function Plan for 2019/20

- 5.1 Due to the Covid 19 pandemic the team have operated remotely from home for the entire 2020/21 period but were able to provide a full service during this period by working remotely and utilising new technologies. The team lost 24 days due to sickness following a family bereavement.
- 5.2 Of the seven planned Fraud Function activities only one was fully achieved with four being partly achieved. Appendix 1 provides commentary against these activities.
- 5.3 As in the Annual Report for 2019/20 the teams' limited resources and the requirements of reactive work continue to be a contributory in those activities reported as not being achieved. The ability to be proactive in these areas was again limited albeit the NFI exercise is considered to be a proactive exercise.
- 5.4 However the main factor for not achieving the planned outcomes in 2020/21 was the diversion of resources for Covid 19 to grant support work.
- 5.5 Urgent employee investigations continued to be prioritised and time critical responses and actions were undertaken where Covid protocols allowed.
- 5.6 Despite this the team received and evaluated more reports than ever previously received. Responded to more data requests than ever previously received, developed further professional networks and had a major impact on deterring, preventing and detecting fraud risks associated with Covid 19.

6. Integrated Assessment Implications

6.1 The Council is subject to the Public Sector Equality Duty (Wales) and must, in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimization and other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.
- Deliver better outcomes for those people who experience socio-economic disadvantage

The Well-being of Future Generations (Wales) Act 2005 mandates that public bodies in Wales must carry out sustainable development. Sustainable development means the process of improving the economic, social, environmental and cultural well-being of Wales by taking action, in accordance with the sustainable development principle, aimed at achieving the 'well-being goals'.

Our Integrated Impact Assessment process ensures that we have paid due regard to the above.

The IIA indicated that there are low impacts on any identified group and the plan applies equally to all. Public consultation and engagement is not required for the plan. All WFG considerations are positive and the risk identified is low. The overall impact of the plan is positive, as it will support the Authority in its requirement to protect public funds. (See Appendix 2 for IA)

7. Financial Implications

7.1 There are no financial implications associated with this report.

8. Legal Implications

8.1 The Accounts and Audit (Wales) Regulations 2014 require the maintenance of an adequate and effective system of internal audit of the Council's accounting records and control systems. This is essential to the prevention and detection of fraud and corruption and is a key element of the Chief Finance Officer's statutory duties as contained in section 151 of the Local Government Act 1972.

Background Papers: None

Appendices:

Appendix 1 - Review of the Fraud Function Plan for 2020/21

Appendix 2 – Integrated Impact Assessment

Appendix 1 – Review of the Fraud Function Anti-Fraud Plan for 2020/21

Activity	Detail	Target Outcomes	Outcomes Achieved
1. Tackle social housing tenancy fraud	Continue to work in partnership the Housing Department and Legal Section to combat tenancy fraud: from unlawful subletting to bogus succession claims.	<p>Raise awareness of the problem of social housing fraud and the damage that it does.</p> <p>Prevent the unlawful succession to social housing properties by people that do not have a right to succeed the tenancy</p> <p>Reduce the number of properties being unlawfully sub-let.</p> <p>Recover properties where tenancy fraud has been identified.</p> <p>Undertake criminal prosecutions & utilise Unlawful Profit Orders to recover any profit made by offenders, in accordance with the Prevention of Social Housing Fraud Act 2013 and/or the Fraud Act 2006.</p>	<p>Not achieved.</p> <p>The team have continued to receive a number of referrals from the Housing Department and provided limited support but full investigations have not been undertaken due to Covid restrictions and resources being diverted to Covid support work.</p>
2. Tackle Council Tax fraud	Utilise internal and external Data Matching products to identify potential discrepancies in Single Person Discounts and other Council Tax discounts, disregards and exemptions.	<p>Recover single person discounts 'incorrectly' claimed.</p> <p>Recover other disregards and discounts 'incorrectly' claimed.</p>	<p>Fully achieved.</p> <p>Incorrectly claimed discounts and exemptions have been identified via individual investigations and via internal & external data matching.</p>

Activity	Detail	Target Outcomes	Outcomes Achieved
3. Tackle Council Tax Reduction fraud	National roll-out of joint working commences 29 th April 2019, and the joint working with DWP's Counter Fraud Division will become 'business as usual'.	Sharing information and expertise between the Fraud Function & DWP's Counter Fraud Division: <ul style="list-style-type: none"> • To ensure that the totality of welfare benefit and CTRS are tackled in the most efficient and effective manner. • To identify overpayments and excess reductions. • To take sanction action in appropriate cases. Administrative Penalties and prosecutions. 	Not achieved. The team have continued to receive a number of referrals in this area and provided limited support but full investigations have not been undertaken due to Covid restrictions and Covid support work undertaken by both the Council and DWP.
4. National Fraud Initiative(2020)	Participate in the biannual National Fraud Initiative coordinated by the Cabinet Office	To ensure and appropriate number of matches are examined with particular reference to High Risk Reports. To identify processes and procedures that need to be made more robust. To identify overpayments and excess reductions. To take appropriate action against offenders	Partly achieved. The NFI20 exercise has commenced.

Activity	Detail	Target Outcomes	Outcomes Achieved
<p>5. Internal Employee Matters</p> <ul style="list-style-type: none"> • Abuse of Position • Travel and subsistence • Flexi time/timekeeping • Other matters of misconduct/gross misconduct 	<p>Continue to assist Human Resources & Organisational Development in conjunction with various client departments</p> <p>The Fraud Function will continue to work with internal departments and external organisations in order to undertake risk assessments, and gather intelligence and evidence to point towards or away from fraud and error.</p>	<p>Support disciplinary process</p> <p>Consider as appropriate criminal/civil proceedings.</p> <p>To take appropriate action against offenders</p> <p>Maintain the Council's good reputation</p>	<p>Partly Achieved.</p> <p>Urgent employee investigations continued to be prioritised and time critical responses and actions were undertaken where Covid protocols allowed.</p>
<p>6. Tackle other internal and external fraud, examples includes:</p> <ul style="list-style-type: none"> • Procurement fraud • Social Care (Direct Payments) • Blue badge • Income collection and banking • Grants • Payroll • Pensions <ul style="list-style-type: none"> • Etc. 	<p>During 2020/21, the Fraud Function will continue to investigate various anomalies and referrals.</p> <p>The Fraud Function will continue to work with internal departments and external organisations in order to undertake risk assessments, and gather intelligence and evidence to point towards or away from fraud and error.</p> <p>Subject to available resources, the Fraud Function will consider and investigate any other frauds if it is in the best interests of the Council and the public it serves.</p>	<p>Maintain public confidence by being 'transparent'.</p> <p>Maintain the Council's good reputation.</p> <p>Identify fraud, error and over payments.</p> <p>Instigate disciplinary / criminal proceedings as appropriate.</p> <p>Assist in the recovery of 'losses', financial or otherwise.</p>	<p>Partly achieved.</p> <p>The team has considered all allegations made. However not all actions have been undertaken due resources being diverted to Covid support work</p>

Activity	Detail	Target Outcomes	Outcomes Achieved
7.Raising Awareness	<p>Continue to raise awareness of the role of the Fraud Function both inside and outside the Council.</p> <p>The aim is to maintain reputation and to encourage the reporting of potential fraud in the belief that action will be taken.</p>	<p>Staff:</p> <ul style="list-style-type: none"> • New – A guide to Corporate Fraud is included in Corporate Induction Training provided by Human Resources. • Existing – Continue to develop and deliver training as and when required. <p>Members: Continue to deliver / presentations reports to the Audit Committee and other members as necessary.</p> <p>Public: Continue to publicise activities, successes, and prosecutions.</p>	<p>Staff –Not achieved.</p> <p>Members - Target achieved. Reports and updates have been delivered regularly to the Audit Committee.</p> <p>Public - Not achieved</p> <p>Those activities not achieved are due to resources being diverted to Covid support work.</p>