



Report of the Chief Auditor

Governance & Audit Committee - 13 July 2022

Internal Audit Section – Fraud Function Annual Report 2021/2022

Purpose:	This report provides a summary of the work completed by the Fraud Function of Internal Audit in 2021/22.
Policy Framework:	None.
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For Information

1. Introduction

- 1.1 This report provides a summary of the activities of the Fraud Function for 2021/22 and reviews achievements compared to target activities contained in the Fraud Function Anti-Fraud Plan for 2021/22 approved by Governance & Audit Committee.

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 affecting 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 also continued to manage the National Fraud Initiative NFI20 following the receipt of the main data output in late January 2021. (See section 4.2.)

3.3 The volume of reports and requests for support received by the team during 2021/22 again increased as demonstrated in Tables 1 and 4 below. Whilst the amount of assistance required in the administration of the Covid grant support schemes eventually diminished it continued until the third quarter of the year. A consequence of this is the team are now frequently asked to support the administration of other grants to provide assurance. (See new service area in Table 3)

3.4 The overall increase also 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 body. Often advice on prevention is provided to client departments and a full investigation is not required.

Table 1 – Caseload Volume 2021/22

Type	Joint Working with DWP	Fraud Function only	Total
Brought forward	7 (7)	81 (34)	88 (41)
New cases in 2021/22	11 (1)	368 (301)	379 (302)
Total	18 (8)	449 (335)	467 (343)

(Figures in italics refer to 2020/21)

- 3.6 Despite the increased volume and a higher brought forward figure the case turnover has significantly improved in 2021/22 as can be seen in Table 2 below. The decrease in Covid grant support work being a direct contributor.

Table 2 – Case status as at 31/3/22

Type	Joint Working with DWP	Fraud Function only	Total
Cases closed	3 (1)	392 (254)	395 (255)
Cases to be evaluated	0 (0)	6 (32)	6 (32)
Cases under investigation	15 (7)	51 (49)	66 (56)
Total	18 (8)	449 (335)	467 (343)

(Figures in italics refer to 2020/21)

- 3.7 An analysis of the data shown in Table 3 below shows that most areas have seen a growth in reports. The on-line public reporting tool continues to receive a high volume of reports. This portal needs further development to improve the quality of reports. For example the Blue Badge referrals often relate to non-Swansea matters and is due to a Google algorithm.
- 3.8 The volume of reports in the social housing sector continues to increase so will be a focus of the Annual Plan 2022/23.

Table 3 – Fraud Reports by Service Area 2021/22

Fraud Reports By Service Area -				
	Number of Cases (including B/F figure)		Percentage Change	Percentage Of Cases
	2020/21	2021/22		
Blue Badge	25	46	84.0%	10.2%
Business Rates	5	5	0.0%	1.1%
Council Tax Reduction	25	19	-24.0%	4.2%
Council Tax Liability	62	70	12.9%	15.6%
Covid 19	37	8	-78.4%	1.8%
DWP Benefits	86	127	47.7%	28.3%
Education	5	7	40.0%	1.6%
Employee Cases	23	19	-17.4%	4.2%
Grants(Non Covid)	0	51	0.0%	11.4%
Money Laundering	0	0	0.0%	0.0%
Procurement	3	4	33.3%	0.9%
Parking Permits	1	1	0.0%	0.2%
Social Housing	39	56	43.6%	12.5%
Social Services Finance	6	3	-50.0%	0.7%
Other	18	33	83.3%	7.3%
Total	335	449		

(Excludes DWP Joint Working)

3.9 Table 4 below shows the rising trend of reports/work volumes over the lifetime of the team. This clearly demonstrates that despite the reduction in Covid 19 reports which caused the increase 20/21, the overall trend is significantly upwards with a circa 79% increase on the two preceding years.

Table 4 – Caseload trend Data

Financial Year	Caseload Trends Excluding DWP Joint Working				Team Size
	B/F From Previous Year	New Cases	Concluded	DPA Requests	
2015/16	0	125	90	258	3
2016/17	35	243	213	320	3
2017/18	65	198	218	447	3
2018/19	45	211	213	435	2
2019/20	43	212	214	469	2
2020/21	41	415*	368	643	2
2021/22	88	379	395	642	2

*Included Covid Increase

4 Key Activities 2021/2022

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 Although the number of reported cases has again notably increased in 2021/22, as shown in Table 3 above, there has only been a marginal increase in the number of cases investigated and as a result the value of overpayments realised has also decreased. The reasons for this low increase 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 restrictions continued to have on the resources most of 2021/22.

4.1.4 However it is pleasing to report that as a result of the removal of the majority of Covid restrictions operations have now returned to business as usual practices and meetings have been held to enhance joint working.

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 other public bodies 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
- Council Tax Single Persons Discount
- 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 main data output for NFI20 was received in late January 2021 and the examination of all relevant matches has almost been concluded. Just under 10,000 matches were received across 90 reports of which 1285 were 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. Progression on these reports is actively managed.
- 4.2.6 For NFI 2020 an additional data set was included to identify matches in relation to Covid 19 Grant Support payments. No matters of concern were identified.
- 4.2.7 In the third quarter a further significant report was released and the completion of the actions required have been brought forward to the Annual Plan 2022/23.
- 4.2.8 A full report on the outcomes of NFI20 will be presented to committee at the Fraud Function Mid-Year report in the Autumn.

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 remained high despite the reduction in Covid Grant Support Alerts. Impersonation Fraud alerts increased this year.
- 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 provided to Committee in 2021/22 but two dates have already been agreed for its delivery during 2022/23.
- 4.3.4 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 The team has further developed its role in inter-agency working and data exchange.
- 4.4.2 Staff have continued to lead regular meetings and contributed to the development of the Welsh Fraud Officers group and extended this forum to maintain 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 642 requests for information from other agencies, meaning the increase seen in 2020/21 has been maintained in 2021/22.

4.5 Employee related Investigations

4.5.1 The volume of employee referrals again decreased in 2021/22. It was pleasing that this figure has again 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 2021/22

Type	Cases
Brought forward from 2020/21	8 (10)
New cases in 2021/22	11 (13)
Total	19 (23)

(Figures in italics refer to 2020/21)

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

Table 6 – Reason for reporting 2021/22

Reason	Cases
Abuse Of Position	4 (3)
Expenses	0 (1)
Flexi Abuse	0 (1)
False Accounting	0 (1)
Not Following Procedures	1 (0)
Theft	9 (7)
Secondary Employment	2 (3)
Working whilst on sick leave	2 (1)
Other	1 (6)
Total	19 (23)

(Bracketed figures refer to 20/21)

Table 7 – Employee Outcomes 2021/22

Employee Outcomes	
Type	Number
Advice Provided	0 (5)
Fraud Not Proven	2 (2)
Discontinued	4 (1)
Resigned	1 (0)
Disciplinary – Dismissal	2 (0)
Disciplinary – Warning	1 (0)
Rejected	0 (2)
Other Action taken	0 (2)
Ongoing investigation	9 (11)
Total	19 (23)

(Bracketed figures refer to 20/21)

4.6 Covid 19

- 4.6.1 As aforementioned the amount of direct support work undertaken by the team diminished over the year 2021/22. There was still a high level of support provided for the first two quarters but this became minimal in quarters three and four.
- 4.6.2 The team provided advice and further developed front-end validation to be undertaken by officers administering grant applications directly.
- 4.6.3 In total 49 cases were subject to detailed investigation of which 12 cases were recommended for rejection amounting to a saving of £27,000.
- 4.6.4 The team collaboratively work with other Local Authorities and Government departments to ensure that fraud data/intelligence has been shared to prevent fraud occurring where possible.
- 4.6.5 The team 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.
- 4.6.6 As aforementioned the NFI 2020 produced matches for this data set but no errors were found.
- 4.6.7 The ongoing support of Covid Grant administration has clearly had an impact on deterring, preventing and detecting fraud risks associated with Covid 19.

5 Review of Outcomes against the Fraud Function Plan for 2020/21

- 5.1 The team have worked almost exclusively from home during the 2021/22 due to Covid restrictions which impacted on some areas of work. Hybrid working has now been introduced to alleviate some of these pressures. Twelve days were lost due to sickness following a family illness.
- 5.2 Of the eight planned Fraud Function activities four were fully achieved with four being partly achieved. Appendix 1 provides commentary against these activities.
- 5.3 As reported in the Annual Report for 2020/21 the teams' limited resources along with the requirements of reactive work were contributory in those activities reported as not being achieved. It is hoped that the planned expansion of the team will alleviate some of these pressures.
- 5.4 However, urgent employee investigations were prioritised and time critical responses and actions were undertaken where Covid protocols allowed.
- 5.5 Despite this, the case turnover significantly improved but it is recognised this can be further improved once the additional resources become embedded.

6. Integrated Assessment Implications

- 6.1 The Council is subject to the Equality Act (Public Sector Equality Duty and the socio-economic duty), the Well-being of Future Generations (Wales) Act 2015 and the Welsh Language (Wales) Measure, and must in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Acts.
- 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
- Consider opportunities for people to use the Welsh language
- Treat the Welsh language no less favourably than English.
- Ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs.

6.1.1 The Well-being of Future Generations (Wales) Act 2015 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'.

6.1.2 Our Integrated Impact Assessment (IIA) process ensures we have paid due regard to the above. It also takes into account other key issues and priorities, such as poverty and social exclusion, community cohesion, carers, the United Nations Convention on the Rights of the Child (UNCRC) and Welsh language.

The IIA indicated that there are low impacts on any identified group and the Fraud Function Annual Report 2021/2022 applies equally to all. Public consultation and engagement is not required for the report. All Wellbeing and Future Generations Act considerations are positive and the risk identified is low. The overall impact of the report is positive, as it will support the Authority in its requirement to protect public funds. (See Appendix 2 for IIA)

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 Anti-Fraud Plan for 2021/22

Appendix 2 – Integrated Impact Assessment Screening Form

Appendix 1 – Review of the Fraud Function Anti-Fraud Plan for 2021/22

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>Partly achieved</p> <p>The team have continued to receive a number of referrals from the public and the Housing Department.</p> <p>Full investigations have restarted but commencement of all cases has been impacted by restricted resources and some significant internal investigations.</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 internal & external data matching.</p>

Activity	Detail	Target Outcomes	Outcomes Achieved
		Identify cases of council tax evasion through non registration of liability and banding,	
3. Tackle Council Tax Reduction fraud	Continue to work with DWP/CFCD in countering CTRS fraud.	<p>Sharing information and expertise between the Fraud Function & DWP's Counter Fraud Division:</p> <ul style="list-style-type: none"> • To ensure that the totality of welfare benefit and CTRS frauds 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. 	<p>Partly achieved</p> <p>The team have continued to receive a number of referrals in this area and investigations have now recommenced including jointly with the DWP albeit belatedly in the year 2021/22.</p>
4. National Fraud Initiative(2020)	<p>Participate in the biannual National Fraud Initiative coordinated by the Cabinet Office.</p> <p>Since</p>	<p>To ensure an appropriate number of matches are examined with particular reference high fraud risk matches</p> <p>To identify processes and procedures that need to be made more robust.</p>	<p>Partly achieved</p> <p>It was reported in the Mid-Year report that the exercise would be completed by January 2022. However a small number of reports remain open and are being actively managed for closure.</p>

Activity	Detail	Target Outcomes	Outcomes Achieved
		<p>To identify overpayments and excess reductions.</p> <p>To take appropriate action against offenders.</p>	<p>In the third quarter a further large report was released and the completion of the actions required has been carried forward to the Annual Plan 2022/23.</p>
<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>Fully achieved.</p> <p>Urgent employee investigations continue to be prioritised and time critical responses provided where Covid protocols allowed.</p> <p>A number of cases are carried forward to the new year but this is a common occurrence due to the length of investigations and any disciplinary outcomes.</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 	<p>During 2021/22, 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>Maintain public confidence by being 'transparent'.</p> <p>Identify fraud, error and overpayments.</p> <p>Assist in the recovery of 'losses', financial or otherwise.</p>	<p>Fully achieved.</p> <p>The team has considered all allegations received.</p>

Activity	Detail	Target Outcomes	Outcomes Achieved
<ul style="list-style-type: none"> • Payroll • Pensions • Etc. 	<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>7. Raising Awareness</p>	<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>To work with HROD to develop bi-annual fraud awareness training for all employees.</p>	<p><u>Staff:</u></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><u>Members:</u> Continue to deliver presentations/ reports to the Audit Committee and other members as necessary.</p> <p><u>Public:</u> Continue to publicise activities, successes, and prosecutions.</p>	<p>Fully achieved.</p> <p>The team continue to liaise with HROD on Corporate Induction Training.</p> <p>Commentary on fraud work and an overarching message appeared the Chief Executive's Blog.</p> <p>A Press release was issued 7th July 2021: Swansea - Council clamps down on fraud</p> <p>Online press coverage appeared on 7th July 2021 in Nation.Cymru and Wales Online and an Evening Post article published 14th July 2021.</p> <p>The team regularly present operational and strategic matters to CMT.</p>

Activity	Detail	Target Outcomes	Outcomes Achieved
8. Policy and Procedure Developments	To work with nominated officers as prescribed in the Action Plan presented to Audit Committee 9 th March 2021 to deliver on the appropriate actions.	To produce the products in-line with the timetable contained within the Action Plan	Partly achieved. This a rolling programme of work and has been carried forward to the Annual Plan 2022/23.