



Report of the Chief Auditor

Governance & Audit Committee - 19 July 2023

Internal Audit Section – Fraud Function Annual Report for 2022/2023

Purpose:	This report provides a summary of the work completed by the Fraud Function of Internal Audit in 2022/23.
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 2022/23 and reviews achievements compared to target activities contained in the Fraud Function Anti-Fraud Plan for 2022/23 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. **Staff Structure**

3.1 In 2022 it was identified by the Director of Finance that investment would be made in the team and a Fraud Manager position would be created, and as per the fraud function plan 2022/23 two additional investigation fraud investigators would be recruited.

3.2 A Fraud Manager post was created and filled in July 2022. However, the position was vacant from September as the Fraud Manager accepted a position in Education. Two new investigation officers were recruited and employed in January 2023.

3.3. Both new members of staff are from a benefits background not a corporate fraud background and even though they have the requisite skills needed for the position, a period of assimilation, training and mentoring will be required.

3.4 Due to the ongoing financial uncertainty, the post of Fraud Manager was not filled until May 2023, with a deletion of an investigation officer post.

3.5 Subsequently, the team structure going forward will be an investigation manager and two fraud investigators.

4. **Overview of Activities**

4.1 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 are considered as part of joint working arrangement with the Department for Work and Pensions (DWP).

4.2 The team have also continued to manage the National Fraud Initiative (NFI 20) That was concluded in November 2022. (See section 5.2)

- 4.3 The volume of reports and requests for support received by the team during 2022/23 decreased overall as demonstrated in Tables 1 and 2 below, however this is still far higher in relation to comparable pre-covid data.
- 4.4 The high volume of cases 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.
- 4.5 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 or 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 always required.

Table 1 – Caseload Volume 2022/23

Type	Joint Working with DWP	Fraud Function only	Total
Brought forward	15(7)	57(81)	72 (88)
New cases in 2022/23	12 (11)	309 (368)	322 (379)
Total	27 (18)	366 (449)	394(467)

(Figures in italics refer to 2021/22)

Table 2 – 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
2021/22	41	415*	368	643	2
2022/23	88	379	395	642	2
2023/24	72	321	328	704	2/3

*Included Covid Increase

- 4.6 Despite the decreased volume and a higher brought forward figure the case turnover remained high in 2022/23 as can be seen in Table 3. The decrease in Covid grant support work being a direct contributor.

Table 3 – Case status as at 31/3/23

Type	Joint Working with DWP	Fraud Function only	Total
Cases closed	14 (3)	314 (392)	328 (395)
Cases to be evaluated	0 (0)	1 (5)	1 (6)
Cases under investigation	14 (15)	51 (52)	65 (72)
Total	28 (18)	366 (449)	394 (467)

(Figures in italics refer to 2021/22)

4.7 The on-line public reporting tool continues to receive a high volume of reports and we continue to further develop to improve the quality of reports.

5 Key Activities 2022/2023

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

5.1.1 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.

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

5.1.3 As a result of the removal of the majority of Covid restrictions, operations have now returned to 'business as usual'.

5.1.4 Data outcomes for this work are shown below. A return to normal working practices shows a value of overpayments realised at £104,095. Cases have been referred to the Crown Prosecution Service, and as of 31st March 2023, one case had been successfully prosecuted. In addition to this, civil penalties of £522.71 were realised with in the year.

Overpayments created:

Joint Working with DWP cases				Created via DWP	FF only cases
Created via FF		Created via DWP			
CTR	Other LA	HB & CTB	DWP		
£9,488.69 <i>(£0.00)</i>	£0.00 <i>(£0.00)</i>	£27,434.68 <i>(£0.00)</i>	£76,660.89 <i>(£0.00)</i>		
£9,488.69 <i>(£0.00)</i>		£104,095.57 <i>(£0.00)</i>			CTR & Other
£113,584.26 <i>(£0.00)</i>					£14,278.24 <i>(£43,878.23)</i>

(Figures in italics refer to 21/22)

Total of all overpayments
£127,862.50 <i>(£43,878.23)</i>

5.2 National Fraud Initiative 2020

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

5.2.2 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.

5.2.3 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 and waiting lists
- Immigration
- Payroll
- Pensions
- Personal alcohol licences
- Personal budgets for social care
- Student loans
- Taxi licenses
- VAT overpaid.

5.2.4 The main data output for NFI20 was received in late January 2021 and the examination of all relevant matches was concluded in November 2022. Just under 10,000 matches were received across 90 reports of which 1285 were considered High Risk.

- 5.2.5 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.
- 5.2.6 For NFI 2020 an additional data set was included to identify matches in relation to Covid 19 Grant Support payments. As expected, no matters of concern were identified following the partnership work between the fraud function and economic regeneration team in 2020/21 to stop applications with a value of £2.4million at source.
- 5.2.7 City & County of Swansea realised saving in four key areas as follows as a result of the NFI exercise:

Service Area	Fraud and Overpayments (£)
Blue Badge	£184,575.00
Housing Waiting Lists	£3,240.00
Housing Benefit	£5,247.13
Pensions	£42,734.00
Total	£235,797.03

- 5.2.8 In line with the completion of NFI 2020, the Auditor General for Wales published a report that had three recommendations. The full report can be found at: <https://www.audit.wales/cyhoeddiad/national-fraud-initiative-2020-21>. Those recommendations have already been implemented and were reported to the Governance and Audit Committee in December 2022.
- 5.2.9 In the report the auditor general identified £6.5million of fraud and overpayments in seven main areas. The biggest area was council tax discounts which estimated £2.6 million of fraud, error and overpayment, identified across Wales.
- 5.2.10 The authority received over 20,000 matches in respect of discretionary Council Tax discounts that were not part of the main exercise. As the Revenues Service already utilises a third-party company to undertake a review of discounts, it was deemed not cost effective or practical to allocate additional resources to review the NFI matches in addition to that exercise.
- 5.2.11 Previous NFI data matches have been found to be out of date as there is a time lag before the when the data is collected and received. An improved programme to review Council Tax discounts over the next 2 years has recently started. An initial bulk review of all current single person discounts will be carried out and then a monthly rolling review of new applications will be 'added' to the process so the measure will be further enhanced.
- 5.2.12 The report identified approximately £1.4 million of fraud and overpayments in relation to blue badges nationally. It is believed that the £184,575 figure produced by the authority is a positive result in relation to this figure.

5.2.13 The report identified approximately £800,000 of fraud and overpayments in housing waiting lists nationally. There are many reasons for the authority's relatively modest figure of £3,240, but to give assurance to committee, due to the extra resources available the fraud function will review all housing waiting list matches in the NFI 2022/23 exercise.

5.3 Fraud Awareness

5.3.1 The team continues to act as the hub for the receipt of Intelligence and Scam alerts from the National Anti-Fraud Network and Action Fraud. The volume has reduced significantly in line with the end of the pandemic.

5.3.2 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.

5.3.3 Annual Fraud Awareness training was provided to the Governance & Audit Committee in 2022/23.

5.3.4 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.

5.4 Inter-Agency work and Data Exchange

5.4.1 The team has further developed its role in inter-agency working and data exchange.

5.4.2 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.

5.4.3 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.

5.4.4 During the year, the function received 704 requests for information from other agencies, which was an increase from 642 requests in 2021/22.

5.5 Employee related Investigations

5.5.1 The volume of employee referrals at 19 in 2022/23 **remained consistent** from the previous year. It was pleasing that this figure has again not increased given the change in working practices to hybrid/agile working and possible risks that could have occurred from this. The team continue to prioritise assisting client departments in this area.

6 Review of Outcomes against the Fraud Function Plan for 2022/2023

6.1 The team now operates hybrid working, spending time at the office, home and at other client departments and external agency buildings. No days were lost due to sickness in 2022/23.

- 6.2 Of the eight planned Fraud Function activities seven were fully achieved with one being partly achieved. Appendix 1 provides commentary against these activities.
- 6.3 The only activity that was not fully achieved was the perceived data matching of HMRC SPD report. As reported in 5.2.10 this was not undertaken due to the age of the data, practical allocation of resources and the use of an alternative third party to review single person discounts.
- 6.4 Urgent employee investigations continue to be prioritised, and time critical responses and actions undertaken.

7. Integrated Assessment Implications

- 7.1 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.
- 7.2 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'.
- 7.3 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 2022/2023 applies equally to all. Public consultation and engagement are 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)

8. Financial Implications

- 8.1 There are no financial implications associated with this report.

9. Legal Implications

- 9.1 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 2022/23

Appendix 2 – Integrated Impact Assessment Screening Form

Appendix 1

Activity	Detail	Target Outcomes	Outcome 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>Fully Achieved</p> <p>The team have continued to receive numerous referrals from the public and the Housing Department.</p> <p>Full investigations continue to take place.</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	Target Outcomes
3.Tackle Council Tax Reduction fraud	Continue to work with DWP's Counter Fraud and Compliance & Debt Service in countering CTRS fraud.	<p>Sharing information and expertise between the Fraud Function & DWP's CFCD.</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>Fully Achieved</p> <p>The team have continued to receive numerous referrals in this area and full investigations are taking place.</p>
4.Cabinet Office National Fraud Initiative	<p>Complete the National Fraud Initiative 2020.</p> <p>Address HMRC report relating CTAX/SPD by allocating appropriate Finance resources with Revenues department.</p> <p>Commence the National Fraud Initiative 2022</p>	<p>To ensure an appropriate number of matches are examined with particular reference to high fraud risk matches.</p> <p>To identify processes and procedures that need to be made more robust.</p> <p>To identify overpayments and excess reductions.</p> <p>To take appropriate action against offenders.</p>	<p>Partly Achieved</p> <p>NFI 2020 has been completed.</p> <p>HMRC SPD report was not undertaken due to the age of the data, practical allocation of resources and the use of a third party to review discounts.</p> <p>NFI 2022 has commenced</p>

Activity	Detail		Target Outcomes
<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.</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 include:</p> <ul style="list-style-type: none"> • Procurement fraud • Social Care (Direct Payments) • Blue badge • Income collection and banking • Grants • Payroll • Pensions • Etc. 	<p>During 2022/2023, 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>Once additional resources have been appointed the Fraud Function will seek to proactively expand into previously under resourced areas.</p>	<p>Maintain public confidence by being 'transparent'.</p> <p>Identify fraud, error and over payments.</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
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>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 – Carried forward from plan 2021/22. A guide to Corporate Fraud is included in Corporate Induction Training provided by Human Resources. • Existing – Continue to develop and deliver bespoke training and support that is responsive to changes in threat. <p><u>Members:</u></p> <ul style="list-style-type: none"> • Deliver presentations/reports/training to the Governance and Audit Committee and other members that develops knowledge and understanding that will develop effective scrutiny. <p><u>Public:</u> Continue to publicise activities, successes, and prosecutions.</p>	<p>Fully achieved.</p> <p>The Corporate Fraud Team has sourced suitable training material to be used across the organisation. HROD is currently in the process of identifying who will be required to complete the training and will facilitate the roll-out via the council's Oracle Fusion system.</p> <p>Members undertook fraud awareness training.</p> <p>Where possible, the function continues to raise awareness in the local press.</p>

Activity	Detail		Target Outcomes
<p>8. Policy, Procedure and Resource Implementation.</p>	<p>To continue work with nominated officers as prescribed in the Action Plan presented to Governance & Audit Committee 9th March 2021 to deliver on the appropriate actions.</p> <p>To recruit and appoint suitably two additional qualified Counter Fraud Investigators. To commence the implementation of the Government Counter Fraud Professional Standards.</p>	<p>To produce the products in-line with the timetable contained within the Action Plan.</p> <p>For the positions to be filled no later than September 2022, and for the new team structure to be developed and fully implemented prior to the financial year 2023/24.</p>	<p>Fully Achieved</p> <p>All actions relevant to the fraud function from the report of the Auditor General 'Raising Our Game' Tackling Fraud in Wales have been completed.</p> <p>Two new Fraud Investigators have been employed and are in post.</p>