CEREDIGION COUNTY COUNCIL

Report to: **Governance and Audit Committee**

Date of meeting: **21 June 2023**

Title: **Internal Audit Counter Fraud Report 2022/23**

Purpose of the report: **To provide Members with a summary of the counter fraud work undertaken by internal audit during 2022/23**

The IA Annual Report provides a summary of the internal audit activity during the year to 31 March and incorporates the audit opinion.

In the past, the Annual Report contained a section on Fraud, outlining the type of work IA had undertaken in the area. This has now been replaced by a separate Counter Fraud Report to support IA's Annual Report at year-end.

Recommendation(s):   **To APPROVE the Report**

Reasons for decision: **That the Governance and Audit Committee is satisfied that the Internal Audit Section has undertaken sufficient and appropriate work in this area to support the Internal Audit Annual Report at year-end.**

Appendices: **Internal Audit Counter Fraud Report 2022/23**

Head of Service: Elin Prysor
Corporate Lead Officer Legal & Governance Services / Monitoring Officer

Reporting Officer: Alex Jenkins
Corporate Manager – Internal Audit

Date: 24 May 2023

GWASANAETHAU CYFREITHIOL A LLYWODRAETHU

LEGAL & GOVERNANCE SERVICES

GWASANAETH ARCHWILIO MEWNOL

INTERNAL AUDIT SERVICE

Mae'r adroddiad yma ar gael yn Gymraeg.
This report is available in Welsh.

ADRODDIAD ARCHWILIO 2022/23 – ATAL TWYLL

AUDIT REPORT 2022/23 – COUNTER FRAUD

Report Prepared by: Alex Jenkins, Corporate Manager - Internal Audit

Date of Issue: 24 May 2023

Presented to Governance & Audit Committee: 21 June 2023

Cyngor Sir
CEREDIGION
County Council

ADRODDIAD ARCHWILIO 2022/23 – ATAL TWYLL
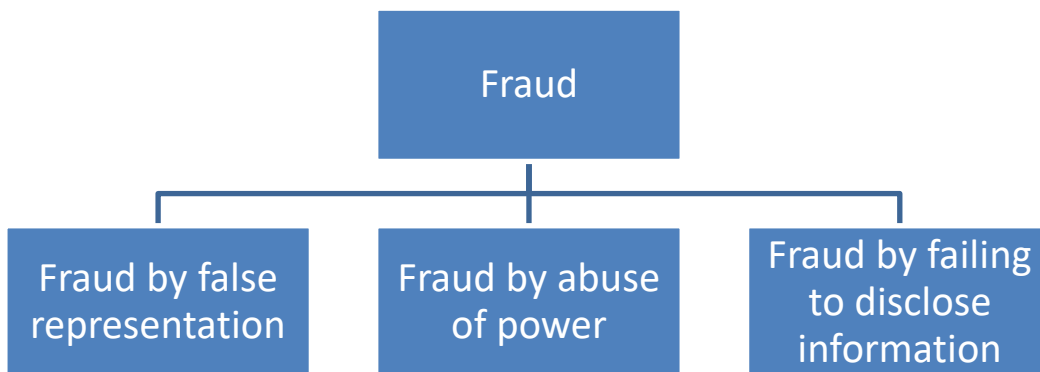
AUDIT REPORT 2022/23 – COUNTER FRAUD

1. Introduction

1.1 This report presents the work carried out by Internal Audit during 2022-23 to minimise the risk of fraud, bribery and corruption occurring within and against Ceredigion County Council.

1.2 Fraudulent behaviour threatens the Council, therefore there is a high degree of commitment to ensure an effective strategy exists which is designed to prevent, detect, and identify fraud, bribery and corruption, and any other malpractice to include money-laundering.

1.3 The Council has a Strategy to Counter Fraud, Corruption and Bribery (to include Anti-Money Laundering), which is supported by a suite of accompanying policies and procedures, such as the Codes of Conduct, Whistleblowing Policy, etc to acknowledge the Council's commitment to addressing fraud and minimise the potential of any risk or damage it can cause.

2. Why is Countering Fraud, Bribery and Corruption Important?

2.1 According to the National Fraud Initiative Report (December 2022)[1], Fraud is estimated to account for 40% of all crime committed across the UK and is a long-standing threat to public services. CIPFA's Public Sector Internal Audit Standards defines fraud in its Glossary as:

"Any illegal act characterised by deceit, concealment or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organisations to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage".

2.2 The Fraud Act 2006 has set out three ways in which fraud can be committed:

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                    ┌─────────────┐
                    │    Fraud    │
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          ┌───────────────┼───────────────┐
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  │ Fraud by false│ │ Fraud by abuse│ │Fraud by failing│
  │ representation│ │   of power    │ │  to disclose   │
  │               │ │               │ │  information   │
  └───────────────┘ └───────────────┘ └───────────────┘
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[1] National Fraud Initiative Report December 2022

2.3   The Council has a duty to safeguard money that should be used in the public interest. Fraud can affect the Council's reputation and takes funding from key public services, affecting the public's trust, financial sustainability and efficiencies within the organisation.

2.4   The Council's aims and objectives in its Strategy to Counter Fraud, Corruption and Bribery are to prevent, detect and investigate occurrences of fraud and corruption.

2.5   The methods of reporting of any suspected fraud, theft, irregularity, improper use or misappropriation of the Council's property or resources are contained in the Council's Strategy to Counter Fraud.

2.6   Effective counter fraud measures taken by the Council can rebuild public trust and ensure that public funds are used in the public interest.

2.7   It is the responsibility of all managers to maintain sound arrangements and controls in order to prevent and detect fraud and corruption. Incidents of fraud usually arise if system controls, risk and/or governance processes are weak, or are present but not being observed.

3.   Internal Audit's Role in Countering Fraud

3.1   Following the transfer of fraud investigators from local government to the Department for Works and Pensions, Ceredigion County Council along with many other Welsh Local Authorities, no longer have a dedicated council-wide counter-fraud resource, Internal Audit have instead been designated the counter-fraud role in the Council.

3.2   The Corporate Manager - Internal Audit (CMIA) and the Senior Auditor are both Accredited Counter Fraud Technicians (ACFTech) whilst the Audit Manager (AM) holds a CIPFA Certificate in Investigative Practice (CCIP). The Council also periodically trains a 'pool' of internal investigators across all services; and certain enforcement staff have PACE training.

3.3   IA's Annual Audit Plan has a section on "Counter Fraud" and the service has a right of access to:

- Enter any Council premises or land at any reasonable time,
- Access all assets, records, documents, correspondence and control systems relating to any financial and other transactions of the Council,
- Require and receive any such information and explanations considered necessary concerning any matter under consideration / examination,
- Require any employee of the Council to account for cash, stores or any other Council property under his/her control, and
- Have access to records belonging to third parties, such as contractors or partnership agencies, according to the relevant contractual terms.

This forms part of the Council's Financial Regulations and Accompanying Financial Procedures contained in the Council's Constitution.

3.4   The CMIA regularly meets with the Chief Finance Officer (Section 151) and the Monitoring Officer to discuss instances of fraud.

3.5 The CMIA is in contact with the heads of audit from all the Welsh local authorities (WCAG), who meet on a quarterly basis, and will also circulate any correspondence to members citing any fraudulent attempts / incidents they have experienced / are made aware of. The North and Mid Wales Audit Partnership (NMWAP) heads of audit also meet and share this information.

3.6 The NMWAP has established a sub-group to share and drive good practice in relation to counter fraud. This group meets on a quarterly basis and the Audit Manager represents Ceredigion's Internal Audit team. The group collaborates to develop a baseline for counter-fraud arrangements across seven local authorities in north and mid Wales.

3.7 Where cases of fraud or other wrongful activity are discovered and investigated, it may also be necessary for IA to undertake a separate review to address the weaknesses discovered and recommend actions to strengthen controls. The corrective actions required following such investigations by IA are reported at their conclusion in the quarterly Progress Reports to the GAC. Follow-up reviews are conducted by IA where appropriate.

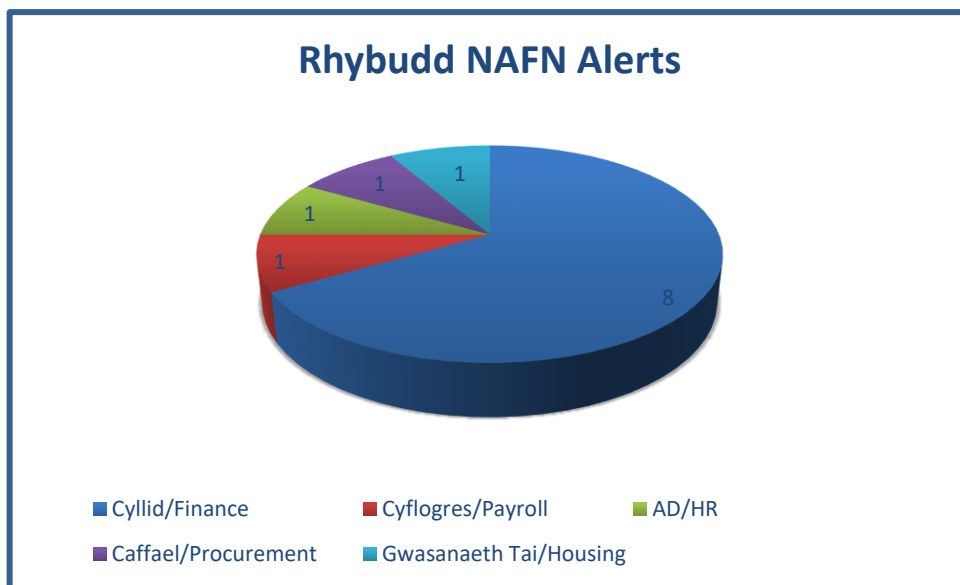3.8 However, it must be stressed that assurances regarding fraud can never be absolute.

4. Counter Fraud Work Undertaken by Internal Audit

4.1 IA obtains assurance from certain services as systems are in place in order to detect and prevent fraud, eg:

- The Council was an early adopter of the Governments secure e-mail standard to help reduce the risk of e-mail addresses being used fraudulently,
- Payments system incorporates an in-house software programme to detect duplicate payments,
- Council tax single person discounts (SPD) declarations requested and reviewed annually,
- Mandate fraud detection procedures in place, and
- Centralisation of procurement and payments section to reduce order / invoice anomalies.

4.2 The Council is also proactive by participating in Audit Wales' 'National Fraud Initiative' (NFI) exercise, which is a national data matching exercise that tackles a broad range of fraud risks faced by the public sector. This work is co-ordinated throughout the Council by the Audit Manager.

4.3 The NFI testing is complemented by further data analysis exercises, where possible. IA uses the Active Data software to analyse data, which works as an Excel add-in. The software can perform different audit-relevant tasks using data matching techniques, sampling and features to help detect anomalies.

4.4 Internal Audit carried out an ActiveData data matching exercise in 2022/23 on Covid-19 support vs CCC Payroll. There is an additional ActiveData Counter-Fraud exercise planned for 2023/24 as detailed in the IA Strategy & Plan that was approved by GAC on 9 March 2023.

4.5 External influences which may have a bearing on Council services may also

trigger a special investigation eg there continues to be many fraudulent attempts against local authorities to change suppliers' bank account details (mandate fraud). IA receives notifications from CIPFA, NAFN (National Anti-Fraud Network) and other external bodies which may alert the Council of any prevalent national / corporate fraud.

4.6   This ensures issues are brought to IA's attention promptly and can be dealt with by reinforcing appropriate controls beforehand.

4.7   Audit Wales requires authorities to report details of all frauds to their External Auditors, and to the Chair of GAC.

4.8   Due to the current Cost of Living crisis, support payments continue to be released by both UK Government and Welsh Government. IA will support the Finance team with Counter Fraud measures by running duplicate checks on reference numbers, names, addresses, bank details and email addresses.

4.9   The CMIA receives regular NAFN Alerts and where relevant instructs further investigation by the IA team and/or shares the alert with relevant services for awareness or investigation.

The chart below shows the number of NAFN Alerts shared by IA with services:

Rhybudd NAFN Alerts

- ■ Cyllid/Finance
- ■ Cyflogres/Payroll
- ■ AD/HR
- ■ Caffael/Procurement
- ■ Gwasanaeth Tai/Housing

4.10 The Council's ICT service arranged a '2-hour exercise in a box' with Cybershare in January 2022, a cyber security training provider, to arrange training for staff on awareness of Cyber Attacks.

5.   National Fraud Initiative

5.1   The NFI is a data matching exercise which helps to detect and prevent fraud. It is conducted in Wales by the Auditor General under his statutory data matching powers set out in the Public Audit (Wales) Act 2004.

5.2   The NFI matches data across organisations and systems to help public bodies identify fraud and overpayments at a national level. The Auditor General collaborates with the Cabinet Office, Audit Scotland and the Northern Ireland Audit Office to run NFI as a UK-wide exercise. Since its commencement in

1996, NFI exercises have resulted in the detection and prevention of more than £49.4 million of fraud and overpayments in Wales and £2.4 billion across the UK.

5.3   The NFI is constantly developing in order to continue to prove an effective tool for detecting and preventing fraud and error across the UK. It acknowledges that fraudsters are always looking for new areas to exploit and make money at others' expense. NFI tries to counter this threat by continually working with the counter fraud community, to come up with new ways of using data to identify fraud across the public sector - both for existing and new emerging fraud problems.

5.4   The main NFI exercise takes place every two years across multiple datasets, including Blue Badges, Concessionary Fares, Council Tax Reduction Scheme, Housing Waiting Lists, Licences, Payroll, Procurement and Trade Creditors. Matching between Council Tax and Electoral Register data takes place annually.

5.5   Staff at Ceredigion have uploaded data and are currently undertaking work on the 2022/23 reports. This data matching allows potentially fraudulent claims and payments to be identified across a range of the Council's services and is beneficial to the work in reducing fraud risk within the Authority.

6.   Attempted Fraud 2022/23

6.1   Services regularly report instances of attempted fraud to IA and IT (where appropriate e.g. phishing or suspicious emails, cyber fraud etc). The following chart shows the volume of reports per service received by IA during 2022/23:

Gwasanaethau / Services

- Taliadau/Payments
- Cyflogres/Payroll
- Cyllid/Procurement
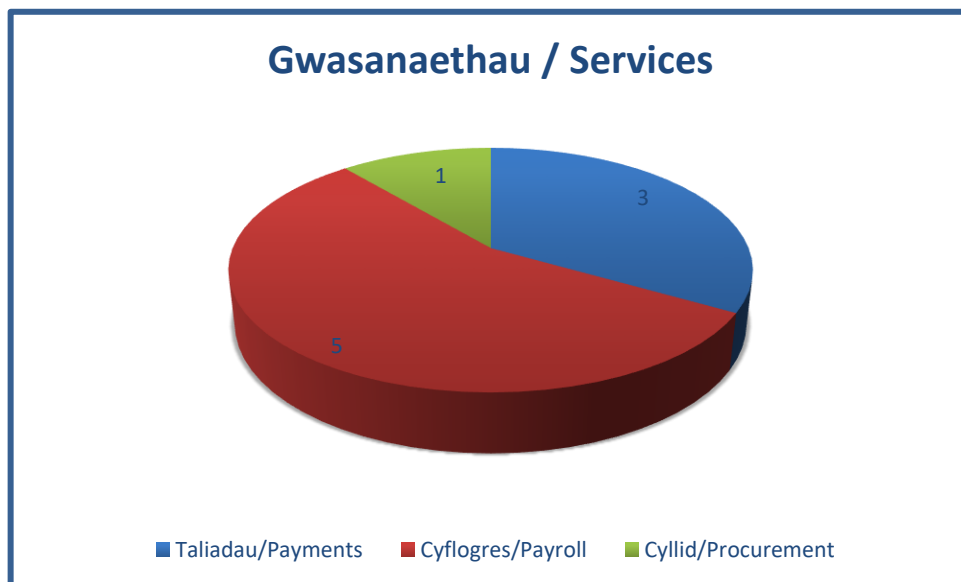
6.2   Five incidents of payroll mandate were discovered by Payroll staff during the year. All of these were reported to Internal Audit. There was one instance of a phishing email being received by the Payments team and a further 3 instances of suspicious emails received by the Payments team and Procurement.

Ymgeisiau Twyll 2022/23 Fraud Attempts
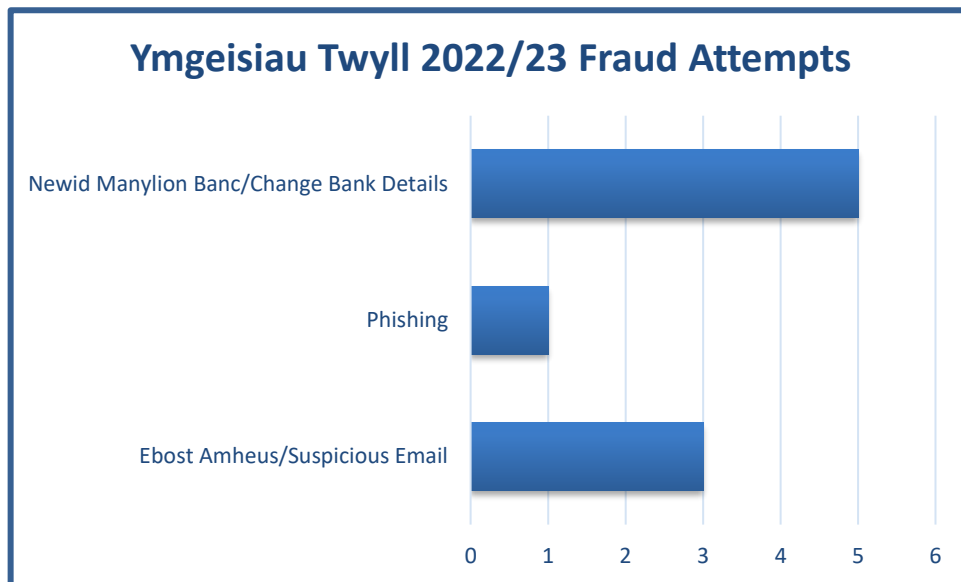
7. Current & Emerging Fraud Risks

7.1 Since the Covid-19 pandemic, most of the Council's services were forced to work online, the same was true for criminals. While the Council continues to develop its new ways of working, and the potential for weaker internal controls there is a greater risk of 'insider threat' fraud in addition to external threats.

7.2 According to CIPFA's 2020 National Report, the main areas for fraud (by volume) in Local Government Authorities are Council Tax, Disabled Parking (Blue Badges), Housing & Tenancy Fraud and Business Rates. Other types of fraud commonly seen in Local Government Authorities are Adult Social Care, Insurance, Procurement, Payroll & HR and mandate or grant fraud.

7.3 With the current cost of living crisis and record inflation rates, other business critical risks such as staff retention, and cyber threats, the opportunities for fraud have increased. Fraudsters will take advantage of the situation using increasingly sophisticated tools to commit crime.

8. Conclusion

8.1 IA will continue to look for counter fraud measures when undertaking all audits and advise managers and services of ways to strengthen controls, risk and governance processes where appropriate.

8.2 The CMIA will continue to discuss fraud and internal controls with the Chief Finance Officer, Monitoring Officer and Senior Management to improve the culture surrounding fraud and to improve services' counter fraud measures and internal controls, reducing the risk of fraud.

8.3 IA are planning a Council-wide fraud risk assessment to obtain further assurance on counter fraud measures throughout the Council and plan IA work more effectively.