

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 2023/24 – ATAL TWYLL AUDIT REPORT 2023/24 – COUNTER FRAUD

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Date of Issue: 10 May 2024

Presented to Governance & Audit Committee: 16 July 2024



Cyngor Sir
CEREDIGION
County Council

ADRODDIAD ARCHWILIO 2023/24 – ATAL TWYLL

AUDIT REPORT 2023/24 – COUNTER FRAUD

1. Introduction

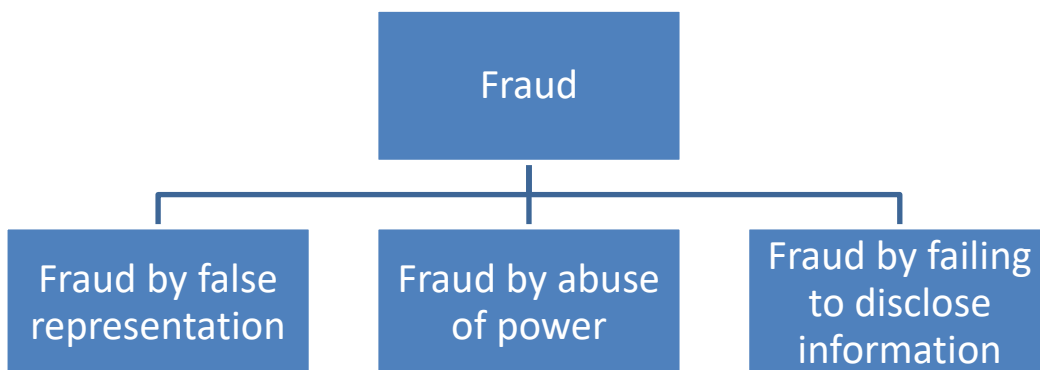
- 1.1 This report presents the work carried out by Internal Audit during 2023/24 to minimise the risk of fraud, bribery and corruption occurring within and against Ceredigion County Council.
- 1.2 Fraudulent behaviour threatens the Council, therefore there is a high degree of commitment to ensure an 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:



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), 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.

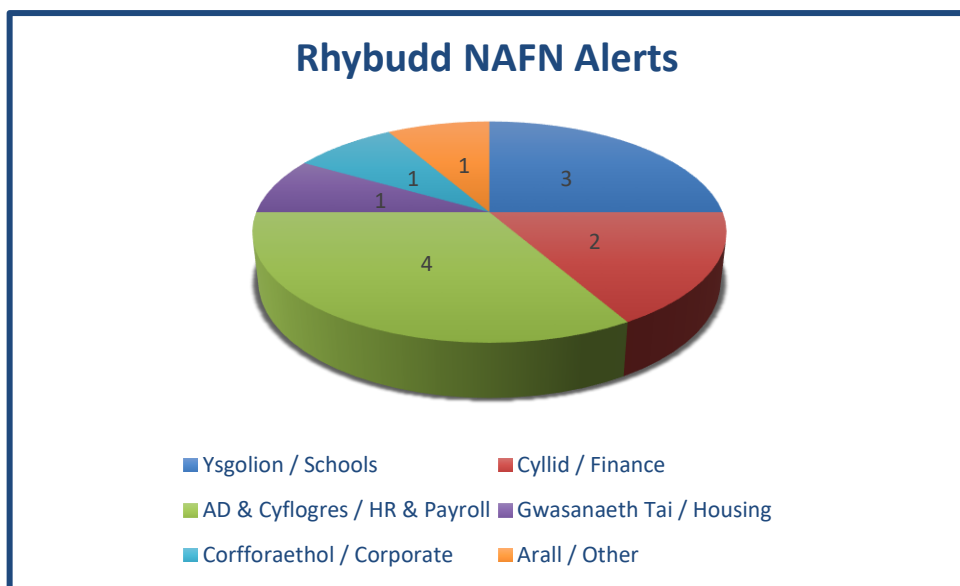
4. Counter Fraud Work Undertaken by Internal Audit

- 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 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.

- 4.5 This ensures issues are brought to IA's attention promptly and can be dealt with by reinforcing appropriate controls beforehand.
- 4.6 Audit Wales requires authorities to report details of all frauds to their External Auditors, and to the Chair of GAC.
- 4.7 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:



- 4.8 The Council's ICT service arranged a 'Cyber Breach Response' training session with IP Performance (a cyber security training provider) in March 2024. The training was organised to help key managers understand risks and threats to the organisation as well as how to deal with a cyber breach.
- 4.9 A Cyber Security Awareness for Managers session was also held in January 2024 to raise awareness of cyber risks.

5. Counter Fraud Risk Assessment

- 5.1 Internal Audit conducted an authority-wide risk assessment during 2023/24 to establish how service areas prevent, detect, deter and investigate fraud. It also provides an opportunity for service areas to highlight any emerging fraud risks.
- 5.2 The results of the risk assessment formed a Fraud Risk Register and Fraud Assessment document that consider existing mitigating actions and internal controls, to highlight high-risk areas and to inform areas of Counter Fraud work within the 2024/25 Internal Audit Plan.

5.3 The key risks identified in the 2023/24 Fraud Risk Assessment were:

- Managers have not received Fraud Awareness training.
- Management not aware of existing Counter Fraud controls.
- Insufficient resources to carry out preventative/detective controls.
- Instances of fraud are not always recorded and/or reported.

5.4 Internal Audit to report the key findings from the Fraud Risk Assessment to Leadership Group and the CMIA has included areas of Counter Fraud work in the 2024/25 Internal Audit Plan to obtain additional assurance in these areas.

6. National Fraud Initiative

6.1 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.

6.2 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.

6.3 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.

6.4 The Council has also adopted the use of *DataTank* as an additional counter fraud measure for Council Tax data matches.

6.5 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.

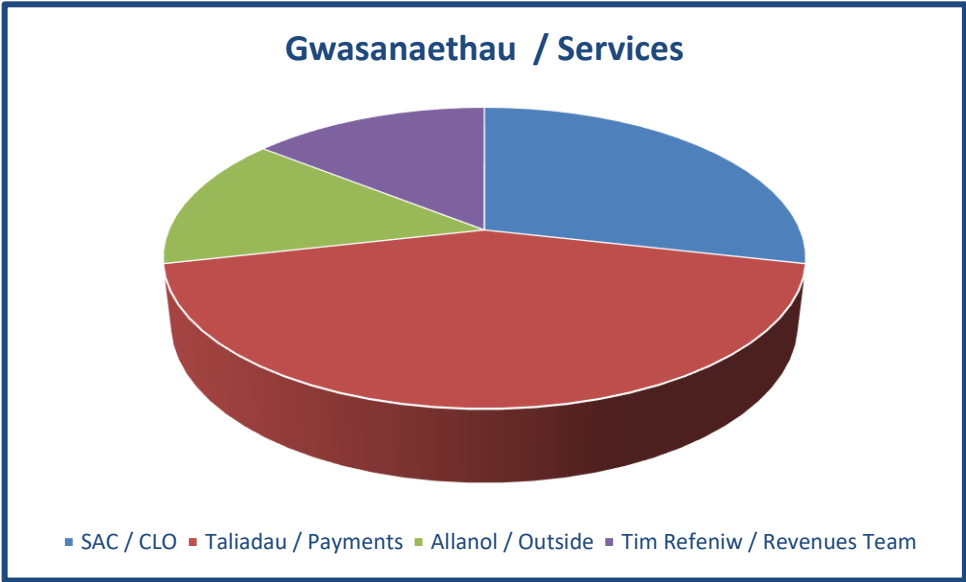
6.6 NFI data matching allows potentially fraudulent claims and payments to be identified across a range of the Council's services and is beneficial to the work in reducing fraud risk within the Authority.

6.7 The 2022/23 exercise encountered difficulties due to changes to access requirements to the NFI secure system and further delays with DBS checks.

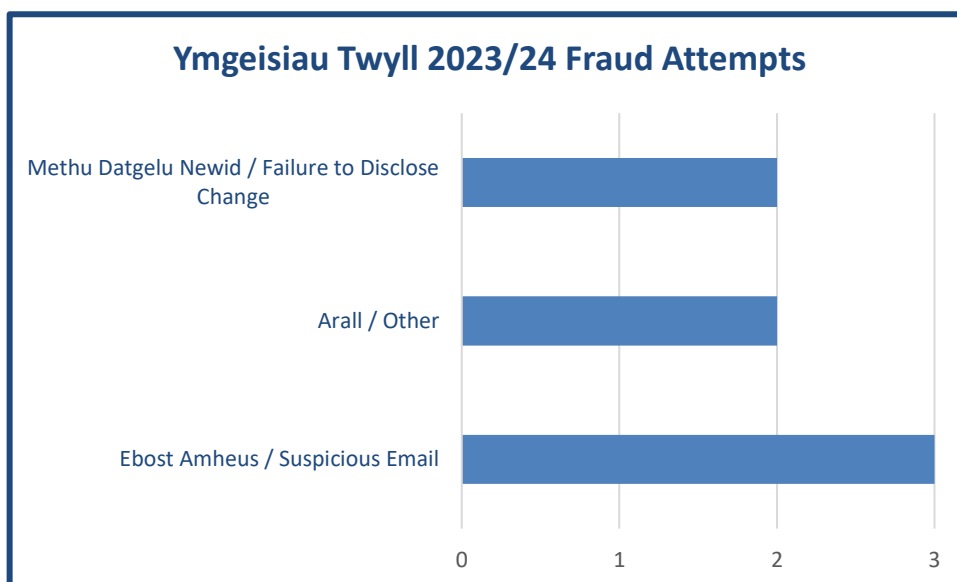
- 6.8 The delays did not affect the matches for Housing Benefits, Council Tax Reduction Scheme and Blue Badges, as staff already had the necessary clearance to undertake the work. The datasets affected were: Payroll, Creditors, and the Housing Waiting List.
- 6.9 Internal Audit will include additional data matching exercises in the 2024/25 IA plan to obtain assurances in this area.
- 6.10 Further work is also planned to ensure that the value in taking part in NFI exercises is maximised by the Council and all results are sufficiently communicated internally.

7. Attempted Fraud 2022/23

7.1 Services 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 2023/24:



7.2 There were three instances of suspicious emails received by the Payments team, two reports of suspected fraud due to failing to disclose changes to the authority and two other reports of fraud, both of which have been investigated and closed.



8. Current & Emerging Fraud Risks

- 8.1 The Council's workforce mainly works online and remotely. As the Council continues to develop its new ways of working, there is the potential for weaker internal controls and a greater risk of 'insider threat' fraud in addition to external threats of instances of fraud going undetected.
- 8.2 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.
- 8.3 Business critical risks such as staff retention, information management and software end-of-life have an impact on the risk of fraud. Fraudsters will take advantage of weaknesses within organisations often using increasingly sophisticated tools to commit crime.
- 8.4 Changes to the Council's working practices such as hybrid working can also expose the organisation to the risk of fraud where internal controls have not been reviewed and updated to address any changes in process.
- 8.5 Cybercrime is a high-risk area for most organisations and can affect organisations in many different ways. The Council's has included Cyber Resilience as a red-risk within the Corporate Risk Register to reflect this.

9. Improving Fraud Awareness and Reporting

- 9.1 Internal Audit created and published a fraud intranet page on the Council's CeriNet site, providing guidance to all staff on fraud awareness and reporting fraud within the authority.
- 9.2 A dedicated fraud email address was launched for Council staff to easily report suspected fraud to the Chief Finance Officer and Internal Audit. Since launching, IA have noted greater communication from services throughout the

authority requesting advice on Counter Fraud communications and controls.

- 9.3 An internal communication was sent to all Council employees during International Fraud Awareness week in November 2023 to alert them to their responsibilities surrounding Fraud Awareness and reporting suspected instances of fraud.
- 9.4 A mandatory Counter Fraud & Ethics eLearning module was launched in December 2023 with which Internal Audit worked closely with the Council's Learning & Development team and provided content for the module. To date 1163 members of staff have completed the module, equating to 61% of the workforce.
- 9.5 The CMIA presented an information session on Fraud Awareness to managers at Corporate Workshop in November 2023. The session was well received and launched the new fraud intranet page and contacts, Counter Fraud & Ethics eLearning module.

10. Conclusion

- 10.1 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.
- 10.2 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.
- 10.3 The Council should arrange training for Managers within the authority on fraud awareness and counter-fraud internal controls to ensure that the Council's collective response to fraud is robust and effective. Internal Audit will also work with Management to assess and advise on counter-fraud internal controls.
- 10.4 IA will continue the Council-wide fraud risk assessment to obtain further assurance on counter fraud measures throughout the Council and plan IA work more effectively.