

‘Raising our Game’: tackling fraud in Wales

A national and local picture



The scale of fraud I



- The Crime Survey for England and Wales recognises fraud as one of the most prevalent crimes in society today.
- The Association of Certified Fraud Examiners (ACFE) estimates that organisations lose 5% of their annual revenues to fraud. Worldwide, this yields an annual economic loss of £60 trillion.
- Cabinet Office estimate an upper and lower range for likely losses in government spend between 0.5% and 5% of expenditure.
- Applying the Cabinet Office estimates to annual devolved expenditure in Wales of around £20 billion gives a possible estimated value of losses to fraud and error in the Welsh public sector of £100 million to £1 billion per annum.

The scale of fraud II



- Some public sector leaders are sceptical about the levels of fraud within their organisations.
- They put little resource into counter-fraud arrangements and assign a low priority to investigating cases of potential fraud identified to them by the National Fraud Initiative.
- Their stance runs contrary to all the research being done by recognised leaders in the field such as CIPFA and the UK Government.
- Such scepticism is not based on any significant local counter-fraud work or fraud risk assessments.
- Fraudsters appear the very instant that an opportunity presents itself. Fifteen individuals have to date been jailed for fraud in the light of the Grenfell fire tragedy. Scammers were quickly on the scene whilst the flooding in South Wales was ruining the homes and lives of local people. There has been an explosion in fraudulent activity, and especially in cyber-crime, during the current Covid-19 pandemic.

Counter fraud Phase I Study



- Our Phase 1 report (June 2019) provided an overview of the counter-fraud landscape across the Welsh public sector.
- The report does not examine the scope or effectiveness of arrangements at a local level. But:
 - the losses caused by fraud in the public sector are significant. In a time of austerity, every pound lost to fraud is a pound that could be spent on public services;
 - fraud in all its forms is constantly evolving, so counter-fraud measures need to keep pace with the fraudsters; and
 - resources devoted to counter-fraud activity vary widely across the public sector in Wales. We believe there is scope for greater collaboration and cross-agency working to combat the fraudsters.

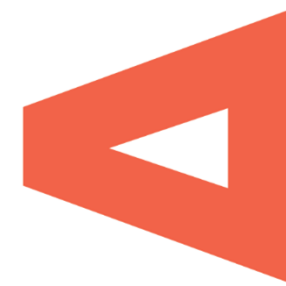
Phase II study



We asked the following questions at 40 audited bodies in Wales:

- Does the top tier demonstrate a commitment to counter-fraud and provide the necessary leadership to fight fraud?
- Does the organisation have a suitable structure and sufficient skilled resources to prevent and detect fraud?
- Does the organisation have a sound policy framework to support effective counter-fraud arrangements?
- Does the organisation have an effective fraud risk assessment together with appropriate responses to emerging issues?
- Does the organisation's internal control environment support effective arrangements for preventing and detecting fraud?
- Does the organisation have an appropriate response to fraud?
- Does the organisation have proper reporting and scrutiny in place to ensure its counter-fraud culture and framework is operating effectively?

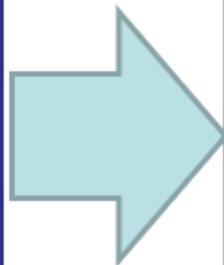
Key national findings



We have identified a number of improvement opportunities to:

- strengthen strategic leadership, co-ordination and oversight for counter-fraud across the Welsh public sector;
- increase counter-fraud capacity and capabilities, especially across local government, and exploring the potential for sharing resources and expertise across public bodies;
- get the right balance between proactive and reactive counter-fraud activities;
- improve awareness-raising and staff training in counter-fraud; and
- better evaluate fraud risks and sharing of fraud information, both within and across sectors.

Phase I overview of sector: Local Government



- Austerity measures have led to a reduced internal capacity to investigate fraud.
- In 2014 most of the skilled fraud investigators within HB teams transferred to the Single Fraud Investigation Service and were not replaced
- Most councils no longer have a dedicated council-wide counter-fraud team or resource
- Internal Audit has filled the gap in many cases – however many teams have not received training.
- In councils where internal audit undertake the investigations, increases in volume often means they do not deliver other programmed work on time due to limited resources.
- Our 2018 National Fraud Initiative (NFI) report found considerable variation in the level of commitment being shown by Councils

Phase I overview of sector: Local Government



- Individual councils are responsible for developing their own counter-fraud policies and culture.
- Councils tend to focus more on investigations rather than prevention due to a lack of resources and competing priorities.
- There are some informal local networks in regions e.g. North Wales Chief Auditors, South Wales creditors group which act as an additional forum to discuss counter-fraud issues
- The Welsh Chief Auditors group meets twice a year but counter-fraud is not a standing agenda item for this forum.
- Councils recognise the benefit of collaboration, but barriers of time, cost and data sharing sensitivities, are some of the reasons preventing this from happening

Phase I overview of sector: Local Government

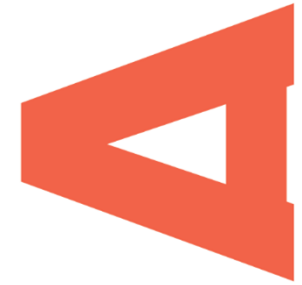


- Councils typically provide information to their respective Audit Committees on cases of identified fraud and investigations.
- This information varies in terms of format and frequency
- The level of scrutiny of the CF function varies between Councils



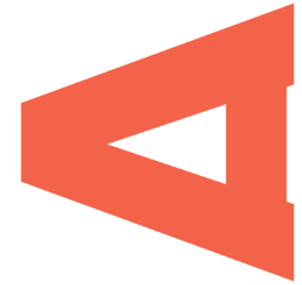
- Aggregate information on identified losses and types and incidence of fraud, sanctions and recoveries is not currently collected across the councils.
- Information about fraud cases is not formally shared between councils to raise awareness and strengthen counter-fraud controls.

Key national findings: Local Government



- Across local authorities there is an absence of sector-wide strategic leadership, guidance, co-ordination and oversight of counter-fraud.
- Within the individual authorities we found statements espousing a zero tolerance of fraud in policies and strategic documents but there is much more that can be done to re-enforce the tone from the top at a practical level.
- Many local authorities have invested so little in counter-fraud arrangements that they have only a few of the key components in place.
- Many local authorities have not prepared a fraud risk assessment for several years.
- Lack of capacity remains a challenge as reported in phase I.
- A small number of authorities have retained experienced and skilled counter-fraud staff, but the workload has mostly fallen on Internal Audit teams.
- Counter-fraud arrangements are generally more advanced in the local authorities that retained a dedicated and specialist counter-fraud resource.
- Where Internal Audit teams carry out the counter-fraud work we found a trade-off between counter-fraud work and the general programme of assurance work due to limited resources and competing priorities.

Key national findings: Local Government



- Pooling and sharing resources needs to be considered as a solution.
- Other than NFI, only a few examples found of data analytics being used as a means of preventing fraud.
- Within some local authorities, several teams play a role in counter-fraud work; for example, Internal Audit, Council Tax, and Human Resources teams all contribute. Whilst helpful in terms of adding capacity, this can result in a lack of coordination and integration between these teams and a lack of clarity in the overall picture of counter-fraud activity.
- Some local authorities did not have a fraud response plan that was communicated to all staff and which made it clear that all allegations of fraud would be investigated.
- There were very few examples of local authorities working frequently across internal and external boundaries and sharing information. Common reasons for this lack of collaboration was lack of time and resources, and concerns about the sharing of data.
- Fewer than half the authorities report information about fraud cases, losses and recoveries to their audit committees on a regular basis
- Audit committees outside of the NHS Wales have not been sufficiently proactive in recognising the increasing risk of fraud and in asking the searching questions necessary about the matching of resources to risk or about the lack of information being supplied about fraud risk.

Key local findings



- Following the local work we did we wrote to the Council in February 2020 identifying some gaps in MTCBC's counter-fraud arrangements. These were:
 - A need to update the anti-fraud and corruption policy
 - CMT to consider ways it can strengthen its approach to promoting the importance of a good anti-fraud culture
 - The Council to consider ways it can do more proactive counter-fraud work
 - Undertake a comprehensive fraud risk assessment to be discussed with CMT and Audit Committee
 - Develop a Fraud Response Plan and communicate it to all staff
 - Consider ways to provide an appropriate level of fraud related information to Audit Committee, and how Audit Committee can take a proactive role in promoting counter-fraud matters and have more oversight of counter-fraud arrangements