

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Governance and Audit Committee
Date:	20 July 2021
Subject:	Annual Counter Fraud, Bribery and Corruption Report 2020-21
Head of Service:	Marc Jones, Director of Function (Resources) and Section 151 Officer 01248 752601 MarcJones@ynysmon.gov.uk
Report Author:	Marion Pryor, Head of Audit and Risk 01248 752611 MarionPryor@ynysmon.gov.uk
Nature and Reason for Reporting: The Public Sector Internal Audit Standards require internal audit to evaluate the potential for fraud occurring and how the organisation manages fraud risk (Standard 2120).	

1. Introduction

- 1.1. This report presents the activity carried out during 2020-21 to minimise the risk of fraud, bribery and corruption occurring within and against the Council.
- 1.2. This supports the requirements of the Public Sector Internal Audit Standards, 2018 (PSIAS), which require internal audit to evaluate the potential for fraud occurring and how the organisation manages fraud risk (Standard 2120).
- 1.3. In addition, the Accounts and Audit (Wales) Regulations 2014 state that the Council's responsible financial officer (Section 151 Officer) must ensure that its accounting control systems include measures to enable the prevention and detection of inaccuracies and fraud.
- 1.4. The report highlights some of the current and emerging areas of fraud risk, including those related to the Covid-19 pandemic, and provides a conclusion on the effectiveness of the Council's arrangements to minimise the risk of fraud.

2. Recommendation

- 2.1. That the Committee considers and comments on the activity carried out during 2020-21 to minimise the risk of fraud, bribery and corruption occurring within and against the Council.



ANNUAL COUNTER FRAUD, BRIBERY & CORRUPTION REPORT 2020-21

Marion Pryor BA MA CMIIA CPFA

July 2021

Head of Audit & Risk

MarionPryor@YnysMon.gov.uk

01248 752611



TABLE OF CONTENTS

INTRODUCTION	3
WHAT IS FRAUD?	4
WHY IS COUNTERING FRAUD IMPORTANT?	5
CURRENT CONTEXT	6
Wales-wide arrangements for counter fraud	6
CURRENT AND EMERGING FRAUD RISKS	7
ASSESSMENT OF COUNTER FRAUD ARRANGEMENTS AT ISLE OF ANGLESEY COUNTY COUNCIL	8
Acknowledge responsibility	8
Identification of fraud and corruption risks	8
Counter fraud and corruption strategy	9
Provision of resources	9
Take action	10
FRAUD ATTEMPTED AGAINST THE COUNCIL DURING 2020-21	12
CONCLUSION	13
CHALLENGES AND OPPORTUNITIES GOING FORWARDS	14
APPENDIX 1 - DOCUMENTS REVIEWED	15

INTRODUCTION

This report presents the activity carried out during 2020-21 to minimise the risk of fraud, bribery and corruption occurring within and against the Council.

This supports the requirements of the Public Sector Internal Audit Standards, 2018 (PSIAS), which require internal audit to evaluate the potential for fraud occurring and how the organisation manages fraud risk (Standard 2120).

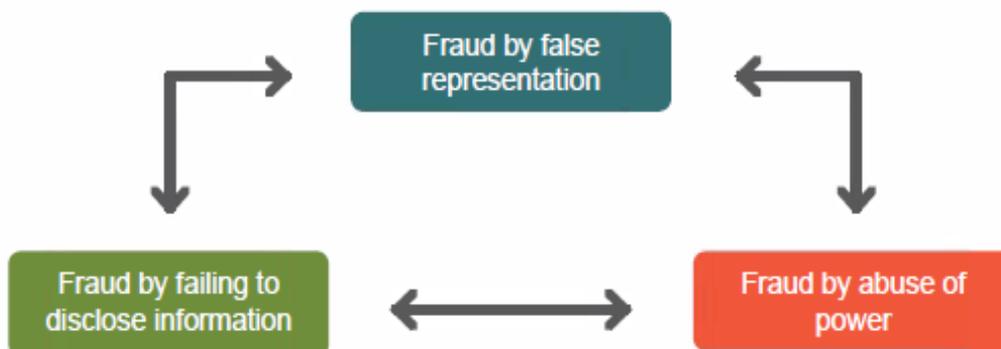
In addition, the Accounts and Audit (Wales) Regulations 2014 state that the Council's responsible financial officer (Section 151 Officer) must ensure that its accounting control systems include measures to enable the prevention and detection of inaccuracies and fraud.

The report highlights some of the current and emerging areas of fraud risk, including those related to the Covid-19 pandemic, and provides a conclusion on the effectiveness of the Council's arrangements to minimise the risk of fraud.

WHAT IS FRAUD?

The term 'fraud' typically describes activities such as theft, corruption, money laundering, conspiracy, bribery and extortion. Before enacted within law, it was generally accepted that fraud was a broad legal concept that generally referred to an intentional act committed to secure an unfair or unlawful gain and was covered within a variety of other criminal legislation, such as the Theft Act 1968.

However, since then, in the UK, fraud has become a criminal offence in its own right; the Fraud Act 2006 sets out three ways in which the crime can be committed:



The following definition is advocated by the CIPFA Counter Fraud Centre:

Fraud is an acquisitive crime that involves stealing (theft) by means of some form of deception or misrepresentation.

WHY IS COUNTERING FRAUD IMPORTANT?

Fraud continues to pose a major financial threat for councils, with no sign of slowing down. It can affect its reputation and divert funding from vital public services, undermining public trust, financial sustainability and organisational efficiency. In addition, fraud, money laundering and terrorist financing, as well as bribery and corruption have grown enormously to become a global blight that challenges national governments and private industry alike.

CIPFA, in its latest National Fraud and Corruption Tracker (2020) report recognises that each pound lost to fraud represents a loss to the public purse and reduces the ability of the public sector to provide services to people who need them. It quotes the Annual Fraud Indicator 2017, which provides the last set of government sanctioned estimates, and states that fraud costs the public sector at least £40.3bn annually, with £7.3bn of this total being lost in local government.

Successful counter fraud activity is about much more than just saving money. These illegitimate activities can undermine public trust - and the social licence that is essential for organisations to operate effectively. When councils take effective counter fraud measures they rebuild this public trust, and ensure that scarce funds are used effectively.

In Wales, the Auditor General's recent report (2019) highlighted that Welsh public services could be losing anything up to £1 billion a year to fraud. At a time of austerity, it is more important than ever for all public bodies in Wales to seek to minimise the risks of losses through fraud.

CIPFA argues that

“leaders of public services organisations have a responsibility to embed effective standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management”.

CURRENT CONTEXT

Wales-wide arrangements for counter fraud

Following the transfer of fraud investigators from Local Government to the Department for Works and Pensions in 2014, most councils in Wales, including the Isle of Anglesey County Council, no longer have a dedicated council-wide counter-fraud resource, and instead, Internal Audit has been designated the counter-fraud role in the Council.

A recent review of counter-fraud arrangements across the public sector by the Auditor General reported that:

- The resources devoted to counter-fraud activity vary widely across the public sector in Wales
- NHS Wales invests extensively in both national and local counter-fraud activity
- Welsh Government activity prioritises investigation, rather than prevention
- across local government in Wales, counter-fraud resourcing arrangements differ markedly from council to council and there is no all-Wales team responsible for local government counter-fraud activities or any overarching strategy or policy framework.

Currently, there is no overarching group or professional network that specifically promotes counter-fraud in local government. To fill this gap, in north Wales, a sub-group of the North and Mid Wales Audit Partnership has recently been formed to share and drive good practice in relation to counter fraud.

CURRENT AND EMERGING FRAUD RISKS

UK Councils reported that approximately 47,000 instances of fraud had been detected or prevented in 2019-20. Council tax fraud represents almost two-thirds (65%) of these identified instances of fraud with an estimated value of £35.9m, followed by disabled parking concession (Blue Badge Scheme) and housing fraud which represent 17% and 11% of the total cases of UK estimated public sector fraud, respectively.

The impact of grant fraud (prior to the Covid-19 grant disbursement), represents 0.3% of the total identified instances of UK public sector fraud and 15% of the total value (£36.6m).

The largest growing fraud area in the UK is housing tenancy, with an estimated £60.1m lost in 2019-20 compared to £47.7m in 2018-19. The Head of Housing Services has assessed that, generally, tenancy fraud is low in Anglesey. However, an awareness raising article was included within a newsletter circulated to all tenants informing them of what to do if they suspected anything in a neighbouring property and the Service's Housing Management Officers have undertaken tenancy fraud training.

Council tax single person discount (SPD) is the next largest growing fraud area in the UK, which has an estimated increase of £9.6m to an estimated value of £29.0m for cases detected/prevented in 2018-19. The Council uses an external company to review and validate its SPD claims on a periodic basis to identify claims at risk of fraud and error. The last exercise in August 2018 identified £340,347 of errors, with an error rate of 4.3%.

The two highest perceived fraud risk areas for 2019-20 are the same as last year: procurement and council tax SPD. This shows these are the areas that require strict controls and support. 'Fraud by abuse of power' is one of three ways the Fraud Act 2006 says fraud can be committed. This is relevant to officers who authorise, manage, and monitor contracts with the private sector. The Council accepts this is an area that needs to be strengthened across the Council, and we do not have a consistent system or approach. We will therefore be undertaking a review of the Council's vulnerability to procurement fraud during 2021-22.

The perceived third, fourth and fifth highest fraud risk areas in the UK are business rates, adult social care and council tax reduction (CTR) respectively.

ASSESSMENT OF COUNTER FRAUD ARRANGEMENTS AT ISLE OF ANGLESEY COUNTY COUNCIL

CIPFA endorses a common set of principles across the public services to improve counter fraud practice, set out in its Code of Practice on Managing the Risk of Fraud and Corruption (2014). Using this code as a benchmark, an assessment against the five principles was carried out and a high-level summary of the results appears below.

Acknowledge responsibility

The first principle of the Code advocates that the governing body should acknowledge its responsibility for ensuring that the risks associated with fraud and corruption are managed effectively across all parts of the organisation.

Specifically, the Senior Leadership Team (SLT) has acknowledged the threats of fraud and corruption and the harm they can cause to the organisation, its aims and objectives and to its service users by the inclusion of fraud in its corporate risk register:

- YM46: Risk of fraud against the Council

The documents expected in a council's counter fraud response are available on the Council's intranet, although they have not been specifically promoted within the organisation.

A comprehensive programme of policy refreshment, counter fraud awareness raising and an eLearning package will be delivered as part of the Counter Fraud Strategy for 2021-22.

Identification of fraud and corruption risks

The second principle advocates fraud risk identification as essential to understanding specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users.

The Code supports the consideration of fraud and corruption risks as business risks and for them to be managed as part of the organisation's risk management process.

The Council has a mature risk management process, and fraud risk has been formally considered and assessed as part of the corporate risk management process, culminating in YM46 on the corporate risk register, as discussed above.

This has helped the Council to formalise its fraud response. This also helps to ensure the Council's response to risks is proportionate, and to avoid 'over the top' or lax reactions to risk.

A counter fraud working group will be developed during 2021-22 to help identify fraud risk across the Council.

Counter fraud and corruption strategy

The third principle advocates that organisations need a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action.

The Council has a Policy for the Prevention of Fraud and Corruption, which is reviewed and approved annually as part of the Constitution.

However, it does not have a strategy. A clearly defined strategy, approved at the highest level and focused on outcomes, will help to ensure that the risk of fraud and corruption is taken seriously in the Council.

Following the setting up of a counter fraud working group to identify fraud risk across the Council, a counter fraud, corruption and bribery strategy will be developed to address these risks and will be submitted to the December 2021 meeting of the Governance and Audit Committee.

Provision of resources

The fourth principle advocates that organisations should make arrangements for appropriate resources to support the counter fraud strategy.

In the past, there has been a lack of investment and the application of resources within the Council towards counter fraud arrangements. However, more recently, a commitment to minimise the risk of fraud and corruption is clearly demonstrated by the addition of a resource within Internal Audit and Risk Management to undertake work on the National Fraud Initiative

data matching exercise. Although it will not be a dedicated counter fraud professional, it will allow high-risk matches to be explored.

Take action

The final principle advocates that organisations put in place the policies and procedures to support the counter fraud and corruption strategy and take action to prevent, detect and investigate fraud. It establishes that the ability to take action will be dependent upon the size and nature of an organisation and the size of its counter fraud capacity. Irrespective of the size of activities of an organisation, however, the organisation needs to take appropriate action and report on that action to its governing body.

A framework of policies exists, as recommended by the guidance, and policy acceptance software tracks staff's acceptance and understanding of the policies. The following policies were pushed out to staff for them to confirm their knowledge and understanding:

Officers' Code of Conduct and Local Guidance

Date From	As at	Compliance Rate	Current Status
08/04/2019	17/07/2019	94% (917 of 971)	Archived 12/03/2021
15/03/2021	27/04/2021	85% (819 of 961)	Live
	22/06/2021	905	

Whistleblowing Policy and Guidance

Start Date	As at	Compliance Rate	Current Status
03/06/2019	16/07/2019	89% (855 of 960)	
	21/05/2021	979	Archived 21/05/2021
24/05/2021	22/06/2021	679 - 6-week compliance period closes on 05/07/2021	Live

Compliance reports based on the initial six weeks are considered by SLT but the policies are still available for acceptance in the system. This allows staff who have not completed a policy on time, for whatever reason, to catch up. This also ensures that the core set of policies are assigned within 24 hours to any new staff added to Active Directory service groups.

The latest compliance data for both policies will be included in the report scheduled to go to the Governance and Audit Committee on 20 September 2021.

The best way to fight fraud is to share knowledge and raise awareness. Therefore, the Council held three fraud awareness raising events during 2020-21:

- Fraud Prevention Training session - 30 members of staff attended
- 'Fraud and Scams - How to Stay Safe' - two sessions held with 31 and 33 members of staff attending respectively

These included a review of the most common types of cyber enabled fraud along with providing plenty of practical advice including:

- Top threats - Email Scams and Invoice Redirection
- The role of social engineering in most common fraud types
- Financial Malware and Phishing
- Smishing and Vishing
- Hints and tips on how to stay safe online

The Chief Executive also issued a general email to all staff in April 2020 to remind staff of the 'Do and Don't' of cybercrime.

Internal Audit has shared National Anti-Fraud Network alerts to the relevant parts of the organisation regularly throughout the year.

All fraud occurrences reported to Internal Audit, including outcomes and lessons to be learned, are reported to the Governance and Audit Committee and the Senior Leadership Team.

FRAUD ATTEMPTED AGAINST THE COUNCIL DURING 2020-21

2020-21 was a year of unprecedented challenges, as the Covid-19 pandemic dramatically transformed our everyday lives and lockdown restrictions significantly impacted on the economy.

During 2020-21, two 'malicious redirection' frauds, also known as mandate frauds (when someone impersonates a third party such as a supplier) were reported to Internal Audit. The first involved a supplier's email system being hacked. The Council received an apparently genuine request from the supplier, via email, for its bank details to be changed. The Council changed the bank details and paid two invoices using the fraudulent bank details. Fortunately, the recipient bank's fraud team identified the account as fraudulent and notified the Council's bank, and the majority of the payment was successfully seized.

The bank provided two counter fraud training sessions for Council staff to raise awareness of fraud and what to look out for, particularly during the emergency, in their personal lives and at work. This training was timely as shortly afterwards a Payroll Officer received an email from a member of staff asking for their bank account details to be changed. Having been alerted to this type of fraud, the Payroll Officer queried the request and it was discovered that the email address had been 'spoofed', thus averting the fraud.

As a result of these attempted frauds, Internal Audit undertook two audits of the Creditors section - Supplier Maintenance, and the Identification and Recovery of Duplicate Payments. Both were issued with Limited Assurance and Issues/Risks were raised for management to address. Action plans have been developed and a project is in place to address the Issues/Risks raised.

The Grants Team also detected and stopped a number of attempted fraudulent Covid-19 business grant applications before payment. There is currently no system for services to report potential frauds that have been identified and stopped. The Counter Fraud Working Group will address this issue during 2021-22.

CONCLUSION

Some level of public sector fraud is likely, even in normal times, but 2020-21 was a year of unprecedented challenges, as the Covid-19 pandemic dramatically transformed the work of the Council, the lives of its staff and lockdown restrictions significantly impacted on the economy.

The planned work to improve the Council's counter fraud arrangements were put on hold while the team supported the Council's response to the pandemic. However, the redeployment of one member of the Internal Audit team to the team distributing Covid-19 business grants helped to ensure a rigorous and robust challenge to the payment of these critical grants, an area particularly vulnerable to fraud during crises because of the volume of money involved and the speed with which it needed to be distributed.

The Council itself was the victim of mandate fraud, but the swift intervention of the bank reduced the financial loss suffered by the Council. Fraud awareness raising events successfully averted a second attempt.

As managers of public resources, every public sector organisation has a responsibility to fight fraud and corruption. Successful organisational efforts to prevent, identify and manage various types of fraud not only strengthens the state of public finances, but also mitigates moral and reputational risks across the public sector.

The effective management of fraud and corruption risks is a critical part of an effective, modern council, one that manages its resources efficiently to secure value for money outcomes.

CHALLENGES AND OPPORTUNITIES GOING FORWARDS

Nationally, capacity, or sufficient counter fraud resource, is the main perceived issue that needs to be addressed to tackle the risk of fraud and corruption effectively.

Huge increases in the number of people working remotely presents an opportunity for criminals to commit fraud, whether this involves offers of help to fix devices so that they can gain access to the Council network, or by impersonation or hacking to maliciously redirect payments.

The government, law enforcement, security agencies, regulators and the private sector are continuing to work together to protect the public and businesses from all types of fraud. Fraud is incredibly hard to predict and while they are monitoring crime trends carefully, the most important thing is to get the message out to staff and to the general public to be aware, and to be alert.

Therefore, a comprehensive programme of counter fraud awareness raising, via eLearning and the refreshing of policies will be the cornerstone of the fraud prevention strategy for 2021-22.

There is also a clear need for a tough stance supported by elected members, chief executives and those charged with governance. Having robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation will be critical.

Finally, the behaviours and actions of individuals play a crucial role in tackling fraud risks. We must all, staff and members alike, play our part in creating a culture hostile to the risks of fraud and corruption, clearly setting out the line between acceptable and unacceptable behaviour within the Council.

APPENDIX 1 – DOCUMENTS REVIEWED

- The Public Sector Internal Audit Standards, March 2017
- The Accounts and Audit (Wales) Regulations 2014
- Fraud - The Facts 2021, UK Finance
- CIPFA Fraud and corruption tracker, National Report 2020 (February 2021)
- Fighting Fraud and Corruption Locally, A Strategy for the 2020s
- Review into the risks of fraud and corruption in local government procurement, Ministry of Housing, Communities and Local Government, June 2020
- 'Raising Our Game' Tackling Fraud in Wales, Report of the Auditor General for Wales, July 2020
- Counter-Fraud Arrangements in the Welsh Public Sector, An Overview for the Public Accounts Committee, Auditor General for Wales, June 2019