ISLE OF ANGLESEY COUNTY COUNCIL	
Adroddiad i: **Report to:**	Governance and Audit Committee
Dyddiad: **Date:**	09 December 2021
Pwnc: **Subject:**	Counter Fraud, Bribery and Corruption Strategy 2021-24
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Natur a Rheswm dros Adrodd / Nature and Reason for Reporting: The Governance and Audit Committee has oversight responsibility for the Council's arrangements for preventing, detecting, investigating and prosecuting fraud and corruption.	

1. INTRODUCTION

1.1 This report presents the activity that Internal Audit will carry out during 2021-24 to minimise the risk of fraud, bribery and corruption occurring within and against the Council.

2. RECOMMENDATION

2.1 That the Governance and Audit Committee reviews and notes Internal Audit's strategy for countering fraud, bribery and corruption for 2021-24.
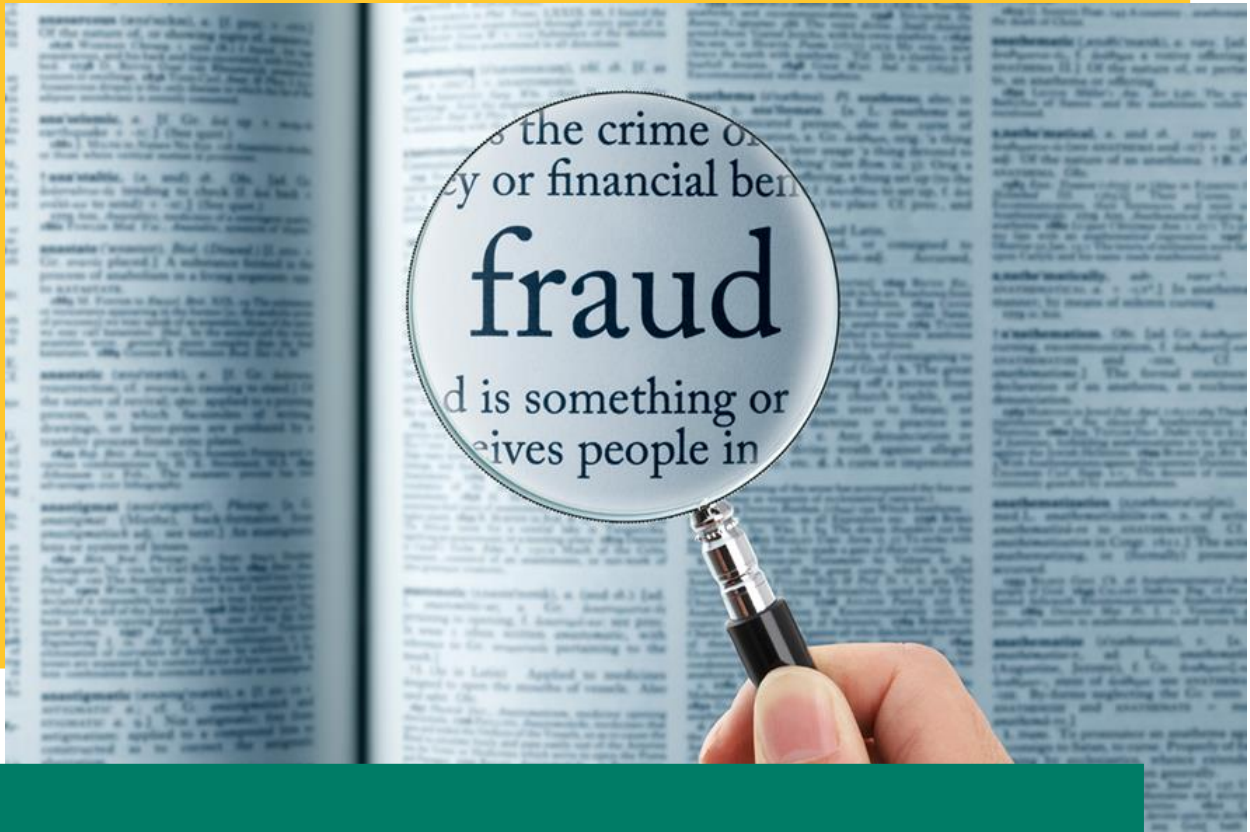
COUNTER FRAUD, BRIBERY AND CORRUPTION STRATEGY 2021-24

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INTRODUCTION

This report presents the activity that Internal Audit will carry out during 2021-24 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.

Minimising fraud and irregularity is vital in ensuring resources, intended to provide essential services to the residents and businesses of the Isle of Anglesey, are used for that purpose. Fraud committed against the Council is a theft of taxpayers' money, can cause reputational damage for the Council, a loss of confidence amongst the public or stakeholders, and have an adverse effect on staff morale. Through effective counter-fraud measures, the Council can reduce the risk of error, loss and fraud.
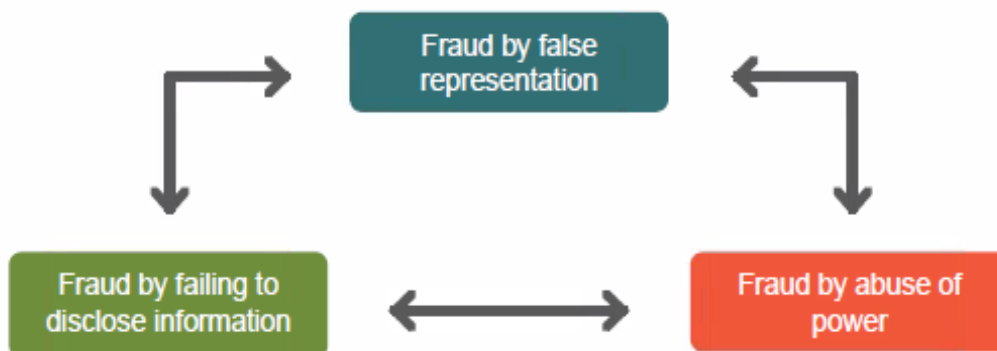
Fraudsters are constantly revising and sharpening their techniques and local authorities need to do the same. There is a clear need for a tough stance supported by elected members, chief executives and those charged with governance. This includes tackling cross-boundary and organised fraud and corruption attempts, as well as addressing new risks such as social care fraud and cyber issues.

The purpose of this strategy is to ensure that the Isle of Anglesey County Council does all that it can to address this threat and minimise the risk of fraud and corruption occurring.

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:

Fraud by false representation

Fraud by failing to disclose information

Fraud by abuse of power

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 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 they use scarce funds effectively.

In Wales, the Auditor General's report (2019)[1] 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".

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[1] 'Counter-Fraud Arrangements in the Welsh Public Sector - An Overview for the Public Accounts Committee', Report of the Auditor General for Wales, June 2019

COUNTER FRAUD ARRANGEMENTS AND RESOURCING

UK arrangements for counter fraud

A number of bodies support and drive good counter fraud practice across the UK, including CIPFA's Counter Fraud Centre, the National Anti Fraud Network (NAFN)[2] and most notably, the National Fraud Initiative (NFI).

The government anti-fraud programme, run by the Cabinet Office, was set up in 1996 to protect public money and punish fraudsters. It reports that it has detected or prevented more than £2bn since it was set up 25 years ago. It identifies attempts to defraud the government and claims to have helped public bodies prevent nearly £850m of pension payments being made in error, £370m of housing benefit fraud and more than £300m of council tax fraud, and has led to 183,000 invalid disabled parking permits being pulled out of circulation.

Wales-wide arrangements for counter fraud

A recent review of counter-fraud arrangements across the Welsh public sector by the Auditor General reported that the resources devoted to counter-fraud activity vary widely across the public sector in Wales. 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.

Regional arrangements

In the absence of an overarching group or professional network that specifically promotes counter-fraud in local government in Wales, 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. At the time of writing, it has met three times and it is currently working to benchmark good practice with regards to the 15 recommendations made in the Auditor General's report from July 2020[3].

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[2] NAFN is a public sector organisation currently hosted by Tameside MBC. Membership is open to any organisation that has responsibility for managing public funds and/or assets. Currently, almost 90% of local authorities are members.
[3] 'Raising Our Game' Tackling Fraud in Wales - Report of the Auditor General for Wales, July 2020

Arrangements in the Council

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.

The CIPFA Code 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.

We have recently recruited a Senior Auditor who is a qualified Accredited Counter Fraud Technician. We will be using their skills to drive forward counter fraud activity within the Council.

CURRENT AND EMERGING FRAUD RISKS AND OPERATIONAL OBJECTIVES

The volume of alleged fraud cases heard in UK Courts nearly doubled to 151 cases in 2021 compared to 76 in the same period in 2020, with the total value of monies lost to fraud dropping to just under £140 million in 2021, compared to just under £460 million in the same time in 2020[4].

Professional criminals targeted the public amid COVID-19 disruption to the tune of £37m, which increased from £20.5m in the same period in 2020.

Housing Fraud

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. Tenancy fraud includes illegal subletting, wrongful succession, lying about tenancy agreements or housing applications and failures to disclose changed circumstances, and costs the taxpayer thousands of pounds each year.

With an already huge demand for social housing, properties should not be left empty because the tenant has moved in with a partner, is living somewhere else, or is making money by illegally subletting their council property. Tenancy fraud denies people on the Council's waiting list a decent home.

Although the Head of Housing Services has assessed that, generally, tenancy fraud is low in Anglesey, we will work with the NFI to identify:

- where an individual appears to be resident at two different addresses suggesting possible cases of subletting or dual tenancies
- cases where a housing tenant has died, but the Council may not have been notified so has not removed them from the tenancy
- where an individual appears to have registered on the waiting list using a different address to the one on the housing rents system, suggesting possible undisclosed changes in circumstances or that false information has been provided.

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[4] KPMG UK Fraud Barometer, published August 2021, covering the period January to June 2021

Council Tax Single Person Discount

Council tax single person discount (SPD) is the second largest growing fraud area in the UK and represents almost two-thirds (65%) of the identified instances of fraud, with an estimated value of £35.9m in 2019-20 (£29.0m 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 2021 screened 11,200 accounts, targeted 2,245 accounts and identified 484 errors, with an error rate of 4.3%. The estimated revenue generated from this review is £152,090.

Disabled Parking Concession

Disabled parking concession (Blue Badge Scheme) represents 17% of the total cases of UK estimated public sector fraud. We work with the NFI to identify cases where a permit holder has died but the Council may not have been notified. In these cases, we have worked with Cyswllt Môn to cancel the permit and update the system to ensure the pass is not renewed.

However, some local authorities also take additional steps to prevent fraudulent abuse, such as taking steps to recover the permit, referring the information to parking attendants to check the permits are not being used to avoid parking fees, and some authorities use the intelligence to recover social services equipment that was on loan to the deceased individual.

We will work with Cyswllt Môn to bolster our counter fraud activities in this area.

Grant fraud

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

The COVID-19 pandemic led to the government quickly implementing expansive stimulus packages to support individuals and businesses through this period. Previous experience of natural events and worldwide disasters showed that criminals would take advantage in such situations and that some of the support might go to the wrong places. Organised crime groups were committing business grant fraud nationwide; corporate impersonation, opportunistic claims and false registration for empty properties was widespread.

The risk of irregular payments was therefore high in the emergency. It can often be difficult to put in robust controls because of the pace of operation. However, the Grants Team implemented low friction up front controls, which we supplemented by distributing NAFN intelligence and providing a member of the Internal Audit Team to assist with undertaking checks prior to payment.

We will also undertake robust post-event assurance activity. We will work with the NFI to identify those claiming multiple grants, those fraudulently in receipt of Small Business Rate Relief within and between authorities, and those claiming both Small Business Grant Fund and Retail Hospitality Leisure Grants, which are mutually exclusive within and between authorities.

Procurement

Procurement was one of the highest perceived fraud risk areas in 2019-20 and has been for two years running. In the UK courts, procurement fraud increased 400% by volume (from three cases in 2020 to 15 in 2021) and by value to £9.5m from £2.6m compared to 2020.

This area therefore requires 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, and that we do not have a consistent system or approach at present.

We are therefore currently undertaking a review of the Council's vulnerability to procurement fraud and will report early in 2022.

Purchase to pay

Invoice and mandate scams were only the sixth most common type of 'Authorised Push Payment' scams in 2020, however they accounted for 17% of all losses, totalling £81.9m. The majority of losses by value, some £52.5m, were from non-personal or business accounts, where the average fraudulent payment was £18,871.[5]

We will continue to work with the Creditors Team to identify and prevent error and fraud, including through the use of data analytics.

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[5] Fraud – The Facts 2021, UK Finance

STRATEGIC OBJECTIVES

When writing our Annual Report, we considered CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption (2014)[6] (the CIPFA Code), which sets out best practice for counter fraud work in local government, based on five principles. However, a more recent publication, also endorsed by CIPFA, is the 'Fighting Fraud and Corruption Locally Strategy for the 2020s'[7] (FFCL), which is the overarching counter fraud and corruption strategy for local government in England, and provides a blueprint for a tougher response to fraud and corruption perpetrated against local authorities. In the absence of a Wales-specific strategy, we have used this to underpin our strategic focus.

Similar to the CIPFA Code, the FFCL strategy focuses on five pillars of activity, or strategic objectives, and helps us to set out where the Council needs to concentrate its counter-fraud efforts. These are:

Govern

The foundation of the Strategy is that *'those charged with governance'* support the activity by ensuring that there are robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the Council. Beating fraud is everyone's business, and the Council needs robust internal arrangements, which are communicated throughout the Council to demonstrate the culture and commitment to preventing fraud.	**GOVERN** Having robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation.

Objectives:

The Council has a robust framework of procedures and policies, which combine to act as an effective deterrent to fraudulent activity and provide the means for reporting or detecting fraud or corruption. Additionally, having a corporate counter fraud framework, which provides a whole range of high-level parts, will contribute to the Council having an effective counter-fraud strategy. We will therefore undertake a comprehensive programme of policy refreshment and counter fraud awareness raising. An eLearning package will also be delivered as part of this strategy.

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[6] https://www.cipfa.org/services/networks/better-governance-forum/counter-fraud-documentation/code-of-practice-on-managing-the-risk-of-fraud-and-corruption
[7] https://www.cipfa.org/services/cipfa-solutions/fraud-and-corruption/fighting-fraud-and-corruption-locally

Acknowledge

To create a counter-fraud response, the Council must acknowledge and understand fraud risks and then demonstrate this by committing the right support and appropriate resource for tackling fraud.

The Senior Leadership Team (SLT) has acknowledged the threats of fraud and corruption and the harm they can cause to the Council, its aims and objectives and to its service users by mandating the inclusion of fraud in every service risk register.

We submit an annual report to the Governance and Audit Committee to enable it to challenge activity and understand the Council's counter fraud activity.

ACKNOWLEDGE

Assessing and understanding fraud risks.

Committing the right support and tackling fraud and corruption.

Demonstrating that it has a robust anti-fraud response.

Communicating the risks to those charged with Governance.

Objectives:

We will, in conjunction with services, develop three key work streams which will:

- seek to identify fraud risks across the Council
- assess fraud control activities and their effectiveness, and
- dedicate the right level of resource to investigating and detecting fraud where reported

A counter fraud working group will be developed during 2021-22 to help identify fraud risk across the Council. We will work with the group to develop a fraud risk assessment to identify the possible frauds to which services may be exposed. The assessment will estimate both the potential impact of a given fraud and the likelihood of it occurring.

The results of the assessments will enable the Council to understand better the fraud-threat environment in which it operates. The assessments will also be used as a tool to assist in focusing resources on the most relevant fraud risks.

Reactive referrals are often the primary source of work for the Internal Audit Team. It is often the alertness of the public or employees that generate these referrals and enables detection to occur. We will explore the provision of a fraud-reporting tool for staff and public to report concerns.

Prevent

The Council can prevent and detect by enhancing fraud controls and processes, making better use of information and technology and developing a more effective anti-fraud culture.

The Council has a statutory responsibility under Section 151 of the Local Government Act 1972 to ensure that proper arrangements are made for the Council's financial affairs and aims to have sound financial systems and procedures, which incorporate efficient and effective internal controls.

PREVENT
Making the best use of information and technology.
Enhancing fraud controls and processes.
Developing a more effective anti-fraud culture.
Communicating its activity and successes.

Objectives:

We will participate in the annual and biennial NFI exercises, which use data provided by some 1,200 participating organisations from across the public and private sectors to prevent and detect fraud. The NFI matches electronic data within and between public and private sector bodies, which include police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies. The NFI data matching plays an important role in protecting the public purse against fraud risks.

We will promote an anti-fraud culture across the Council by publicising the impact of fraud on the Council and the community, through social media.

We will continue to share National Anti-Fraud Network alerts to the relevant parts of the organisation regularly throughout the year.

The best way to prevent fraud is to share knowledge and raise awareness. Therefore, we will in conjunction with the Training and Development Team, hold regular fraud awareness raising events, including issuing newsletters, training sessions and briefings.

All fraud occurrences are required to be reported to Internal Audit. We will report investigation outcomes and lessons to be learned to the Governance and Audit Committee and the Senior Leadership Team.

Pursue

While preventing fraud and corruption from happening in the first place is the Council's primary aim, it is essential that a robust enforcement response is available to pursue fraudsters and deter others.

The Council will always seek the strongest possible sanction against any individual or organisation that defraud or attempt to defraud the Council.

A further element of the Council's response to tackling fraud is seeking financial redress. The recovery of defrauded monies is an integral part of the Strategy, and action will be taken to recover losses. Where criminality has been proven then the Proceeds of Crime Act 2002 will, where appropriate, be used to recover funds.

Other methods of recovery may include, but are not confined to, civil proceedings; unlawful profit orders and compensation orders.

PURSUE

Prioritising fraud recovery and use of civil sanctions.

Developing capability and capacity to punish offenders.

Collaborating across geographical and sectoral boundaries.

Learning lessons and closing the gaps.

Objectives:

We will continue collaborating across the north Wales region to drive forward improvements in counter fraud activity, including addressing the 15 recommendations made by the Auditor General in his July 2020 report.

We will also continue collaborating across national boundaries to collaborate with the North West Chief Audit Executive Counter Fraud Sub Group, to learn lessons, share good practice and close the gap.

Protecting itself and its residents

This theme lies across the pillars of this strategy and involves protecting the Council against serious and organised crime, protecting individuals from becoming victims of crime and protecting against the harm that fraud can do to the wider community. It also covers protecting public funds, protecting the Council from cyber-crime and protecting itself from future frauds.

The Council recognises that fraud is not a victimless crime and seeks to protect the vulnerable from the harm that fraud can cause in the community.

We have a duty to protect residents in our communities from fraud and we should work in collaboration with officers across the Council and partner agencies to prevent fraud and safeguard the vulnerable.

PROTECTING ITSELF AND ITS RESIDENTS

Having robust arrangements and executive support to ensure antifraud, bribery and corruption measures are embedded throughout the organisation.

Recognising the harm that fraud can cause in the community.

Objectives:

To ensure our counter fraud strategy aligns with the Council's safeguarding responsibilities to actively protect the most vulnerable in our communities, we will work closely with social care teams to develop joint approaches to identify best practice in countering risks relating to social care fraud.

CONCLUSION

As custodians 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.

Some level of public sector fraud is likely, even in normal times, but the past 21 months has yielded 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. This strategy establishes a robust way forward to ensure the Internal Audit Team is able to:

- adapt to emerging threats and issues, and address current and future fraud risks across the Council;
- assess, analyse and report on existing and future fraud risks affecting the Council, and;
- identify requirements for future counter fraud work.

Progress against the strategy and the activities required to achieve its objectives will be reported to the Governance and Audit Committee, and will be subject to continuous review.

There is 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 https://www.ukfinance.org.uk/policy-and-guidance/reports-publications/fraud-facts-2021

- CIPFA Fraud and corruption tracker, National Report 2020 (February 2021) https://www.cipfa.org/services/cipfa-solutions/fraud-and-corruption/fraud-and-corruption-tracker

- Fighting Fraud and Corruption Locally, A Strategy for the 2020s, https://www.cipfa.org/services/cipfa-solutions/fraud-and-corruption/fighting-fraud-and-corruption-locally

- Review into the risks of fraud and corruption in local government procurement, Ministry of Housing, Communities and Local Government, June 2020 https://www.local.gov.uk/review-risks-fraud-and-corruption-local-government-procurement

- 'Raising Our Game' Tackling Fraud in Wales, Report of the Auditor General for Wales, July 2020 https://www.audit.wales/publication/raising-our-game-tackling-fraud-wales

- Counter-Fraud Arrangements in the Welsh Public Sector, An Overview for the Public Accounts Committee, Auditor General for Wales, June 2019 https://www.audit.wales/publication/counter-fraud-arrangements-welsh-public-sector

- CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, 2014 https://www.cipfa.org/services/networks/better-governance-forum/counter-fraud-documentation/code-of-practice-on-managing-the-risk-of-fraud-and-corruption