

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Governance and Audit Committee
Date:	28 September 2022
Subject:	Annual Counter Fraud, Bribery and Corruption Report 2021-22
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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 2021-22 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 2021-22 to minimise the risk of fraud, bribery and corruption occurring within and against the Council.



ANNUAL COUNTER FRAUD, BRIBERY & CORRUPTION REPORT 2021-22

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INTRODUCTION

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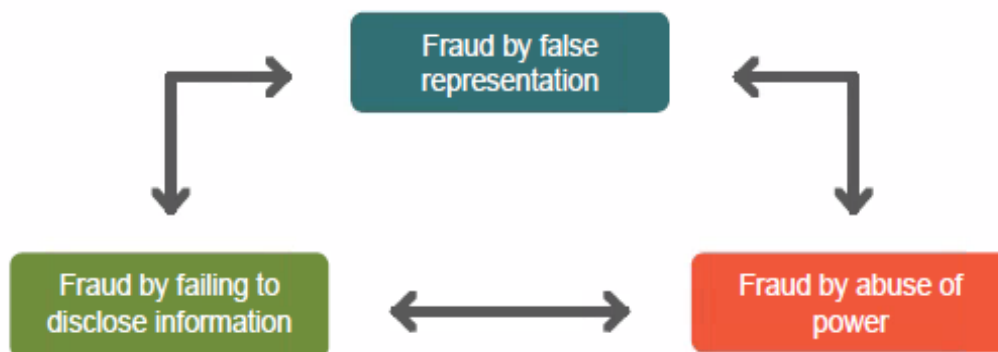
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WHAT IS FRAUD?

Fraud, bribery and corruption are all forms of behaviour that have elements of dishonesty or unlawful gain. Fraud can be defined as criminal conduct involving deliberate deception in order to receive unfair, unjustified or unlawful gain and 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 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 CIPFA Counter Fraud Centre advocates the following definition of fraud:

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

WHAT IS BRIBERY AND CORRUPTION?

The Bribery Act 2010 came into force in 2011. The Act reformed and consolidated existing bribery laws. It also simplified and expanded the range of offences for which individuals and organisations can be prosecuted.

Under the Act, offences include:

- Giving bribes either directly or through a third party
- Receiving bribes
- Bribery of a foreign public official
- Failure of a commercial organisation to prevent bribery (corporate offence)

The concept of bribery is broad and includes the offer, promise or giving of a financial or other advantage intended to induce or reward the improper performance of a public function or business activity. Special consideration is also given in the Act to certain areas of activity, including hospitality and gifts.

Corruption is the lack of integrity or honesty (which may involve bribery) or the abuse of position for dishonest gain. From a legal perspective, corruption is more difficult to define, as behaviours that are considered corrupt in some countries may be protected by a legal framework in others. This is particularly the case where bribery is involved.

For our purposes, we consider corruption to be either fraudulent behaviour or actions that involve bribery.

WHY IS COUNTERING FRAUD, BRIBERY AND CORRUPTION IMPORTANT?

Fraud can affect the public sectors' reputation and divert funding from vital public services, undermining public trust, financial sustainability and organisational efficiency. Fraud, bribery and corruption, as well as money laundering and terrorist financing, have grown enormously to become a global blight that challenges national governments and private industry alike.

CIPFA, in its most recent 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.

Successful counter fraud activity is about much more than just saving money. These illegitimate activities can undermine public trust. 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 report (2019) highlighted that Welsh public services could be losing anything up to £1 billion a year to fraud. At a time of increasing financial pressure, it is more important than ever for all public bodies in Wales to seek to minimise the risks of losses through fraud.

CIPFA advocates 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 review by the Auditor General in 2019 of counter-fraud arrangements across the public sector 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.

To fill the gap in the local government sector at strategic level, the North and Mid Wales Audit Partnership established a sub-group to share and drive good practice in relation to counter fraud. This group continues to meet quarterly and is collaborating to develop a baseline for counter-fraud arrangements across seven local authorities in north and mid-Wales.

CURRENT AND EMERGING FRAUD RISKS

When the pandemic hit everyone was forced online, and the same was true for criminals. According to the most recently published fraud trend figures from the National Fraud Intelligence Bureau (NFIB), in 2020-21, 80% of reported fraud was cyber-enabled.

With the war in Ukraine, record inflation rates and the cost of living crisis, other business-critical risks such as supply chain disruption, staff retention, and cyber threats, the opportunities for fraud have increased, and fraudsters will take advantage of the situation using increasingly sophisticated tools to commit crime.

The KPMG Fraud Barometer for 2021¹ indicates that insider threats may become more prevalent and is potentially linked to weaknesses in internal controls driven by the impact of COVID-19, as organisations continue to handle new ways of remote working. With widespread concern over the significantly increased cost of living, KPMG predicts that this will be an added driver of 'insider threat' fraud cases in 2022.

Local authorities continue to face a significant fraud challenge and while the sector's official figures are dated, the argument for protecting funds and vulnerable people remains. Council tax fraud represented almost two-thirds (65%) of identified instances of fraud with an estimated value of £35.9m, followed by disabled parking concessions and housing fraud, representing 17% and 11% of the total cases of UK estimated public sector fraud respectively in 2019-20.

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. Council tax single person discount (SPD) is the next largest growing fraud area, which has an estimated increase of £9.6m to an estimated value of £29.0m for cases detected/prevented in 2018-19.

More recently, Cifas² reports that attacks on local authorities continue with the abuse of COVID grants by individuals who are using companies which are insolvent, dissolved or simply do not exist; abuse of empty properties being used to apply for grants and companies supplying false documentation to obtain grants.

¹ KPMG Fraud Barometer 2021: A snapshot of fraud in the UK, February 2022

² Key Intelligence, Credit Industry Fraud Avoidance System (Cifas), January 2022

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.

The documents expected in a council's counter fraud response are available on the Council's intranet. 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 issued to staff for them to confirm their knowledge and understanding:

Policy	As at	Compliance Rate	Current Status
Officers' Code of Conduct and Local Guidance	20/09/2022	92% (997 of 1,078)	Live
Whistleblowing Policy and Guidance	20/09/2022	93% (998 of 1,078)	Live

However, although the Council's Code of Conduct provides guidance for declaring a potential conflict of interest, with additional advice in the Local Guidance on the Officers Code of Conduct and the Notice of Personal Interest form, it is vague in terms of when and to whom a declaration should be made. It is reliant on the individual's awareness, discretion and judgement. In addition, the Council does not record and monitor declarations centrally, so there is no corporate oversight of potential conflicts of interest. In addition, panel members involved in procurement exercises are not required to declare potential conflicts, including declaring a nil response. This would help to improve and promote a fraud-aware culture across the Council.

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 2022-2025 during 2022-23, as well as an internal audit review of the process for declaring interests.

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 framework and fraud risk is considered during this process.

An internal audit review of the management of fraud and corruption risks during 2021-22 concluded that arrangements existed in terms of policies and procedures to safeguard against the risk of fraud and corruption in its procurement activities. However, there were opportunities to improve the arrangements by updating documents, creating a risk-aware culture within the workforce and developing proactive counter fraud measures within the procurement function. These will be addressed during 2022-23 and included in the Council's revised Counter Fraud, Bribery and Corruption Strategy for 2022-2025.

The Council's Constitution, Fraud and Corruption Policy and Fraud Response Plan all clearly state that the Director of Function (Resources) and Section 151 Officer and Head of Audit and Risk must be informed when fraud or corruption is suspected. Despite this, the disciplinary procedure and the Whistleblowing procedure do not document this. Consequently, the HR team may not inform the Head of Audit and Risk when there is a disciplinary investigation that has fraud suspected. There is a risk therefore that the Head of Audit and Risk may not be aware of all suspected cases of fraud and irregularities, which could mean that formal action, or an official internal audit investigation may not be conducted.

The review found the contracts register to be out of date, and although contract monitoring is left to the discretion of individual contract officers and their team (which varies between departments), there is a lack of centralised monitoring, performance reporting and data analysis, which could detect fraud, bribery and corruption. A recent investigation of a duplicate payment has highlighted that financial contract monitoring is critical and the Director of Function (Resources) and Section 151 Officer has committed to establishing a register within the Payments Team.

The internal audit review also highlighted that specific counter fraud training for officers involved in procurement on behalf of the Council would help to improve awareness of fraud risks in this area. An action plan was agreed with management to address these issues in the management of fraud and corruption risks in the Council's procurement activities, and actions will be monitored during 2022-23.

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 clearly defined strategy, approved at the highest level (Governance and Audit Committee, December 2021), which is focused on outcomes, helping to ensure that the risk of fraud and corruption is taken seriously in the Council.

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

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.

Due to staff capacity issues in the Internal Audit team owing to long-term absence, secondment and responding to the COVID-19 pandemic, the proposed counter fraud programme, as detailed in the Counter Fraud, Bribery and Corruption Strategy 2021-2024, was re-prioritised. As a result, a Counter Fraud Working Group was not established during 2021-22 and a proposed mechanism for confidentially reporting potential or attempted fraud is still not in place.

However, a resource within Internal Audit and Risk Management was identified to:

- Coordinate data required from the Council by the National Fraud Initiative for its biennial data matching exercise
- Explore high-risk matches identified by the NFI data matching exercise.
- Distribute National Anti-Fraud Network alerts to relevant officers.
- Chair a Counter-Fraud Working Group within the Council
- Attend the North & Mid Wales Audit Partnership's Counter Fraud Working Group

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 and activities of an organisation, however, it needs to take appropriate action and report on that action to its governing body.

The most efficient and effective way to fight fraud is to prevent fraud occurring in the first place. This can be achieved by sharing knowledge and raising awareness. During 2021-22:

- the Training and Development Team delivered three fraud awareness sessions, and a total of 90 staff attended
- the Chief Executive emphasised the importance to staff of completing the Cyber Awareness module on Learning Pool
- Internal Audit shared National Anti-Fraud Network alerts to the relevant parts of the organisation regularly throughout the year (see [Appendix 2](#))
- Internal Audit investigated an attempt of malicious redirection fraud.

FRAUD ATTEMPTED AGAINST THE COUNCIL DURING 2021-22

During 2021-22, one attempted mandate fraud (when someone impersonates a third party such as a supplier) with a value of £16,500 was reported to Internal Audit.

Awareness of these frauds has been raised across the Council by the distribution of National Anti-Fraud Network alerts and targeted training sessions. As a result, the Payments Team spotted the attempt and reported it to Internal Audit.

Following an investigation into the incident, Internal Audit confirmed that a supplier's email system had been compromised and alerted the supplier. The Council's IT Security Team blocked emails from this domain until the supplier could provide them with assurance that they had taken the appropriate precautions to secure their email system.

The incident was reported to the National Anti-Fraud Network.

CONCLUSION

Some level of public sector fraud is likely, even in normal times, and 2021-22 was a year of unprecedented challenges, as the COVID-19 pandemic continued to dramatically transform the work of the Council, the lives of its staff and lockdown restrictions significantly impacted on the economy.

Given that all elements of the classic fraud triangle in which fraud thrives (motivation, opportunity and rationalisation) are heightened, the prediction for fraud is that it continues to pose a major financial threat for councils, with no sign of slowing down.

Anglesey, and Wales as a whole, fared well compared to their near neighbours in terms of reported fraud crime, but the North Wales Police Force area still had between three and six thousand reports of fraud in the period. ([Appendix 1](#) refers)

The Council itself was the victim of an attempted mandate fraud, but the swift intervention of the Payments Team successfully averted the 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 FORWARD

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. In addition, the Chartered Institute of Internal Auditors warns that organisations that have not traditionally regarded fraud as a high-risk priority must re-evaluate how they manage and communicate the risk.

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.

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 – NFIB FRAUD CRIME TRENDS

FRAUD CRIME TRENDS

REPORTING VOLUMES

VOLUME	875,622 reports received	TOP THREE FRAUD TYPES (EXCLUDING "OTHER FRAUD")	
	Action Fraud: 413,945		1. Cheque, Plastic Card & Bank Account – 336,707 reports
	Cifas: 318,379		2. Online Shopping and Auctions Fraud – 103,254 reports
	UK Finance: 143,298	3. Application Fraud (excluding mortgages) 91,593 reports	

LOSSES

LOSS **£2.35bn** reported losses

TOP THREE FRAUD TYPES (EXCLUDING NONE OF THE ABOVE)

1. Other Financial Investment - £318m
2. Cheque, Plastic Card and Online Bank Accounts – £184m
3. Share Sales or Boiler Room Fraud - £171m

DISSEMINATIONS

58,210 reports disseminated

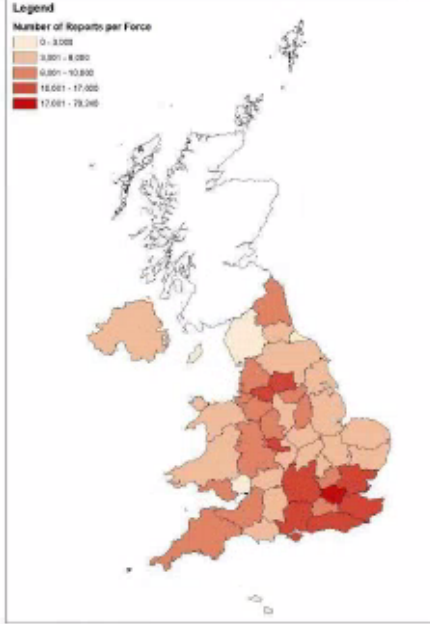
- PURSUE: 35,209
- PROTECT: 9,472
- OTHER: 13,529

OUTCOMES

59,838 total outcomes received

11.5% of all outcomes were Judicial

GEOGRAPHICAL SPREAD

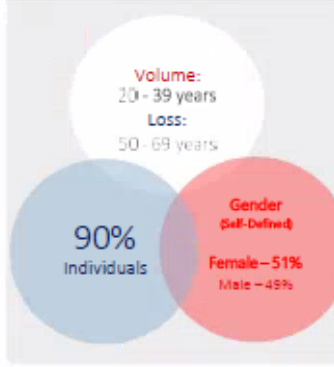


KEY THREATS

The highest harm threats for 2021/22 are Courier, Romance, Payment Diversion, Investment, Computer Software Service and frauds linked to Card and Online Bank Accounts

80% of reported fraud is cyber enabled	Social media and encrypted messaging services as an enabler is increasing throughout all aspects of fraud
Money mules persistently feature across most fraud types	Search engine optimisation is used by fraudsters to target victims
Cloned investment companies are a threat to investment fraud	

HIGH RISK VICTIM INDICATORS



APPENDIX 2 – NATIONAL ANTI-FRAUD NETWORK (NAFN) ALERTS

NAFN Data and Intelligence Services is a public sector organisation currently hosted by Tameside MBC. NAFN was established in 1997 by a core group of local authorities from across England and Wales to work collaboratively to explore the exchange of intelligence to address fraud across the country. Currently, almost 90% of local authorities are members, along with affiliated wider public authorities including social housing providers.

NAFN provides an extensive range of data and intelligence services and is widely regarded as a centre of excellence for public sector data and intelligence. Along with our colleagues in Trading Standards, we use NAFN for a variety of purposes. NAFN's core data and intelligence service provides a secure, single point of contact to access a wide range of information providers using robust legal gateways and processes that meet the highest standard of legislative compliance.

In particular, we use NAFN's service to alert colleagues of current frauds being perpetrated across the sector in England and Wales. These alerts have been instrumental in raising the awareness of officers, particularly in the Payments Team, of frauds that are currently being attempted against the sector. The graph below highlights the variety and scope of alerts received and distributed across the Council:

