

Counter-Fraud Arrangements – Caerphilly County Borough Council

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The Council lacks appropriate counter-fraud arrangements, which exposes it to increased risks of fraud and it has not addressed our previous recommendations in this area

Report summary

- 1 A 2019 a report¹ by the Auditor General for Wales stated that the value the public sector loses to fraud is unknown. A Cabinet Office report² in 2019 identified an upper and lower range for likely losses in government spend between 0.5% and 5% of expenditure. Applying those estimates to the £536 million gross revenue budget of Caerphilly County Borough Council in 2023-24³ suggest that losses to fraud and error may be anywhere between £2.68 million and £26.8 million per annum.
- 2 A further report of the Auditor General for Wales⁴ on fraud published in 2020 made 15 recommendations to public bodies in Wales.
- 3 We assessed the Council's progress in responding to these recommendations as part of our work to review if the Council has put in place proper arrangements to secure value for money in the use of resources.
- 4 Overall, we found that the Council lacks appropriate counter-fraud arrangements, which exposes it to increased risks of fraud and it has not addressed our previous recommendations in this area.
- 5 The 15 recommendations made by the Auditor General for Wales in 2020 remain valid as the Council has not addressed those recommendations. We also make one further recommendation to strengthen the Council's arrangements.

¹ [Counter-Fraud Arrangements in the Welsh Public Sector, Auditor General for Wales, 2019](#)

² [Cross-Government Fraud Landscape Annual Report 2019](#)

³ [Local Government Revenue Outturns, StatsWales, Welsh Government](#)

⁴ ['Raising Our Game' Tackling Fraud in Wales Auditor General for Wales, July 2020](#)

What we looked at – the scope of this audit

- 6 We assessed the progress that the Council has made to implement the 15 recommendations made in the Auditor General for Wales's report⁵ on fraud. We also reviewed the extent to which the Council has in place proper arrangements to prevent and detect fraud and, therefore, to help it secure value for money in the use of resources.
- 7 Our review was informed by a review of Council documents and interviews with officers and members who have a key role in the Council's counter-fraud arrangements. Our evidence is limited to these sources.
- 8 We undertook the review during the period January to March 2024.

Why we undertook this audit

- 9 This audit was undertaken to help fulfil the Auditor General's duties under section 17 of the Public Audit (Wales) Act 2004 (the 2004 Act). We identified the Council's counter-fraud arrangements as a potential risk to the Council putting in place proper arrangements through our local assessment of audit risk. We undertook this local project specific to Caerphilly County Borough Council.
- 10 We sought to:
 - assess the progress that the Council has made in implementing the 15 Recommendations made in the Auditor General for Wales's report – ['Raising Our Game' Tackling Fraud in Wales](#) July, 2020;
 - gain assurance that the Council has proper arrangements in place to prevent and detect fraud and therefore to help it secure value for money in the use of resources; and
 - identify areas of the arrangements that can be strengthened.

Recommendation

The table below sets out the recommendation that we have made following this review.

Recommendation	
R1	The Council should urgently strengthen its counter-fraud arrangements, in particular:

⁵ ['Raising Our Game' Tackling Fraud in Wales](#) Auditor General for Wales, July 2020

Recommendation

- Ensuring that the risk of fraud is properly assessed;
- Producing a fraud response plan;
- Improving its monitoring arrangements;
- Updating its policy framework
- Providing training to staff appropriate to their role

In strengthening its counter-fraud arrangements, the Council should also address the recommendations made in the Auditor General for Wales's 2020 report⁶ on fraud.

⁶ ['Raising Our Game' Tackling Fraud in Wales](#) Auditor General for Wales, July 2020

The Council lacks appropriate counter-fraud arrangements, which exposes it to increased risks of fraud and it has not addressed our previous recommendations in this area

The Council does not champion the importance of a good anti-fraud culture

- 11 We looked for evidence that the Council has developed an anti-fraud culture, including provision of training. Although the Council has an anti-fraud strategy that was approved by Governance and Audit Committee (GAC) in June 2022, and which states that the Council has a zero-tolerance approach to fraud, bribery and corruption, its arrangements do not support that statement. There has not been the organisational drive to actively promote and foster an anti-fraud culture.
- 12 The Council does not currently provide fraud awareness training for staff and it is not a part of its induction for newly employed staff. It has recently purchased a training package, but it is yet to be decided whether this training will be mandatory. Effective counter-fraud training will help staff understand their role in respect of counter-fraud and will help to give them the confidence and skills to report suspected fraud. Council staff can play a pivotal role in helping to prevent and detect fraud, but as it stands, the Council has not provided training to help them do this.
- 13 We did not see any evidence that the Council undertakes any proactive counter-fraud work, such as fraud awareness campaigns. Undertaking proactive counter-fraud work is a constructive way of attempting to reduce and prevent the likelihood of fraud happening.
- 14 A report to GAC in June 2021 states 'The Council has in the past publicised investigations and prosecutions so this approach could be reviewed as appropriate. The Council will need to determine its appetite for publishing frauds, this needs careful consideration and may need a case-by-case approach depending on the specific issues of each case'. We have not seen any further progress on this since then. In our view, publicising proven fraud and the action taken in response to the frauds is positive because it acts as a deterrent. It sends a clear message that fraud will not be tolerated.

There are significant weaknesses and gaps in the Council's counter-fraud arrangements to identify and manage the risk of fraud

- 15 An anti-fraud action plan to support the anti-fraud strategy was presented to GAC in October 2022. However, that action plan has not been progressed since. This

has meant weaknesses in the Council counter-fraud arrangements have not been addressed. The Council have confirmed that the Deputy Head of Financial Services and section 151 officer, who was appointed in November 2023, will now undertake the role of Anti-Fraud Champion and the Council has stated that the action plan will be refreshed to ensure that key issues are progressed.

- 16 The Council's anti-fraud action plan states that a communications strategy will provide regular staff updates, but this has not been actioned. Without effective communication, there is an increased risk of staff being unaware of the risk of fraud and what to do if they come across instances of potential fraud.
- 17 The Council has not undertaken a specific fraud risk assessment. Also, the risk of fraud is not identified on the Council's corporate risk register and there is no evidence that the risk of fraud has been considered as part of service risk management arrangements. The lack of a fraud risk assessment reduces the Council's ability to identify and tackle potential instances of fraud, as well as any weaknesses in its counter-fraud arrangements or areas at higher risk of fraud. This makes it more difficult for the Council to target its resources and activities appropriately, particularly if and when new fraud risks emerge. Not having a fraud risk assessment also undermines the value of having an anti-fraud strategy.
- 18 The Council does not have a fraud response plan. It has a draft fraud investigation protocol dated October 2021 but over two years on, this has still not been finalised. A fraud response plan is an important part of having proper arrangements in place for counter-fraud. A good fraud response plan can provide numerous benefits including:
 - outlines the entire fraud investigation process;
 - clearly defines the roles and responsibilities of senior management and others involved in the investigation process;
 - outlines procedures for securing evidence and undertaking interviews;
 - sets out arrangements for dealing with staff under suspicion;
 - includes arrangements for when, and how, to contact the police;
 - commits to pursuing the full range of sanctions – disciplinary, regulatory, civil and criminal;
 - makes clear that recovery action will be taken in relation to all fraud losses; and
 - clarifies how lessons learned from frauds will be used to strengthen controls to prevent recurrence.
- 19 In the absence of having a fraud response plan, the Council has, therefore, not realised these benefits. Fundamentally, it has not clearly set out what the organisation should do when there is suspected fraud. There is a risk then that staff are unclear what to do and resources may be wasted.

The Council has a range of counter-fraud policies, but some are out of date and are not aligned

- 20 The Council has an Anti-fraud strategy, but this is not underpinned by a strong policy framework. For example, the Anti-fraud strategy does not reference the Anti-fraud, Bribery and Corruption policy. Some of the supporting policies are also out of date and in need of review, such as the Information Technology Security Policy and the Anti-money laundering policy.

The Council does not have dedicated counter-fraud specialists to prevent, detect and investigate potential fraud

- 21 The Council's Internal Audit team is responsible for investigating potential incidences of fraud in the first instance, apart from potential housing benefit fraud. Staff from the housing benefits team at times jointly work on investigations with the Department for Work and Pensions (DWP). There are no specialist counter-fraud officers within the Internal Audit team. The Council has not identified specific financial resources to buy-in additional specialist counter-fraud support. It has not invested in developing counter-fraud expertise within the organisation.
- 22 The absence of appropriately skilled counter-fraud specialists to prevent, detect and investigate suspected fraud increases the risk of the Council being subject to fraud. This is particularly relevant as the nature and level of fraud risk changes over time.

The Council takes part in the National Fraud Initiative but is not achieving maximum benefit from doing so

- 23 The Council is not getting the maximum benefit from the National Fraud Initiative⁷ (NFI). Although time is set aside each year in the Internal Audit work programme for NFI work, in our view, the Council is underusing the opportunities NFI provides to identify fraud and/or error. Lots of matches remain unopened or have no comments or outcomes recorded against them.
- 24 There is now His Majesty's Revenue & Customs (HMRC) data in NFI that gives the potential for significant amounts of money to be identified. We found that a lot of the Council NFI match reports were still in draft and had not been fully investigated. This means that the Council is not identifying opportunities to maximise the impact

⁷ The NFI matches data across organisations and systems to help public bodies identify fraud and overpayments. 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 £2.37 billion across the UK.

of its involvement in the NFI, and therefore potentially missing opportunities to identify instances of fraud or risk of fraud and retrieve money.

- 25 The Council has used other options beyond NFI to help it prevent and detect fraud. One of these is with a private company who carry out some data matching on the Council's behalf and the Council also use some software to identify duplicate payments. It is positive that the Council has explored other opportunities beyond NFI.

The Council is not collaborating with other organisations to strengthen its counter-fraud arrangements

- 26 The sharing of data to help find fraud is a rapidly evolving area and has been facilitated by changes in the law. The Digital Economy Act 2017 enables public authorities to share personal data to prevent, detect, investigate and prosecute public sector fraud. The Act recognises that the wider use of data-sharing could improve the prevention, detection and investigation of fraud.
- 27 The Council does not collaborate with any other organisations for counter-fraud purposes, which means that it may be missing opportunities to strengthen its counter-fraud arrangements, and to pool and maximise the use of its resources to help prevent and detect fraud.
- 28 The Council's Anti-fraud strategy and anti-fraud action plan mention engaging with Gwent police to develop a Memorandum of Understanding to formalise their working relationship to prosecute fraud, however this has not been done.

The Governance and Audit Committee has not reviewed the effectiveness of the Council's counter-fraud arrangements

- 29 The Terms of Reference of the Council's GAC states that its role regarding counter-fraud is 'to review and consider the effectiveness on the Council's policy for the prevention of fraud and corruption'.
- 30 GAC endorsed the anti-fraud strategy at its June 2022 meeting and received the related action plan at its October 2022 meeting. However, it has not received any reports on the Council's counter-fraud arrangements, their effectiveness or the risk of fraud since then and the action plan has not progressed. As a result, this has limited GAC's ability to fulfil its role relating to the Council's counter-fraud arrangements. GAC has not been proactive in requesting this information either and therefore has not served to help promote an anti-fraud culture.
- 31 Reporting on counter-fraud arrangements and activity to those charged with the governance of councils is important as it can provide GAC with the information and intelligence it needs to assess effectiveness, challenge and scrutinise. GAC can also further promote the message that fraud will not be tolerated, supporting the work of officers responsible for counter-fraud arrangements and activity.

Appendix 1

Audit questions and criteria.

Main audit question – Has the Council put in place proper arrangements to secure value for money in its approach to preventing and detecting fraud?

Questions	Audit Criteria (what we are looking for)
Leadership and Culture:	
1. Does the Council champion the importance of a good anti-fraud culture?	<ul style="list-style-type: none">• The Council has made a clear statement that fraud committed against the organisation by anyone internal or external will not be tolerated and will be dealt with in the strongest way• The Council’s Cabinet and Senior Leadership Team (SLT) champion counter-fraud work• The Council builds confidence among employees that fraud is taken seriously, and action is taken to address fraud

Questions

Audit Criteria (what we are looking for)

Risk Management and Control Framework

2. Does the Council undertake comprehensive fraud risk assessments?

- The Council has undertaken a thorough fraud risk assessment in the last two years to provide an honest appraisal of risk and resources needed to tackle the risks identified
- The assessment of fraud risk is based on known fraud risks, benchmarking and internal knowledge and experience
- The fraud risk assessment has:
 - used appropriately skilled staff
 - considered national intelligence
 - considered its own Council specific intelligence?
- The fraud risk assessment is reviewed by the Governance and Audit Committee

3. Are fraud risk assessments used as a live resource and integrated within the general risk management framework to ensure that these risks are appropriately managed and escalated as necessary?

- The Council considers fraud risk as part of its overall risk management process
- The risk of fraud features in department and/or corporate risk registers
- The Council considers fraud risk for all its systems and has looked at how to prevent and detect fraud in the system and has 'fraud proofed' its procedures in key areas e.g procurement, payroll, creditors
- The Council's counter-fraud/internal audit staff are consulted to fraud proof new policies, strategies and initiatives across departments

Polices and Training

4. Does the Council have a comprehensive and up-to-date set of policies and procedures which together represent a cohesive strategy for identifying, managing and responding to fraud risks?

Counter-fraud strategy:

- The Council has an up to date counter-fraud strategy that sets out its approach to managing fraud risks and defines responsibilities for action.
 - The counter-fraud strategy is cross referred to other related policies i.e. code of conduct, whistleblowing and fraud response plan
 - The counter-fraud strategy has been communicated to staff and is readily available to all staff as a reference document.
-

Code of Conduct:

- The Council has an up-to-date Code of Conduct in place which sets out standards expected by employees and contractors which highlights that unethical behaviours will lead to disciplinary action
 - All Council staff are required to sign up to the requirements of the Code of Conduct
-

Whistleblowing:

- The Council has whistleblowing arrangements in place to ensure that staff and external parties have the confidence to raise concerns.
- The Council's whistleblowing arrangements are monitored for take up to demonstrate that suspicions have been acted upon
- The Council's whistleblowing policy is up to date and sets out clear mechanisms to raise concerns confidentially about matters including fraud
- Contractors and third parties also have to sign up to the Council's whistleblowing policy

Register of Interest:

- The Council maintains its register of interests regularly to record staff and members interest
 - The register of interests is compared against schemes of delegation for approving expenditure
-
- The Council undertakes pre-employment screening through various checks e.g. CRB to minimise the risk of employing dishonest and unethical staff
-
- The Council has an up-to-date anti-bribery and corruption policy in place which includes due diligence arrangements
-
- The Council maintains a register of gifts and hospitality and staff made aware of the need to register any gifts and hospitality received
-

The Council has a Fraud Response Plan that includes:

- outlines the entire fraud investigation process;
- clearly defines the roles and responsibilities of senior management and others involved in the investigation process;
- outlines procedures for securing evidence and undertaking interviews;
- sets out arrangements for dealing with staff under suspicion;
- includes arrangements for when, and how, to contact the police;
- commit to pursuing the full range of sanctions – disciplinary, regulatory, civil and criminal;
- makes clear that recovery action will be taken in relation to all fraud losses; and

- clarifies how lessons learned from frauds will be used to strengthen controls to prevent recurrence
- The Council monitors that allegations of fraud are assessed according to its Fraud Response Plan.
- The Council seeks redress including recovery of assets and money lost to fraud where possible

5. Do those working for the Council receive fraud awareness training as appropriate to their role to increase organisational effectiveness in preventing, detecting and responding to fraud?

- The Council includes fraud risks within its induction training for new staff
- The Council ensures appropriate frequency of refresher training for all staff and elected members/independent members.
- The effectiveness of counter-fraud training is confirmed through testing
- Training is updated to reflect emerging risks/ issues and trends

6. Does the Council publicise cases of fraud that been successfully addressed to re-enforce a robust message that fraud will not be tolerated?

- The Council publicises proven fraud and the action taken in response to the frauds as a deterrent
- The Council has internal and external publicity campaigns to promote the work of counter-fraud, and ensures that the counter-fraud webpage is kept up-to-date with relevant information and publicity
- The Council undertakes proactive counter-fraud work in an attempt reduce the likelihood of fraud happening

Capacity and Expertise

7. Does the Council have sufficient capacity to ensure that counter-fraud work is resourced effectively, so that investigations are undertaken professionally and in a manner that results in successful sanctions against the perpetrators and the recovery of losses?

- The Council has an officer with designated responsibility for counter-fraud who has the support of the senior leadership team and Governance and Audit Committee
- The Council has a staffing structure with clear designation and clear lines of accountability and good internal communication in relation to counter-fraud
- The Council invests in counter-fraud and buys in services if there is no capacity internally. For example, arrangements to access specialist fraud investigation teams including: surveillance, computer forensics, asset recovery, financial investigations

8. Does the Council have access to trained counter-fraud staff that meet recognised professional standards?

- The Council has (or has access to) competent, professionally trained and accredited counter-fraud specialists to investigate suspected fraud. If this work is undertaken by Internal Audit teams those teams should be trained in this area

Tools and Data

9. Does the Council have dynamic and agile counter-fraud responses which maximise the likelihood of a successful enforcement action?

- The Council's counter-fraud strategy includes both proactive and responsive approaches
- The organisation has an annual counter-fraud plan where the programme of work is balanced
- There is evidence that the Council's investment in counter-fraud is based on an informed decision derived from a fraud risk assessment which highlights the risks and then determines the resources needed to address these risks.
- There is evidence of action being taken quickly if internal controls are found not to be performing as well as intended. For example, by internal audit, external audit, National Fraud Initiative (NFI)
- Where a fraud has occurred, there is evidence of post event learning where an organisation looks at how the fraud occurred and possible trends to learn from this and minimise future incidents.

10. Does the Council seek and embrace new opportunities to innovate with data analytics to strengthen both the prevention and detection of fraud?

- The Council uses data matching, which involves comparing sets of data within or across organisations, to highlight inconsistencies which can be used to help prevent and detect fraud.
 - Seeking to maximise the National Fraud Initiative (NFI) work
 - Other opportunities beyond NFI
- Where cases of fraud have been identified the weaknesses behind these frauds are fed back to departments to fraud proof systems

Collaboration

11. Does the Council work with other organisations under the Digital Economy Act and using developments in data analytics, to share data and information to help find and fight fraud?

- The Council's counter-fraud strategy includes joint working partnerships with other organisations to manage risks where appropriate
- The Council has protocols in place to facilitate joint working and intelligence sharing with outside bodies e.g. memorandum of understanding setting out arrangements for sharing data
- There is evidence that the organisation applies the learning through collaboration to help inform risk assessments
- NFI collaboration

Reporting and Scrutiny

12. Does the Council collate information about losses and recoveries and share fraud intelligence with public sector organisations to establish a more accurate national picture, strengthen controls, and

- The Council maintains a record of fraud losses and recoveries.
- The Council has a set methodology to ensure that losses from fraud can be estimated on a consistent basis and support a more accurate risk assessment
- The Council has set objectives and targets for counter-fraud work and monitors performance

enhance monitoring and support targeted action?

13. Is the Council's Governance and Audit Committees (GAC) fully engaged with counter-fraud, providing support and direction, monitoring and holding officials to account?

- The GAC takes an active role in counter-fraud and understands the Council's control environment and risks including fraud risks
- The GAC receives information on fraud caseload and progress on a regular basis (at least twice a year)
- The work of the counter-fraud team is reviewed by GAC to ensure that its performance meets requirements/quality standards



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