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Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Counter-Fraud Arrangements in the Welsh Public Sector

## An Overview for the Public Accounts Committee



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU



I have prepared and published this report in accordance with the Government of Wales Act 1998 and 2006.

The Wales Audit Office team that assisted me in the preparation of this report comprised Ian Hughes, Rachel Davies and Christine Nash under the direction of Mike Usher.

**Adrian Crompton**  
**Auditor General for Wales**  
**Wales Audit Office**  
**24 Cathedral Road**  
**Cardiff**  
**CF11 9LJ**

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**Mae'r ddogfen hon hefyd ar gael yn Gymraeg.**

# Contents

Introduction	4
Part 1 – The impact and scale of fraud	6
What is fraud?	6
What is the cost of fraud?	7
What are the types of fraud and how are they detected?	8
How can losses from fraud be recovered?	9
Who commits fraud?	11
Why do people commit fraud?	11
How is fraud committed?	13
How are fraud risks evolving?	15
Part 2 – Overview of counter-fraud arrangements within the Welsh public sector	16
Welsh Government	16
The NHS in Wales	20
Local Government	30
The National Fraud Initiative	33
The Wales Fraud Forum	35
Appendices	36
Appendix 1 – Audit Methods	36
Appendix 2 – Arriving at an estimate for the cost of fraud to the Welsh public sector	38
Appendix 3 – Key components of an effective counter-fraud culture	39
Appendix 4 – Organisations promoting counter-fraud across the UK	40
Appendix 5 – Glossary of Terms	45

## Introduction

- 1 Fraud is prevalent across all sectors including the public sector. Every pound stolen from the public sector means that there is less to spend on key services such as health, education and social services. At a time of austerity, it is more important than ever for all public bodies in Wales to seek to minimise the risk of losses through fraud.
- 2 Fraud in general is believed to be significantly under-reported. There is often a reluctance for organisations to identify suspicious activity as fraudulent and there is sometimes a mistaken perception that reporting fraud casts the organisation involved in an unfavourable light.
- 3 The Association of Certified Fraud Examiners has estimated that on average global organisations lose 5% of their annual revenues to fraud. The National Crime Survey for England and Wales estimates that in 2017-18, 3.47 million fraud offences were committed across England and Wales. Most of these offences were not reported.
- 4 When fraud is reported to the authorities the response can be disappointing. A report published by Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services in April 2019 concludes that 'outside those organisations that have a specific national-level responsibility for fraud, it is rarely seen as a priority'.
- 5 Precisely how much the public sector loses to fraud is unknown. In March 2012, the National Fraud Authority estimated public sector fraud losses to be £20.3 billion (excluding taxation fraud).
- 6 Unfortunately, there is no breakdown of any estimated fraud losses to the devolved administrations in the UK. However, a recent report by the Cabinet Office reveals an upper and lower range for likely losses in government spend between 0.5% and 5% of expenditure<sup>1</sup>. Applying those estimates to expenditure in Wales of around £20 billion would suggest that losses to fraud and error may be anywhere between £100 million and £1 billion per annum.
- 7 Although these headline estimates should be treated with considerable caution, they do give an indication of the magnitude of the potential risks from fraud facing the Welsh public sector. Organisations can mitigate against these risks by having the right organisational culture supported by effective counter-fraud arrangements.
- 8 The ways in which fraud is committed are constantly evolving as society and technology changes. Fraud does not respect geographical or other boundaries. It is therefore important that collaboration and the sharing of intelligence and good practice takes place between public, private and third-sector bodies across the UK and internationally.

1 [Cabinet Office Cross Government Fraud Landscape Report 2018](#)

- 9 This paper provides an overview for the National Assembly's Public Accounts Committee of the counter-fraud landscape across the Welsh public sector. The Committee has expressed an interest in this topic following the recent publication of the 2018 National Fraud Initiative report, which provides some insight into aspects of public sector fraud in Wales but does not provide a robust evaluation of the underlying arrangements for prevention and detection. This paper therefore describes the allocation of resources, collaboration between organisations, scrutiny arrangements and overall impact. Details of our audit methods are set out in [Appendix 1](#).
- 10 The paper does not examine the scope or effectiveness of arrangements at a local level. However, the Auditor General, subject to further consultation with the Public Accounts Committee, is minded to undertake a further, more detailed review of those arrangements across The Welsh Government and its sponsored bodies, NHS Wales and Local Government in Wales. This will provide a fuller picture of how the risks of fraud are being identified, evaluated and mitigated across the Welsh public sector. This work is expected to take place over the next 18 months.

# Part 1 – The impact and scale of fraud

## What is fraud?

- 1.1 The term 'fraud' typically describes activities such as theft, corruption, money laundering, conspiracy, bribery and extortion. The UK Fraud Act 2006 sets out three ways in which the crime can be committed:

Exhibit 1: three ways in which the crime can be committed according to the UK Fraud Act 2006



- 1.2 In each case a defendant's conduct must be dishonest with an intention to make a gain or to cause a loss to another party.
- 1.3 Fraud exists across all sectors, including the public sector. It poses a significant risk to public finances and damages the reputation of public bodies. Fraudsters are often well-resourced, innovative and constantly seeking to exploit weaknesses in systems and controls. Fraudsters do not respect geographical or other boundaries. Fraud is not a victimless crime. Every pound stolen from the public sector means that there is less to spend on key services such as health, education and social services, and it is often the vulnerable in society who suffer.
- 1.4 At a time of austerity, it is more important than ever for public bodies to ensure that precious resources are not lost to fraud.

## What is the cost of fraud?

- 1.5 The Association of Certified Fraud Examiners (ACFE) estimates that organisations lose 5% of their annual revenues to fraud. Extrapolated worldwide, this yields an annual economic loss of £60 trillion<sup>2</sup>. The ACFE recognises that quantifying losses arising from fraud is an incredibly difficult task. No one knows the amount of fraud that goes undetected or unreported. Even for those frauds that do come to light, the full amount of loss is not always known.
- 1.6 A recent report by the Cabinet Office reveals an upper and lower range for likely losses in government spend between 0.5% and 5% of expenditure<sup>3</sup>. These estimates are consistent with the findings of the ACFE above.
- 1.7 The UK government reports that the estimated fraud and error loss, outside of the tax and welfare system, cost between £2.7 billion and £20.3 billion in 2016-17<sup>3</sup>. The report also states that the detected fraud and error loss in UK central government was £191 million in 2016-17 (£105 million in 2015-16). This supports the assertion that reported losses from fraud in the public sector are just the 'tip of an iceberg'.
- 1.8 Unfortunately, there is no breakdown of the above estimate to the devolved administrations in the UK. Applying the Cabinet Office range to annual devolved expenditure in Wales of around £20 billion gives a possible estimated value of losses to fraud and error in the region of £100 million to £1 billion per annum. The detail of how we have arrived at this estimate is set out in [Appendix 2](#).
- 1.9 Various analysts and commentators report that the level of reported fraud is increasing. The most recent KPMG Fraud Barometer<sup>4</sup> reveals an increase of 78% in the number of fraud cases reaching UK courts in 2018. Over the same time in Wales, the volume of fraud cases rose by 150% with an increasing number of employee frauds. However, it is difficult to determine from the research whether more fraud is happening or whether public bodies are better at detecting it.
- 1.10 These headline figures should be treated with caution. Nevertheless, they do indicate the magnitude of the risk from fraud facing the Welsh public sector.

2 Report to the Nations, 2018 Global Study on Occupational Fraud and Abuse, Association of Fraud Examiners

3 Cabinet Office Cross Government Fraud Landscape Report 2018

4 KPMG Fraud Barometer 2018 - A snapshot of Fraud in the UK

## What are the types of fraud and how are they detected?

1.11 There are several types of fraud common in the public sector, as highlighted in **Exhibit 2**. Their perpetrators can come from any level within the organisation as well as from the outside.

### Exhibit 2: the main types of fraud in the public sector



**Expenses Fraud** – involving reimbursement of claims for fictitious expenses eg a travel expense for travel that did not happen or for a personal expense claimed to be for business.



**Procurement Fraud** – the purchase of goods and services or commissioned construction projects eg price fixing between suppliers to secure business or submitting false, duplicated or inflated invoices.



**Planning Fraud** – providing dishonest information on a planning application eg inaccurately describing the proposed development.



**Accounting Fraud** – the intentional manipulation of the financial statements eg overstating assets or not recording liabilities.



**Benefits Fraud** – providing false information regarding a benefit claim eg failing to disclose that a partner resides at the property or not disclosing all sources of income.



**Housing Fraud** – providing false information in council or housing association home by application eg not telling the landlord they are renting another council house.



**Grant Funding Fraud** – an attempt by recipients to deceive the grant paying body about the purpose of the money awarded eg not spending the monies on the purpose for which it was intended.



**Payroll Fraud** – unauthorised changes to a payroll system eg the creation of a ghost employee or amendments such as changes to salary payments or allowances.



**Internal Fraud** – fraudulent action by a person internal to an organisation eg theft of assets.



**Cyber Crime** – frauds committed using networks and computers eg hacking or phishing.



**Sector-specific Fraud** – including Dental fraud upon the NHS, Blue Badge fraud upon Local Government and tax fraud upon the Welsh Revenue Authority.

Source: Wales Audit Office



- 1.12 The longer a fraud goes undetected the larger its scale and potential implications. The ACFE's most recent study found the median length of a fraud was 16 months. It is therefore important that organisations prevent fraud happening in the first place and to detect fraud as soon as possible. The most successful means of detecting fraud are:
- tip offs (either internal or external whistle-blowers);
  - internal audit; and
  - internal controls, including management review.
- 1.13 It will always be preferable to prevent a fraud, rather than waiting for one to be discovered. Fraud investigations are often complex and time consuming and there is no guarantee of a successful prosecution. This means that the costs associated with investigations are often higher than the amounts recovered. Fraud prevention can reduce the loss faced by organisations both in terms of time and cost by stopping the fraud before it has occurred.
- 1.14 Organisations can mitigate against the risk of fraud by having the right organisational culture supported by effective counter-fraud arrangements. Although organisations need good whistleblowing arrangements, it is also important to have proactive measures in place eg fraud proofing at system design stage, comprehensive internal and external due diligence arrangements and intelligence sharing. Key elements of effective counter-fraud arrangements are set out in [Appendix 3](#).

### How can losses from fraud be recovered?

- 1.15 Often recovery does not require the use of formal legal powers. When fraudsters are caught, they will often repay the money on request hoping to avoid heavier sentencing. This is often the case in benefit fraud. Monies can also be repaid through deductions from ongoing benefit payments, where applicable.
- 1.16 Authorities in the UK, including the Crown Prosecution Service (CPS), have powers to seek and confiscate the proceeds of crime, including losses arising from fraud. The CPS has a specialist unit, the CPS Proceeds of Crime Unit, which is dedicated to the confiscation or civil recovery of the proceeds of crime in the UK.
- 1.17 The legal and administrative framework for recovering the proceeds of crime is complex<sup>5</sup> but there are three main ways in which the proceeds can be recovered as summarised in [Exhibit 3](#).

<sup>5</sup> Arising under the Proceeds of Crime Act 2002

### Exhibit 3: the main ways in which proceeds of crime are recovered

Restraint Orders	<p>A restraint order is obtained to preserve assets until a confiscation order is paid in full. It can be obtained from the Crown Court at any time from the start of an investigation.</p> <p>A restraint order can also be obtained to preserve assets for reconsideration applications and when obtaining confiscation orders against absconded defendants.</p>
Confiscation Orders	<p>A confiscation order is an order of the Crown Court which requires a convicted defendant to pay a sum of money to HM Courts and Tribunal Service.</p>
Civil Recovery	<p>The proceeds of crime can be recovered in civil proceedings in the High Court against property which can be shown to be the proceeds of crime.</p>

Source: Wales Audit Office

- 1.18 In the year ending 31 March 2018, £185 million of criminal proceeds were confiscated in the UK representing an 8% increase compared with the year ending 31 March 2013 (£171 million)<sup>6</sup>.
- 1.19 The recovery of the proceeds of crime, including losses from fraud, is largely dependent on the effective operation of law enforcement authorities, including local police forces. A report published by Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) in April 2019<sup>7</sup> concludes that 'outside those organisations that have a specific national-level responsibility for fraud, it is rarely seen as a priority'. The report also concludes that many fraud victims are not receiving the level of service they deserve. HMICFRS has made a number of recommendations to address its concerns.

<sup>6</sup> Asset recovery statistical bulletin 2012-13 to 2017-18, Criminal Finances Team, Home Office

<sup>7</sup> [Fraud: Time to Choose – An inspection of the police response to fraud](#)

## Who commits fraud?

1.20 Fraud is committed by a range of individuals both internal and external to an organisation as shown in [Exhibit 4](#).

### Exhibit 4: the most common perpetrators of fraud

- Employees
- Service Users
- Suppliers
- Contractors
- Sub-contractors
- Benefit recipients
- Opportunist third parties

Source: Wales Audit Office

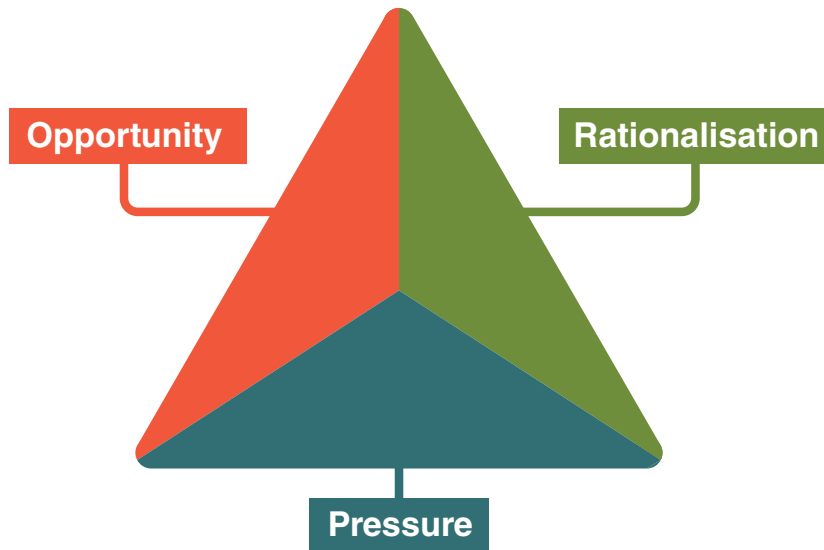
## Why do people commit fraud?

1.21 There are many reasons why individuals commit fraud and there is no 'one size fits all' explanation. The Fraud Triangle<sup>8</sup> is a model which helps explain the circumstances within which **internal fraud** has a greater likelihood of taking place. Internal Fraud is carried out by individuals internal to an organisation eg employees. [Exhibit 5](#) illustrates the Fraud Triangle.

<sup>8</sup> The Fraud Triangle was developed in the 1950s by Donald Cressey and has been referred to widely ever since.

Exhibit 5: the Fraud Triangle helps explain the circumstances within which fraud has a greater likelihood of taking place

### The fraud triangle



#### Opportunity

Opportunities whereby the individual can secure a way out of their predicament. Examples include weak or absent controls either within their employer, or a third party they can interact with.

#### Rationalisation

The individual needs to be able to rationalise their actions as understandable or acceptable under the circumstances. Examples include the perceived need to take care of family or the intention to repay amounts stolen in the future.

#### Pressure

Pressure on the perpetrator which they are unable to resolve through ethical means and a motivation to act on this pressure. Examples include personal debt problems, risk of job loss or a feeling of being overworked and underpaid.

Source: The Fraud Triangle - Donald Cressey

1.22 Although the Fraud Triangle applies to internal fraud its theory can also in part be applied to **external fraud**. External fraud is carried out by third parties eg individuals, businesses or organised crime groups. The motivation in these cases can be sheer greed or the desire to finance a cause eg terrorism. The common factor in both internal and external fraud is that there must be an opportunity. Opportunity is also the element that is most directly affected by the systems of controls. The key for public bodies is to minimise the fraud opportunity.




1.23 A time of austerity increases the risk of fraud because of greater financial pressures on individuals, often through a combination of pay restraint and increasing costs of living. Such times also increase opportunities for fraud because of lower investment in internal control and heightened grounds of rationalisation, for example by individuals feeling forced into a corner by financial circumstances.

## How is fraud committed?

### Internal Fraud

1.24 The Association of Certified Fraud Examiners has been tracking occupational (internal) fraud for over two decades. Despite significant technological and cultural advances, it maintains that occupational fraud falls into several time-tested categories, as shown in **Exhibit 6**:

Exhibit 6: the most common ways in which fraud is committed

Corruption	Asset Misappropriation	Financial Statement Fraud
<ul style="list-style-type: none"> <li>• Conflict of interest</li> <li>• Bribery</li> <li>• Illegal gratuities</li> <li>• Economic extortion</li> </ul> 	<ul style="list-style-type: none"> <li>• Cash</li> <li>• Other assets</li> </ul> 	<ul style="list-style-type: none"> <li>• Timing differences</li> <li>• Manipulated revenues</li> <li>• Improper asset valuations</li> <li>• Improper disclosures</li> <li>• Overstated liabilities and expenses</li> </ul> 

Source: Derived from Association of Fraud Examiners research

1.25 Factors that contribute to the facilitation of fraud are summarised in the KPMG Fraud Barometer and set out in **Exhibit 7**.

**Exhibit 7: factors that contribute to the facilitation of internal fraud**

- Collusion circumventing good controls 11%
- Reckless dishonesty regardless of controls 21%
- Weak Internal Controls 61%
- Other 7%

Source: KPMG Fraud Barometer

## External Fraud

1.26 In cases of external fraud, fraudsters will look at a system or process where they can gain financial reward and assess where there are weaknesses that can be exploited. These weaknesses could be systems or people. Fraudsters will then assess the likelihood of being detected before attempting the fraud. For these reasons it is imperative that public organisations have appropriate internal control environments to improve the likelihood of frauds being detected and to act as a deterrent to fraudsters. **Case Study 1** highlights a recent example of opportunist external fraud attempted against a Welsh council<sup>9</sup>.

### Case Study 1: Fraudulent Council Tax bills

A Monmouthshire resident recently reported that she was targeted by fraudsters, who phoned her, claiming to be from the Council, to inform her she was entitled to a Council Tax rebate. The resident reported that the caller was very convincing.

Monmouthshire Trading standards have said that scammers know the full name and address of the people they are calling and have estimated that only 5% of people targeted by this type of fraud actually report it to authorities often because of embarrassment.

Fraudsters refer to the fact that residents should have received a notification of their updated council tax and are entitled to a refund because they have been allocated an incorrect band.

Councils across Wales have been urging residents to be aware of potential fraudsters calling to claim that residents are entitled to a Council Tax rebate. Such calls are used to harvest personal information, including banking details, and can result in personal financial losses.

9 [www.bbc.co.uk/news/uk-wales-47766983](http://www.bbc.co.uk/news/uk-wales-47766983)

## How are fraud risks evolving?

- 1.27 The fraud landscape is dynamic. Fraudsters adapt and evolve to exploit any available opportunities no matter how unsavoury, as highlighted in [Case Study 2](#).

### Case Study 2: prosecutions arising in the aftermath of the Grenfell Fire Tragedy

The June 2017 Grenfell Tower fire tragedy in London provided opportunities for fraudsters. Some individuals submitted false claims for rehoming and support despite having never lived in Grenfell Tower.

A council finance manager admitted in court to the defrauding of around £60,000 from the Grenfell Tower fund. The money was intended for victims of the fire. The perpetrator was jailed for five and a half years in September 2018.

- 1.28 Fraudsters do not respect geographical boundaries, more so in a digital age. New fraud threats are continually emerging both globally and nationally.
- 1.29 PricewaterhouseCoopers' (PwC) most recent global economic crime survey<sup>10</sup> finds that cyber crime is now the most common fraud for UK businesses, overtaking asset misappropriation for the first time since the survey began. Cyber-attacks are an alternative means to commit traditional frauds such as theft of assets, cash or intellectual property. The PwC survey shows that only 25% of their respondents have a specific cyber security programme in place for their business.
- 1.30 A recent National Audit Office report<sup>11</sup> estimates that there were 1.9 million cases of cyber-related fraud in England and Wales for the year ended 30 September 2016. In response to the emerging threat posed by online fraud, the UK government has created a National Cyber Security Centre and published the National Cyber Security Strategy 2016-2021.
- 1.31 The KPMG Fraud Barometer<sup>12</sup> also shows a significant fraud risk arising from Brexit. Criminals can exploit weaknesses in new customs and tax arrangements, grant funding schemes and their accompanying IT systems.

10 PwC Global Economic Crime Survey 2018: UK findings

11 NAO Online Fraud Report June 2017

12 KPMG Barometer 30 years of tracking fraud December 2017

## Part 2 – Overview of counter-fraud arrangements within the Welsh public sector

- 2.1 This section sets out an overview of counter-fraud arrangements currently in place within the Welsh public sector. We describe the allocation of resources, collaboration between organisations, scrutiny arrangements and overall impact. We have not tested the scope or effectiveness of these arrangements as part of this audit.
- 2.2 However, the Auditor General is minded to undertake a further review across the Welsh Government, the NHS and Local Government in Wales to get a better picture of how the risk of fraud is identified, evaluated and mitigated. This work is expected to take place over the next 18 months.

### Welsh Government

- 2.3 A dedicated Counter Fraud team is responsible for coordinating the counter-fraud arrangements across the Welsh Government. **Exhibit 8** sets out the role and work of the team in more detail.

#### Exhibit 8: overview of the counter-fraud arrangements within the Welsh Government

<p>Resources</p> 	<ul style="list-style-type: none"><li>• The Welsh Government currently has a Counter Fraud team comprising 1.5 Full-Time Equivalent (FTE) staff.</li><li>• Prior to 2010 the Welsh Government had no dedicated resource for counter-fraud. In March 2010, the Welsh Government employed a Head of Counter Fraud to coordinate counter-fraud arrangements across the Welsh Government.</li><li>• In 2015, 14 staff from across the Welsh Government received CIPFA Accredited Counter Fraud Technician training, although most of these have since moved posts and none have provided support to the Counter Fraud team.</li><li>• In early 2017, the Welsh Government reviewed its counter-fraud resources and redeployed an IT auditor to support the Head of Counter Fraud on a half-time basis.</li><li>• The Counter Fraud team also receives fraud investigation support from multi-disciplinary teams within the Welsh Government, and the Welsh European Funding Office and from the Internal Audit Service.</li><li>• In November 2017 a Government Internal Audit Agency report<sup>13</sup>, commissioned by the Permanent Secretary, reviewed the counter-fraud arrangements within the Welsh Government. Although this report concluded that the counter-fraud team was under-resourced, no additional resources have been made available.</li></ul>
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13 Government Internal Audit Agency, Review of Approach to Counter Fraud, November 2017



## Work and Collaboration



- The Welsh Government's Counter Fraud team's work is largely reactive in nature, dealing with investigations as they arise. Each fraud case is complex and can take a considerable amount of time to investigate. Under a Memorandum of Understanding with the four Welsh police forces, the Counter Fraud team produces an evidential package before referring a case to the police for further investigation.
- The Counter Fraud team does not have powers under the Proceeds of Crime Act 2002, and so relies on the police to conduct financial investigations and to pursue confiscation and recovery following a successful conviction.
- The Counter Fraud team only undertakes a limited amount of proactive work. The team recognises that more proactive work would be beneficial in helping to prevent and/or detect fraud. However, there are limited resources and so the team has to prioritise its reactive investigation work.
- The Counter Fraud team is responsible for providing training and disseminating information relating to fraud cases to key individuals across the Welsh Government. The team provides ad-hoc workshops across the Welsh Government pan-Wales in response to significant fraud cases.
- Policy departments across the Welsh Government complete fraud risk assessments and submit them to the Counter Fraud team. These assessments identify the key fraud risks for each policy area. The Counter Fraud team reviews these risk assessments to ensure appropriate arrangements are in place to deal with the risks identified.
- New cases of potential fraud cases are referred to the Counter Fraud team through various channels including a dedicated counter-fraud hotline and mailbox, whistleblowing correspondence, the Wales European Funding Office and the Police.
- The Welsh Government is a member of Cifas (see [Appendix 4](#)) and has access to the National Fraud Database. The Counter Fraud team has provided training to around 200 staff across the Welsh Government in the use and analysis of Cifas data to improve the due diligence checks undertaken for grant funding. Around 80 of these staff have access to the Cifas system.
- The Counter Fraud team undertakes several data-matching exercises which seek to proactively identify fraud across the Welsh Government. The team engages with the Wales Audit Office, Cabinet Office, Rent Smart Wales and local authorities in relation to these programmes.
- The Counter Fraud team regularly engages with the Welsh Government's Grants Centre of Excellence to provide advice for new grant projects and training on due diligence.
- The Counter Fraud team also works in collaboration with other agencies including counter-terrorism units, the National Crime Agency, Trading Standards and HMRC. The Head of Counter Fraud is a member of the Government Agency Intelligence Network (GAIN) and is also Deputy Chair of the Wales Fraud Forum.

## Scrutiny



- All suspicions of fraud at the Welsh Government are referred to its External Assurance Panel, which meets every six weeks. The Panel is responsible for overseeing and monitoring cases of fraud, and for authorising the Head of Counter Fraud to refer appropriate cases to the police.
- Panel members include the Head of Counter Fraud, the Head of Audit, Assurance & Counter Fraud, the Director of Governance, representatives from the Grants Centre of Excellence and from each operational team across the Welsh Government.
- The Permanent Secretary's Audit and Risk Assurance Committee (ARAC) receives high level information on suspected fraud cases as part of the Internal Audit update on a quarterly basis.
- The Counter Fraud Manager previously reported directly to the ARAC on an ad-hoc basis. These reporting arrangements have recently changed. An update on counter-fraud work is now included as part of the Internal Audit update, at more summarised level than previously reported. The Counter Fraud Manager does not currently provide ARAC with an update on specific cases in progress, although this arrangement is currently under review.

## Impact



- The Welsh Government does not collate information on total losses and recoveries. However, the Head of Counter Fraud retains data from convicted cases over the last nine years in respect of losses, recoveries and sentences. In addition, some recoveries are made through claw-back and civil recovery.
- Proceeds of Crime Act investigations after conviction can take three or four years to conclude, and there are three live cases currently.
- Recoveries of losses by the Welsh Government are often difficult where organisations enter administration and assets can be hard to pursue.
- The Counter Fraud team has investigated and identified many cases of fraudulent activity in recent years. [Case Studies 3 and 4](#) provide two notable examples.

Source: Wales Audit Office

### **Case study 3: Welsh Government Counter Fraud team investigation – Express Motors, 2018**

The Express Motors case involved the abuse of the concessionary bus pass scheme in Wales by the company's Directors. They instructed drivers to make additional swipes of bus passes to enhance the number of journeys they could claim for. In doing so the claims submitted to Gwynedd Council were false. The Directors gained personally through the additional monies (£500,000) received from the council.

The investigation, conducted jointly by the Welsh Government Counter Fraud team and North Wales Police, took four years. North Wales Police set a high threshold, that they would only consider abuse if a specific pass was used ten or more times on any one day on ten days or more.

Following completion of the cases, five directors were convicted and sentenced to a total of 29 years imprisonment. Concessionary bus pass usage in Gwynedd dropped by 34%, and by 5% across Wales. The fraud occurred over a lengthy period and the Judge commented that it was almost certain that the entirety of the fraud had not been identified.

## Case Study 4: Welsh Government Counter Fraud team investigation – Dragon, 2019

The Dragon case relates to funding made to three associated companies to establish a processing plant in Port Talbot. The plant was intended to produce rag worm for the fishing industry and subsequently become the world's largest supplier of rag worm bait for the industry. Deliverables included building ponds, producing bait, creating jobs and making profit.

However, the defendant failed to carry out his obligations. The venture created only a fraction of the jobs expected, and the monies were used for purposes other than those intended by the Welsh Government.

The Welsh Government's Head of Counter Fraud commenced investigating the Dragon companies in early 2010 when he noticed some suspicious irregularities. His suspicions increased when the MP for Carmarthen West and South Pembrokeshire raised concerns he had received from his constituents. These concerns focussed on the lack of progress and jobs created despite extensive funding from the Welsh Government.

The investigation identified, among many other things, that the ponds were claimed to be a specialist build undertaken by the only company with appropriate expertise. In fact, this company was owned and run by family members and the pond design and construction required no specialist expertise. It also found that the project claims included a fictitious invoice for £0.4 million and that inaccurate information had been provided for monitoring purposes.

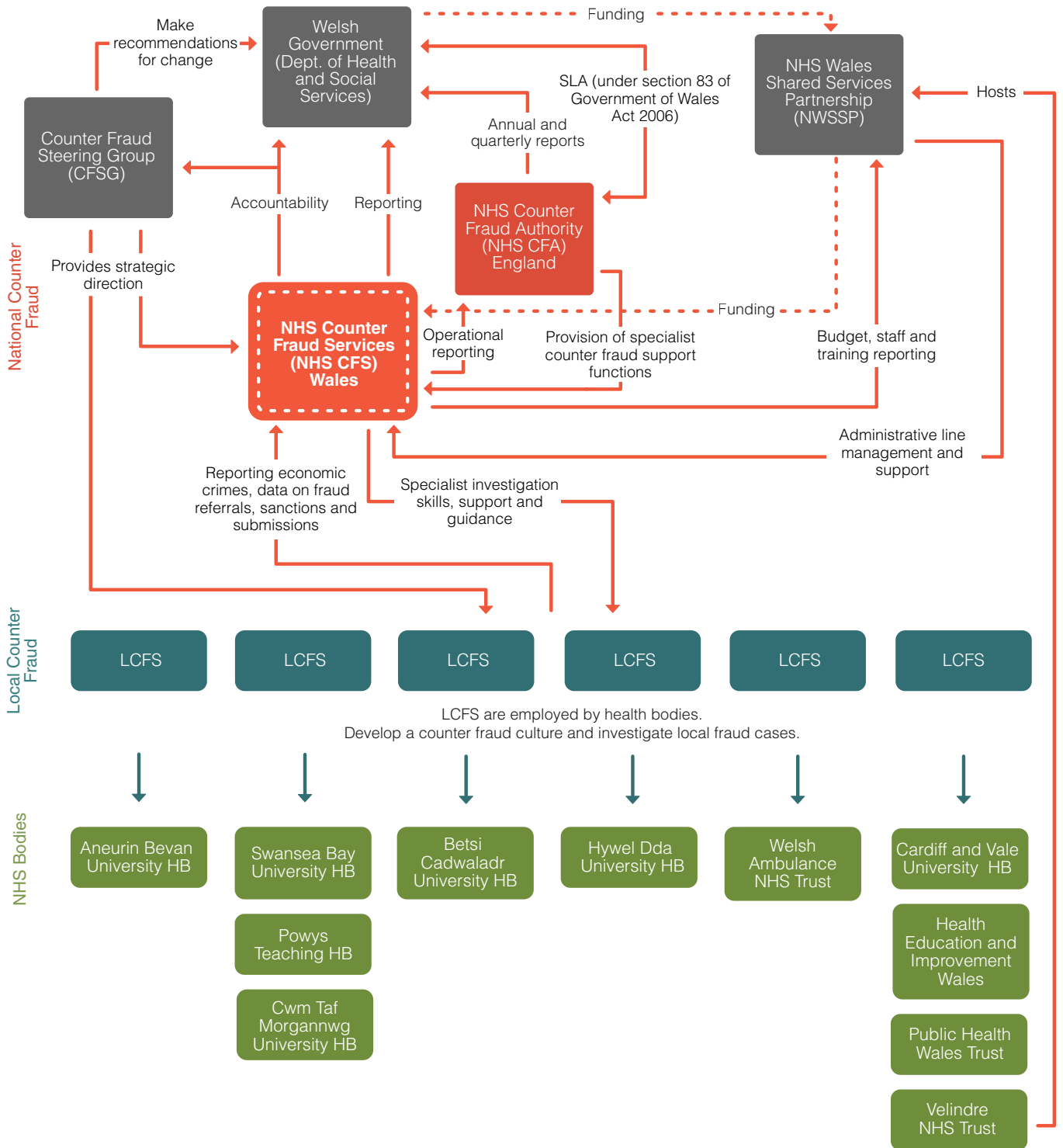
The defendant pleaded guilty to defrauding the EU and the Welsh Government of £4.7 million. In May 2019, he was sentenced to three years and nine months in prison.

## The NHS in Wales

2.4 The Welsh Government retains overall responsibility for development and implementation of a strategy to combat crime in the NHS in Wales. It draws on three sources of resources and expertise to deliver counter-fraud services within NHS Wales, as shown in [Exhibit 9](#):

- The NHS Counter Fraud Authority (NHSCFA) – see [paragraphs 2.6 to 2.9](#);
- NHS Counter Fraud Services Wales (NHSCFS) Wales – see [paragraphs 2.10 to 2.11 and Exhibit 10](#); and
- Local Counter Fraud Specialists (LCFS) – see [paragraphs 2.12 to 2.13 and Exhibit 11](#).

Exhibit 9: the structure of counter-fraud services in NHS Wales



Source: Wales Audit Office

- 2.5 In 2001, the (then) Welsh Assembly Government launched the document 'Countering Fraud in NHS Wales' and issued Directions on counter-fraud measures to all health bodies in Wales. This resulted in the creation of the NHS Counter Fraud Service (NHSCFS) Wales Team, funded by the Welsh Government, and the requirement for all health bodies to nominate an accredited Local Counter Fraud Specialist (LCFS).

## **The NHS Counter Fraud Authority (NHSCFA)**

- 2.6 In 2017 Welsh Ministers and the newly established NHS Counter Fraud Authority England (NHSCFA) entered into a new service level agreement under section 83 of the Government of Wales Act 2006. Under this agreement, the NHSCFA provides specialist counter-fraud services to Wales including IT support, intelligence, quality assurance and guidance.
- 2.7 The NHS Counter Fraud Authority is a specialist authority dedicated to identifying, investigating and preventing fraud and other economic crime within the NHS across England. The NHSCFA is independent from other NHS bodies and is directly accountable to the Department of Health and Social Care (DHSC) in England.
- 2.8 The NHSCFA sets national standards and provides policies and guidance (including the NHS Counter Fraud Manual) to support NHS bodies across England and Wales to implement effective local counter-fraud arrangements. It also conducts an Annual Quality Assurance assessment of LCFS resources at each NHS Wales body, and has commented positively on the structure, performance standards and quality of counter-fraud work across NHS Wales.
- 2.9 The NHSCFA submits quarterly reports to the Welsh Government, which enable Welsh Ministers to monitor the performance of the NHSCFA against the agreed annual service level agreement for the provision of specialist support services. The NHSCFA produces an annual report which is shared with Welsh Ministers, the NHS Wales Directors of Finance and the Counter Fraud Steering Group.

## **The NHS Counter Fraud Service in Wales**

- 2.10 The NHS Counter Fraud Service (NHSCFS) Wales provides specialist criminal investigation and financial investigation services to all health bodies in Wales. Funded by the Welsh Government, the NHSCFS Wales team provide an operational lead for NHS Wales and the Welsh Government, to help ensure a consistent approach to counter-fraud work across NHS Wales.
- 2.11 **Exhibit 10** sets out the role and work of the NHS Counter Fraud Service in Wales in more detail.

## Exhibit 10: overview of the counter-fraud arrangements within NHS Counter Fraud Service in Wales

### Resources



- The NHS Counter Fraud Service (NHSCFS) Wales team comprises seven FTE experienced investigators.
- The team includes two accredited Financial Investigators who have the powers to recover funds from convicted fraudsters. They use investigation and restraint powers under POCA 2002 when appropriate.
- The NHSCFS Wales Manager is professionally accountable to the Head of Operations of the NHSCFA.
- NHSCFS Wales is a division of the NHS Wales Shared Service Partnership. The NHSCFS Wales team is employed by Velindre NHS Trust.

## Work and Collaboration



- The main role of the NHSCFS Wales team is to investigate and prosecute serious, complex, or large-scale economic crime cases (fraud, corruption and bribery) within NHS Wales. Such cases may involve more than one health body and may cover both England and Wales.
- The NHSCFS Wales team investigates all cases in line with the NHS Anti-Fraud Manual and all relevant criminal law, and consider appropriate criminal, civil or disciplinary sanctions.
- The NHSCFS Wales team also provides specialist investigation skills, support and guidance to the LCFS network across NHS Wales. This includes cases which potentially involve senior executives and/or management at health bodies, where independent assurance is required as LCFS staff report to Directors of Finance.
- Although most of the team's activity is reactive and involves investigative work, NHSCFS Wales also undertakes proactive work such as presentations to NHS staff. These raise awareness of potential fraud risks and the reporting routes for any concerns.
- The NHSCFS Wales team facilitates information sharing on good practice and promotes general awareness of counter-fraud work and developments across NHS Wales.
- The team maintains a case management system and hosts a good practice exchange forum twice a year for LCFS staff, where specialist trainers from the NHSCFA in England provide updates on criminal justice issues and professional accreditation refresher training.
- The team also delivers regular fraud awareness training to key NHS Wales staff and stakeholders highlighting potential crime risks and addressing relevant system weaknesses.
- The team regularly engages with the police services when police arrest or search powers are necessary. The team also works closely with the National Crime Agency in relation to financial and money laundering investigations. Relevant investigative information is also shared with medical professional regulatory and disciplinary bodies when appropriate.
- The NHSCFS Wales team can refer its cases directly to the Crown Prosecution Service for independent consideration of criminal prosecution action. The team also reviews and approves LCFS prosecution files prior to their submission to the Crown Prosecution Service.



## Scrutiny



- The Counter Fraud Steering Group (CFSG) provides the prime governance and oversight for counter-fraud arrangements for NHS Wales.<sup>14</sup>
- The CFSG meets quarterly, with attendees including representatives from the Welsh Government, NHS Wales Finance, NHSCFA, NHSCFS Wales, the Chair of the NHS Wales Audit Committees and internal and external audit.
- The NHSCFS Wales Manager completes a risk-based annual work plan and submits it to the NHSCFA's Head of Operations for review. This work-plan highlights the potential areas of risk, based on intelligence data and identifies proactive priorities across NHS Wales. The CFSG reviews and endorses the work plan.
- The NHSCFS Wales team updates the Welsh Government, NHSCFA and relevant Finance Directors on any significant case developments as well as producing a quarterly case report for each of their ongoing investigations. The NHSCFS Wales team also produces quarterly consolidated economic crime investigation data for NHS Wales.
- The NHSCFS Wales team reports to the CFSG every quarter who then make recommendations to NHS Wales Directors of Finance and to the Welsh Government.
- The NHSCFS Wales team's activities are subject to inspection review and scrutiny by the NHSCFA's Governance and Assurance Manager.
- The NHSCFS Manager reports on counter-fraud work, including resources and sanctions secured, to the Health and Social Services Group within the Welsh Government.

## Impact



- During 2018-19, there were 23 referrals investigated by NHSCFS Wales. The team secured four criminal convictions, one internal disciplinary and nine civil recoveries which led to £380,000 being recovered for NHS Wales.
- During the five-year period 2014-19, NHSCFS Wales and the LCFS teams have jointly recovered a total of £2.3 million for NHS Wales and have together secured 64 criminal convictions, 177 civil recoveries and 147 disciplinary sanctions.
- There is currently no comprehensive analysis of specific fraud risks, which may result in counter-fraud resources not being directed to the most appropriate areas. The CFSG is leading work to develop an analysis which will inform the future allocation of resources.
- The NHSCFS Wales team has investigated several significant fraud cases in recent years. **Case Studies 5 and 6** provide two notable examples.

Source: Wales Audit Office

<sup>14</sup> A sub-group of the NHS Wales Directors of Finance Group, chaired by the Director of Finance and Corporate Services of the NHS Wales Shared Services Partnership

### **Case study 5: NHSCFS Wales investigation – Powys Teaching Health Board**

A temporary Project Manager at Powys Teaching Health Board established a private company through which he submitted bogus invoices totalling £822,000 to his employer using false names.

The Powys fraud case was an anonymous referral received by the NHS CFS Fraud and Corruption reporting line in June 2015.

The perpetrator was assisted in this fraud by two other employees. In October 2018, the three individuals were convicted of Fraud and Money Laundering. The instigator was sentenced to seven years imprisonment, and the others to four and three years imprisonment respectively.

Proceeds of Crime Act 2002 confiscation proceedings are currently in progress with a view to recovering the money defrauded from the Health Board.

### **Case study 6: NHSCFS Wales investigation – Overpayment of Salary to NHS Nurse**

A nurse was mistakenly paid a monthly salary for 17 months after she left her job and failed to disclose the error to her former employer.

The nurse stopped working at Cwm Taf University Health Board in January 2017 but was paid her monthly salary in error up until May 2018. This led to overpayments of £25,000. Instead of alerting her previous NHS employers to the continued salary payment error, the nurse decided to keep the money, which she then spent.

The error came to light during a review of salary payments and the case was then referred to NHS Counter Fraud Service Wales for investigation.


The nurse pleaded guilty to theft and was given a sentence of six months in prison, suspended for 12 months. She was ordered to carry out 200 hours of unpaid work and to attend a rehabilitation course. The nurse was ordered to repay the amounts overpaid at a minimum of £250 per month back to Cwm Taf University Health Board.




## The Local Counter-Fraud Specialists in Wales

2.12 Individual health bodies are responsible for dealing with their own counter-fraud matters at a local level. Each health body in Wales has a nominated Local Counter Fraud Specialist employed by the health body who, either on their own or as part of a team, investigates smaller value fraud cases within their own health bodies.

2.13 **Exhibit 11** sets out the role and work of the Local Counter Fraud Specialists at health bodies in more detail.

### Exhibit 11: overview of the Local Counter Fraud Specialists at health bodies

<p>Resources</p> 	<ul style="list-style-type: none"><li>• Welsh Government Directions require each local health board in Wales to appoint and train at least one Local Counter Fraud Specialist (LCFS). Each LCFS is accredited by the Counter Fraud Professional Accreditation Board.</li><li>• There is no regulatory requirement for health bodies to have more than one LCFS and no benchmark for the level of resource that should be invested. This has resulted in a variation in the resourcing levels at health boards.</li><li>• The Local Counter Fraud Specialists are employed by health bodies in Wales and are usually based at the relevant health body. Not all health bodies employ their own LCFS directly, some buy in the service from another health body.</li><li>• The Director of Finance at each local health board makes decisions relating to recruitment of LCFS, and the NHSCFS Wales Manager assists with the recruitment process.</li><li>• The total number of LCFS staff in Wales has increased from 14.3 FTE in 2014-15 to 18.2 FTE in 2018-19.</li></ul>
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<p>Work &amp; Collaboration</p> 	<ul style="list-style-type: none"> <li>• The LCFS acts as the focal point for all economic crime matters within each health body. The Fraud, Bribery and Corruption Standards drive this work, which are set and updated annually by the NHSCFA.</li> <li>• LCFS staff are responsible for the initial investigation of all allocated allegations of economic crime affecting their NHS bodies. These are often the less complex economic crime referrals, but LCFS investigations frequently secure appropriate criminal, civil and disciplinary sanctions.</li> <li>• LCFS are also responsible for developing the counter-fraud culture at their respective health bodies. They host presentations and workshops within their NHS bodies to raise awareness of economic crime risks, the counter-fraud arrangements within their health body and the ways in which NHS Wales staff should report any concerns.</li> <li>• The LCFS also undertake prevention and deterrence work which highlights successful investigation outcomes, and also make recommendations to improve NHS Wales control systems so that opportunities to commit offences can be minimised.</li> <li>• Each LCFS is required to complete a four-week accreditation course, funded by NHS Wales and sourced from independent training providers. All LCFS staff receive continuing professional development training from the NHSCFA.</li> </ul>
<p>Scrutiny</p> 	<ul style="list-style-type: none"> <li>• LCFS report on their work plans and progress reports to their health body's Audit Committee, and occasionally call on the support of NHSCFS Wales if required to update on a specific case.</li> <li>• LCFS are directly accountable to the Finance Directors at their health bodies.</li> <li>• It is the responsibility of the Director of Finance and the LCFS to keep their Audit Committee informed of the progress of economic crime investigations and outcomes.</li> </ul>
<p>Impact</p> 	<ul style="list-style-type: none"> <li>• During 2018-19, 129 cases were allocated to LCFS for investigation, and their work led to recoveries of £142,364 for NHS Wales. Their investigations also resulted in 12 criminal sanctions, 30 disciplinary sanctions and 27 civil recoveries.</li> <li>• The LCFS have investigated several significant fraud cases in recent years. <a href="#">Case Studies 7 and 8</a> provide two notable examples.</li> </ul>

Source: Wales Audit Office

### **Case study 7: LCFS Wales – Clinical Research Fellow in Cardiff & Vale area**

A doctor was employed on a two-year contract as a full time Clinical Research Fellow at Cardiff & Vale University Health Board where he was contracted to work 40 hours per week split equally between clinical duties and research work.

Information received indicated that the subject was not conducting any of his research work. The issue was referred for investigation and it was confirmed that the subject was working lucrative hours as a locum doctor when he should have been completing his research work for the health body.

When interviewed, the doctor admitted the offences, he was subsequently charged with multiple fraud offences and appeared at Cardiff Crown Court, where in March 2018 he was sentenced to eight months imprisonment suspended for six months. He was also ordered to repay £55,733 in compensation with £2,000 investigation costs and a £115 victim surcharge. The individual is no longer employed by the health body and the issue has been referred to the General Medical Council.

### **Case study 8: LCFS Wales investigation – Student Nurse in Cwm Taf area**

A former student nurse repeatedly submitted false information over several years when applying for student finance related funding. The mature student claimed that she was a single mother living with her two children in order to receive enhanced bursary funding and DWP benefits when she was actually living with her husband who was in full employment.

The joint investigation with DWP confirmed the false bursary and benefit claims and she was charged with multiple fraud and forgery offences. The subject appeared at Merthyr Crown Court where she pleaded guilty and was sentenced on 18 October 2017 to a 24-month custodial sentence; the husband was also sentenced to six months imprisonment for assisting the commission of the offences. Action under the Proceeds of Crime Act 2002 is ongoing to recover the proceeds of the frauds from the subjects.

## Local Government

- 2.14 There are 22 Unitary Local Authorities in Wales. Each is a corporate body responsible for exercising the functions devolved to them under the Local Government (Wales) Act 1994.
- 2.15 These elected councils are responsible for policy formulation and determining spending priorities. Accordingly, each council determines how much resource to allocate to counter fraud and what policies and strategies they wish to follow.
- 2.16 The counter-fraud landscape across Local Government differs markedly from the NHS and Central Government in Wales. There is no all-Wales team responsible for local government counter-fraud or an overarching strategy or policy framework. Arrangements vary widely from council to council.
- 2.17 **Exhibit 12** sets out the key aspects of counter-fraud arrangements within Welsh councils.

## Exhibit 12: overview of the counter-fraud arrangements currently within Welsh councils

### Resources



- Austerity measures and pressures on budgets have led to a reduced internal capacity to investigate fraud and corruption at many councils.
- Most councils no longer have a dedicated council-wide counter-fraud team or resource.
- Leading up to 2014 all councils had dedicated counter-fraud arrangements primarily organised around the identification of benefit fraud and error. However, in 2014, a national Single Fraud Investigation Service (SFIS) for benefit fraud was established within the Department for Work and Pensions (DWP), and most of the skilled fraud investigators who transferred across to the DWP have not been replaced by councils.
- While some councils have retained a dedicated counter-fraud resource, internal audit has filled the gap elsewhere. However, not all internal audit teams have received formal training and many teams lack counter-fraud experience.
- In councils where internal audit undertake the investigations, increases in volume often means they do not deliver other programmed work on time due to limited resources.
- Our 2018 National Fraud Initiative (NFI) report found considerable variation in the level of commitment being shown by participants and, in a small number of cases, participants failed to adequately review NFI matches in an effective or timely manner.

## Work and Collaboration



- Individual councils are responsible for developing their own counter-fraud policies and culture.
- Councils tend to focus more on investigations rather than prevention due to a lack of resources and competing priorities.
- There are examples of where councils undertake some proactive work and raise awareness both internally and externally, but this is not widespread.
- Generally, councils prioritise potential fraud cases as and when they arise, but the numbers of cases are difficult to predict.
- A Welsh Chief Auditors group meets twice a year and participants view this as an effective means of discussing common issues. However, counter-fraud is not a standing agenda item for this forum.
- There are some informal local networks in regions eg North Wales Chief Auditors, South Wales creditors group which act as an additional forum to discuss counter-fraud issues. Some councils are members of the National Anti-Fraud network which provides fraud alerts to members.
- Councils recognise the benefit of collaboration and having a more holistic approach as well as the opportunities to share resources, skills and work across boundaries. However, barriers of time, cost and data sharing sensitivities, are some of the reasons preventing this from happening. Although collaboration could ultimately lead to cost savings there are conflicting short-term demands in times of austerity.
- Councils have some links with CIPFA and often use its published information for example the Fighting Fraud Locally Strategy. However, councils' proactive engagement with CIPFA is limited. On cost grounds, only two councils have subscribed to the CIPFA Counter Fraud Centre.

## Scrutiny



- Councils typically provide information to their respective Audit Committees on cases of identified fraud and investigations. However, this information varies in terms of format and frequency.

## Impact



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

Source: Wales Audit Office



## The National Fraud Initiative

- 2.18 The Welsh Government, several Welsh Government Sponsored Bodies, NHS and local government bodies in Wales all participate in the National Fraud Initiative (NFI). NFI is a data-matching tool which enables organisations to identify and investigate data anomalies that may be due to fraud. The Auditor General for Wales administers NFI in Wales, Audit Scotland in Scotland and Northern Ireland Audit Office in Northern Ireland. The former Audit Commission administered NFI in England until 2015, when responsibility transferred to the Cabinet Office.
- 2.19 The NFI has established itself as the UK's premier public-sector fraud-detection exercise. The design of the system allows the matching of different sets of data to identify possible fraudulent or erroneous claims and payments. Where the NFI system identifies a match, it may indicate an inconsistency which requires further investigation; it is not in itself evidence of a fraud. Participating organisations receive online reports containing the matches which relate to their organisation and they are responsible for analysing those matches.
- 2.20 Since 1996, the NFI has identified more than £35 million of fraud and overpayments in Wales, and nearly £1.7 billion across the UK. The information submitted is wide-ranging and includes data relating to housing benefits, student-loan recipients, payroll and pension payments.
- 2.21 The most recent NFI report concluded that although most participants have an effective approach for managing the NFI and reviewing data matches, there is still considerable variation in the level of the participants' commitment and, in a small number of cases, participants have failed to adequately review NFI matches in an effective or timely manner.
- 2.22 **Case Studies 9 and 10** provide examples of actions taken by local authorities in response to NFI data matches.

### **Case study 9: National Fraud Initiative (NFI) – City and County of Swansea occupational pension fraud**

The City and County of Swansea reviewed NFI matches released in January 2017 between persons in receipt of occupational pensions paid by the Council and DWP records of deceased persons.

Checks were undertaken to confirm that the matched parties were the same. Where this was the case, further checks were undertaken to confirm that the pension was still in payment and whether pension records had been updated to record that the pensioner had died. Where pensions were still in payment after the date of death, payments were suspended, and attempts made to trace the next of kin. Eligibility forms were also sent out as a means of determining continued eligibility.

Because of the review, 26 cases were identified where incorrect pension payments were being made, and the Council is seeking to recover the overpayments. In one case, the pension overpayment amounted to £10,058. A further 11 pensions remain suspended, pending ongoing investigations to trace next of kin.

### **Case study 10: Caerphilly County Borough Council duplicate payments to creditors**

Caerphilly County Borough Council undertook a review of NFI creditor payment matches to identify and investigate potential duplicates.

Several duplicates were identified which had already been recovered by means of supplier credits or refunds, but a number of unrecovered duplicates were also identified through this exercise. Thirty-seven unrecovered duplicated payments were identified with a total value of £60,534.

The Council has recovered, or is seeking to recover, all the duplicate payments identified and is continuing to review its systems and procedures to prevent overpayments in the future.

## The Wales Fraud Forum

- 2.23 There is one other organisation in Wales that plays a role in counter-fraud; the Wales Fraud Forum<sup>15</sup>. This is a not for profit company run by a strategic board of volunteers from public and private sectors within Wales. The Wales Fraud Forum does not receive funding or employ staff, but its members have formed a steering group. The steering group uses its limited available time to:
- promote fraud awareness amongst its membership, organisations and individuals throughout Wales;
  - promote an open and co-operative environment between the membership in both public and private sectors;
  - establish a sound working relationship with similar forums in the UK and overseas and develop fraud prevention strategies for Wales in line with the UK's national fraud strategies;
  - provide the opportunity through feedback and surveys to assess the general effectiveness of Wales Fraud Forum initiatives; and
  - organise conferences and master classes on subjects relating to the fight against fraud.
- 2.24 The steering group is working towards creating a good practice culture by encouraging and developing anti-fraud strategies for members to utilise. It also aims to identify fraud risks and define methods to promote awareness and shared good practice, to enable its membership to effectively manage fraud.
- 2.25 Membership of the steering group includes a varied mix from the private and public sectors. There is a representative from the NHS and the Welsh Government on the group but there is currently no Local Government representative.
- 2.26 Details of some other counter-fraud organisations operating across England and Wales are set out in [Appendix 4](#).

15 [www.fraudforum.wales/](http://www.fraudforum.wales/)

# Appendices

## Appendix 1 – Audit Methods

### Document reviews

We reviewed and reflected on the cumulative audit knowledge held within the Wales Audit Office regarding counter-fraud arrangements within the Welsh public sector. This included our previous work on the National Fraud Initiative and any recent local audit work on this topic.

We undertook a literature review on the topic of counter-fraud both generally and specific to the UK public sector. This included the following publications:

- ▶ Association of Fraud Examiners: Report to the Nations, 2018 Global Study on Occupational Fraud and Abuse
- ▶ Cabinet Office: Cross Government Fraud Landscape Report 2018
- ▶ KPMG: Fraud Barometer 2018 - A snapshot of Fraud in the UK
- ▶ Home Office, Criminal Finances Team: Asset recovery statistical bulletin, 2012-13 to 2017-18
- ▶ PricewaterhouseCoopers (PwC): Global Economic Crime Survey 2018: UK findings
- ▶ National Audit Office: Online Fraud report, June 2017
- ▶ Government Internal Audit Agency: Review of Approach to Counter Fraud, November 2017
- ▶ NHS Counter Fraud Authority: Wales Annual Performance Report, Annual Summary Report 2017-18
- ▶ CIPFA Counter Fraud Centre: Fighting Fraud and Corruption Locally, 2016-19 Checklist
- ▶ CIPFA Counter Fraud Centre: Counter Fraud Assessment Tool, 2015
- ▶ CIPFA Counter Fraud Centre: The local government counter-fraud and corruption strategy, 2016-2019
- ▶ National Fraud Initiative in Wales, Report 1 April 2016 to 31 March 2018
- ▶ The Government Counter Fraud Profession: Protecting public services and fighting economic crime
- ▶ Northern Ireland Audit Office: Managing Fraud Risk in a Changing Environment, 17 November 2015
- ▶ NHS Counter Fraud Authority: Wales Annual Performance Report, Annual Summary Report 2017-18
- ▶ NHS Wales: Fighting Fraud Strategy

## Interviews

We had discussions with fraud specialist colleagues within the Wales Audit Office and conducted structured interviews with representatives from the following organisations:

- The Welsh Government's Counter Fraud team
- The NHS Counter Fraud Service Wales team
- Representatives from eight Welsh councils with a lead role in counter-fraud and fraud investigation
- The Wales Fraud Forum

We have also held discussions with representatives from the following organisations:

- Chartered Institute of Public Finance and Accountancy (CIPFA) in Wales
- The CIPFA Counter Fraud Centre
- The Welsh Local Government Association
- Cabinet Office Centre of Expertise for Counter Fraud
- Government Counter Fraud Profession

## Appendix 2 – Arriving at an estimate for the cost of fraud to the Welsh public sector

The Association of Certified Fraud Examiners (ACFE) recognises that counting the cost of fraud is an incredibly difficult task, given the number of unknown factors required to make such an estimate. 'No one knows the amount of frauds that go undetected or unreported, and even for those frauds that do come to light, the full amount of loss might never be calculated. Such limitations mean that any attempts to quantify the global amount of fraud will be imperfect'.

### The global cost of fraud

The ACFE has attempted to answer this question by surveying more than 2,000 anti-fraud experts who together have investigated hundreds of thousands of fraud cases. On this basis, the ACFE estimates that organisations lose 5% of their annual revenues to fraud. Applying this percentage to the gross world product yields a potential loss of £60 trillion annually.

### The cost of fraud to the UK

A recent report by the UK Cabinet Office reveals an upper and lower range for likely losses in government spend between 0.5% and 5% of expenditure. The top end of these estimates is consistent with the findings of ACFE above.

### The cost of fraud to Wales

Whilst it is difficult to quantify fraud losses both globally and nationally, it is even more difficult to find reliable estimates for the cost of fraud within the Welsh public sector. There is no annual survey or review undertaken to try and answer this question let alone break this down further either by sector or type of fraud.

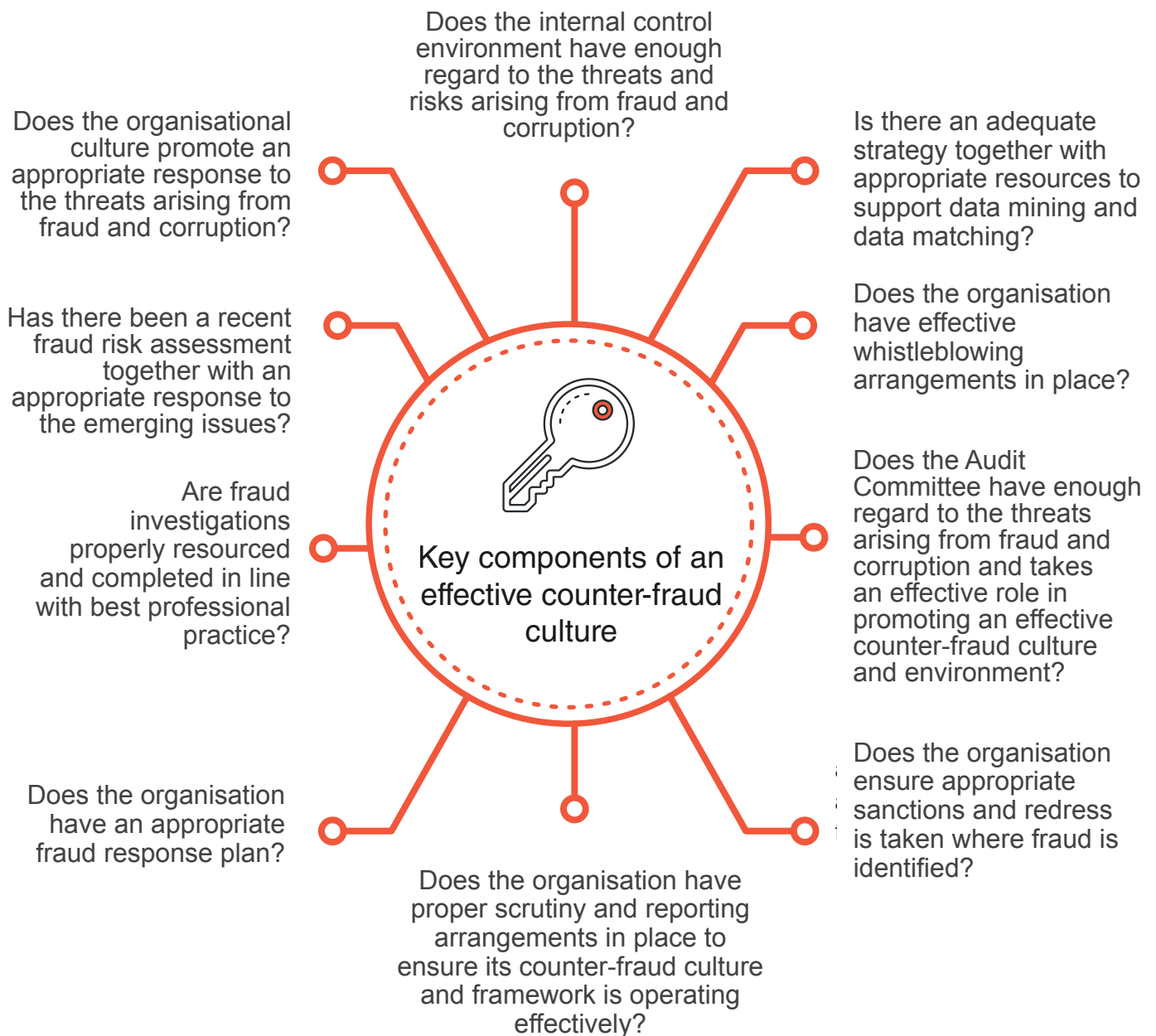
We have estimated in this paper that the cost of fraud in the Welsh public sector could be in the region of between £100 million and £1 billion annually.

We have arrived at this estimate by applying the Cabinet Office percentages above to devolved annual expenditure in Wales of £19.6 billion. This value comes from the Wales Audit Office Report – 'A Guide to Welsh Public Finances' and is derived from the main sources of funding for devolved services in Wales in 2016-17. These comprise the £14.5 billion block grant plus local borrowing, taxation and other borrowing and income.

## Appendix 3 – Key components of an effective counter-fraud culture

Organisations can mitigate against the risk of fraud by having the right organisational culture supported by effective counter-fraud arrangements.

Key elements of effective counter-fraud arrangements are set out below. This list is not exhaustive, but it covers the main components.



## Appendix 4 – Organisations promoting counter-fraud across the UK

The ways in which fraud is committed are constantly evolving as society and technology changes. Fraud does not respect geographical or other boundaries. It is therefore important that collaboration and the sharing of intelligence and good practice takes place across the UK.

This appendix provides details of organisations sharing intelligence and promoting counter-fraud across the UK, drawn from public website searches. It should not however be considered exhaustive, but rather as a good starting point for further inquiry.

### The National Crime Agency

The role of the National Crime Agency (NCA) is to protect the public by disrupting and bringing to justice those serious and organised criminals who present the highest risk to the UK.

The NCA has a wide remit. They tackle serious and organised crime, strengthen our borders, fight fraud and cyber crime, and protect children and young people from sexual abuse and exploitation. They provide leadership in these areas through our organised crime, border policing, economic crime and CEOP commands, the National Cyber Crime Unit and specialist capability teams.

The NCA works closely with partners to deliver operational results. NCA has an international role to cut serious and organised crime impacting on the UK through a network of international liaison officers.

### The National Anti-Fraud Network

Membership of the National Anti-Fraud Network (NAFN) is open to all public sector organisations and aims to provide cost-effective, class leading services which support the highest level of protection of the public purse & effective corporate governance.

NAFN exists to support its members in protecting the public interest. It is the largest shared service in the country managed by, and for the benefit of its members, and is hosted by Tameside MBC with each member paying a proportionate share of the annual operating costs. The NAFN Executive Board is elected annually by members at the AGM.



Membership is open to any organisation which has responsibility for managing public funds/assets and use of services is voluntary.

NAFN provides data, intelligence & best practice services for all teams within member organisations including:

- Corporate Fraud
- Debt Recovery
- Environmental Health
- Procurement
- Housing Benefit Fraud
- Housing
- Internal Audit
- Investigation
- Parking
- Trading Standards

This also includes both directly employed & out-sourced staff dealing with the verification of entitlement to services and benefits.

NAFN offers the following functions:

- Acquisition of data legally, efficiently and effectively from a wide range of information providers.
- Acting as the hub for the collection, collation and circulation of intelligence alerts.
- Providing best practice examples of process, forms and procedures.
- Compliance with the law & best practice: All data is acquired in full compliance with the law and best practice.
- Efficiency savings: Membership of NAFN significantly reduces recruitment, training and process costs for individual members. NAFN provides a pool of trained & accredited staff and negotiates savings for members.
- Effectiveness: NAFN is able to acquire data much faster than could be achieved by individual members.

## Cifas

Cifas is a not-for-profit fraud prevention membership organisation. It claims to be the UK's leading fraud prevention service, managing the largest database of instances of fraudulent conduct. Cifas facilitates the sharing of data between more than 400 organisations in order to prevent and detect fraud.

Throughout the UK, Cifas experts and services help protect individuals and organisations from the growing and increasingly sophisticated threat of fraud and financial crime.

With every organisation that becomes a Cifas member, or with whom they collaborate, they establish a tougher environment for fraudsters – both externally and within an organisation. Using the simple tools of communication and sharing information, Cifas can shine a light on their activities for all members and partners to see.

For members of the public Cifas offer increased security against identity fraud, as well as expert advice on how to protect personal data in an increasingly tech-reliant world.

For individuals Cifas can provide the information and tools needed to understand fraud and financial crime when it happens and offer advice about what individuals can do to protect themselves from becoming a victim.

Since 1988, Cifas has collaborated with organisations from across the public and private sectors to create a non-competitive fraud prevention environment, focused on working with rather than against each other to defeat fraudsters. Their methods utilise a number of products and services including fraud risk databases and networking opportunities for members and law enforcement partners.

## The CIPFA Counter Fraud Centre

Building on CIPFA's history of championing excellence in public finance management, its Counter Fraud Centre offers training and a range of products and services to help organisations detect, prevent and recover fraud losses.

The Centre leads on CIPFA's national counter-fraud and anti-corruption strategy for local government. It also conducts the annual CIPFA Fraud and Corruption Tracker, a national overview of all fraud, bribery and corruption activity throughout the UK public sector.

## The Single Fraud Investigation Service

The Single Fraud Investigation Service (SFIS) is a partnership between the Department for Work and Pensions Fraud Investigation Service, HMRC and local authorities. These bodies work closely together to deliver a service where a single investigation covers all welfare benefit fraud and tax credit fraud.

The main objectives of the SFIS are to:

- operate under a single policy and set of operational procedures for investigating all welfare benefit fraud;
- conduct single investigations covering all welfare benefit fraud;
- rationalise existing investigations and prosecution policies to create a more coherent investigation service that is joined up, efficient and operates in a more consistent and fair manner, taking into account all offences that are committed;
- enhance closer working between DWP, HMRC and local authorities;
- bring together the combined expertise of all three services drawing on the best practices of each; and
- support the fraud and error integrated strategy of preventing fraud and error getting into the benefit system, by detecting and correcting fraud and punishing and deterring those who have committed fraud.

## The Cabinet Office's Centre of Expertise for Counter Fraud

The Cabinet Office has recently established the Centre of Expertise for Counter Fraud as a function of central government in England. This new Centre sets cross-government standards for fraud and supports departments in understanding the risk posed by fraud.

The Centre comprises four key work streams:

- 1 The Government Counter Fraud Profession: team are responsible for improving cross-government counter-fraud capability and consistency by providing professional standards, competencies and guidance.
- 2 Policy Engagement & Assurance: the team set counter-fraud functional standards, for Government and then hold them to account. The team measure the amount of fraud and error detected through data gathered from departments. The data collected is then assessed through the Fraud Measurement and Assurance Exercise and the Prevention Panel.
- 3 Data Analytics Development: team are responsible for reviewing the use of data analytics and promoting greater access to data and data analytics across government. The team work to support and deliver new data sharing and data analytics projects, through the Digital Economy Act 2017<sup>16</sup> where required.
- 4 The National Fraud Initiative: team focus on the prevention and detection of fraud through the cross matching of data from organisations in the public and private sectors across the UK.

<sup>16</sup> The Digital Economy Act covers Wales. However Welsh Ministers are yet to enact the secondary legislation that will bring this Act into force

## Appendix 5 – Glossary of Terms

ACFE	Association of Certified Fraud Examiners
ARAC	Audit and Risk Assurance Committee
Bribery	The offering, promising, giving, accepting or soliciting of an advantage as an inducement for an action which is illegal, unethical or a breach of trust. Inducements can take the form of gifts, loans, fees, rewards or other advantages (taxes, services, donations, favours etc.).
CFSG	Counter Fraud Steering Group
Cifas	Cifas is a not-for-profit fraud prevention membership organisation.
CIPFA	Chartered Institute of Public Finance and Accountancy
Civil Recovery	The proceeds of crime can be recovered in civil proceedings in the High Court against property which can be shown to be the proceeds of crime.
Confiscation Order	A confiscation order is an order of the Crown Court which requires a convicted defendant to pay a sum of money to HM Courts and Tribunal Service.
CPS	Crown Prosecution Service
Cyber Crime	Crimes that target computer networks or devices. These types of crimes include viruses and denial-of-service attacks. Crimes that use computer networks to advance other criminal activities. These types of crimes include cyberstalking, phishing and fraud or identity theft.
DWP	Department for Work and Pensions
EU	European Union
Extortion	Extortion is a criminal offense of obtaining money, property, or services from an individual or institution, through coercion.
Fraud	The Fraud Act 2006 gives a statutory definition of the criminal offence of fraud, defining it in three classes – fraud by false representation, fraud by failing to disclose information, and fraud by abuse of position.
Fraud Triangle	The Fraud Triangle was developed in the 1950s by Donald Cressey which helps explain the circumstances within which fraud has a greater likelihood of taking place.
HMRC	Her Majesty's Revenue and Customs

LCFS	Local Counter Fraud Specialist
HMICFRS	Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services
NCA	National Crime Agency
National Fraud Initiative	The National Fraud Initiative (NFI) is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud.
NHSCFA	National Health Service Counter Fraud Authority
NHSCFS	National Health Service Counter Fraud Service
Proceeds of Crime	In effect any handling or involvement with any proceeds of any crime (or monies or assets representing the proceeds of crime) can be a money laundering offence. An offender's possession of the proceeds of his own crime falls within the UK definition of money laundering.
Restraint Order	<p>A restraint order is obtained to preserve assets until a confiscation order is paid in full. It can be obtained from the Crown Court at any time from the start of an investigation.</p> <p>A restraint order can also be obtained to preserve assets for reconsideration applications and when obtaining confiscation orders against absconded defendants.</p>
SFIS	Single Fraud Investigation Service
WEFO	Welsh European Funding Office
Whistleblowing Arrangements	Processes put in place by organisations that enable their workers to come forward to raise a concern about wrongdoing in a safe and transparent manner.



Wales Audit Office

24 Cathedral Road

Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

We welcome telephone calls in  
Welsh and English.

E-mail: [info@audit.wales](mailto:info@audit.wales)

Website: [www.audit.wales](http://www.audit.wales)

Swyddfa Archwilio Cymru

24 Heol y Gadeirlan

Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn Testun: 029 2032 0660

Rydym yn croesawu galwadau  
ffôn yn Gymraeg a Saesneg.

E-bost: [post@archwilio.cymru](mailto:post@archwilio.cymru)

Gwefan: [www.archwilio.cymru](http://www.archwilio.cymru)