

Counter Fraud Arrangements – Newport City Council

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The Council's counter-fraud arrangements have key weaknesses which potentially expose the Council to increased risk of fraud

Report summary

- 1 In 2019 a report¹ by the Auditor General for Wales in 2019 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 £440 million gross revenue budget of Newport City Council in 2022-23³ suggest that losses to fraud and error may be anywhere between £2.2 million and £22 million per annum.
- 2 A further report of the Auditor General for Wales' report⁴ 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's counter-fraud arrangements have key weaknesses which potentially expose the Council to increased risk of fraud.
- 5 We also made two recommendations 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' report⁵ on fraud and consequently 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 who have a key role in the Council's counter fraud arrangements, the Leader of the Council and the Chair of the Council's Governance and Audit Committee. Our evidence is limited to these sources.
- 8 We undertook the review during the period March to May 2023.

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 Newport City Council. We did this because 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 risks.
- 10 We sought to help:
 - assess the progress that the Council has made in implementing the 15 Recommendations made in the Auditor General for Wales' report – 'Raising Our Game' Tackling Fraud in Wales July, 2020;
 - give assurance that 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; and
 - identify areas of the arrangements that can be strengthened.
- 11 The Auditor General for Wales' report⁵ on fraud published in 2020 stated that some senior public sector leaders are sceptical about the levels of fraud within their organisations. As a result, they are reluctant to invest in counter-fraud arrangements and assign a low priority to investigating cases of potential fraud identified to them by the National Fraud Initiative, even though there are many examples of a good return on investment in this area. Their stance runs contrary to all the research being done by recognised leaders in the field such as CIPFA and the UK Government's Counter Fraud Function. Where such scepticism arises, it is not based on any significant local counter-fraud work or robust fraud risk assessments.

⁵ 'Raising Our Game' Tackling Fraud in Wales Auditor General for Wales, July 2020

Recommendations

The table below sets out the recommendations that we have identified following this review.

| Recommendations | |
|-----------------|--|
| R1 | The Council should review the cost-benefits of its current counter fraud arrangements from a value for money perspective to assure itself that arrangements are commensurate with its own objectives for counter fraud. When doing so, the Council may find it useful to reflect on the recommendations of the Auditor General in his 2020 Report ⁶ . |
| R2 | The Council should strengthen reporting on counter fraud to the Governance and Audit Committee to enable the Committee to become fully engaged with counter-fraud arrangements. |

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

The Council's counter-fraud arrangements have key weaknesses which potentially expose the Council to increased risk of fraud

The Council is clear upon its zero tolerance to fraud and corruption

- 12 The Council has a clear Anti-Fraud, Bribery and Corruption Statement, which the Cabinet approved in 2021. It makes explicit the Council's expectations and requirement that all individuals and organisations associated with the Council will act with integrity and that elected Members and employees at all levels will lead by example. It also sets out that the Council will maintain a zero tolerance culture to fraud and corruption.
- 13 The Council's Head of Finance has overall responsibility for ensuring the effectiveness of protecting its resources from fraud.

The Council does not undertake a fraud risk assessment

- 14 We looked for evidence that the Council has undertaken a fraud risk assessment using a range of sources such as national intelligence, local intelligence, audit reports and data-matching results. We found that the Council has not undertaken a specific fraud risk assessment, and that risk of fraud was also not identified on the Council's corporate risk register. The Council also does not maintain a record of losses and recoveries or set targets for counter fraud work which could help inform a future fraud risk assessment. The lack of a fraud risk assessment reduces the Council's ability to identify 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.

The Council has appropriate policies to support its counter fraud statement but there are some key weaknesses in the arrangements to support its delivery

- 15 The Council has the relevant policies in place to support its counter fraud and defines its strategic approach and supporting arrangements for counter fraud within its Anti-fraud, bribery and corruption statement. This statement draws together the Council's other policies and procedures for identifying, managing and responding to fraud risks. These include:
 - Code of Conduct

- Whistleblowing Policy
 - the Council promotes counter fraud measures to its staff with a range of articles on the Council's intranet.
- 16 The Council does not have a Fraud Response Plan. Instead, the Council relies upon the knowledge and experience of key staff.
- 17 Despite the Council's Anti-Fraud Bribery and Corruption Statement stating that publicising instances of fraud / corruption will deter fraudsters from attempting fraudulent or corrupt acts, the Council does not routinely publicise proven cases of fraud.
- 18 The Council has recently updated its Register of Interests arrangements to be incorporated within a central record within its corporate databases. This enables entries to be more easily analysed for example to identify potential patterns that might indicate potential fraud or risk of fraud.
- 19 The Council assesses posts for potential risk for fraud and highlights those posts where the risk of fraud is high. When recruiting to these posts additional pre-employment screening is undertaken to mitigate against this risk.
- 20 The Council's current arrangements supporting the register of gifts and hospitality are managed by individual service departments inconsistently. This makes it more difficult to analyse for patterns of fraud or potential fraud. A new replacement arrangement is currently being developed that will be incorporated within the corporate Human Resources ICT system.
- 21 Induction training for newly employed staff includes fraud awareness as part of the Financial Regulations controls and procedures. Effective counter fraud training helps staff interpret policies and codes of conduct, giving them the confidence and skills to report suspected fraud. However, a lack of a fraud risk assessment for the Council limits the effectiveness focus of counter fraud training.

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

- 22 The Council's Internal Audit Team reviews systems and procedures to minimise the risk of fraud within their existing work programme. The Council's Internal Audit Team are also usually responsible for investigating potential incidences of fraud in the first incidence, apart from in relation to potential housing benefit fraud. There are no specialist counter fraud officers within the internal audit team, and there is no provision in place to provide specialist counter fraud training for team members. The Council has not identified specific financial resources to buy-in additional specialist counter fraud support, and where officers considered this necessary funding for this would need to be approved on a case by case basis. 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 does not know if the maximum benefit is being achieved

23 The Council takes part in the National Fraud Initiative⁷. The Council does not make use of the NFI self-assessment checklists⁸ that the Auditor General produced for organisations to self-appraise their involvement in the NFI prior to and during the NFI exercises. These self-assessment checklists are in two parts – one is to assist Audit Committees to review and seek assurance through challenging the effectiveness of their Council's participation in the NFI. The other checklist is for officers that are involved in planning and managing the NFI exercise. The Council has not used either self-assessment checklist. This means that the Council may not be identifying opportunities to maximise the impact of its involvement in the NFI, and therefore potentially missing opportunities to identify instances of fraud.

The Council is not taking opportunities to collaborate with other organisations to strengthen its counter fraud arrangements

24 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. The Council shares data with other organisations for counter fraud purposes. In January 2011 the Council joined the Wales Accord on the Sharing of Personal Information (WASPI) was developed as a practical approach to multi agency data sharing for the public sector in Wales. The Council also has data sharing arrangements with the Department for Work and Pensions for counter fraud purposes. However the Council does not share learning with other public sector organisations where incidences of fraud have been identified.

The Council's Governance and Audit Committee is not contributing to the Council's counter fraud arrangements

25 The Council's Governance and Audit Committee (GAC) is not contributing to the Council's counter fraud arrangements. It has not had any reports on the Council's counter fraud arrangements or the risk of fraud for at least two years. Similarly no disciplinary or fraud related investigations caseload data or related information has been reported to GAC in the last two years. Reporting on fraud to those charged with the governance of councils is important. For example it can provide GAC with the information and intelligence it needs to challenge and scrutinise. GAC can also

⁷ Audit Wales, National Fraud Initiative, October 2022

⁸ National Fraud Initiative | Audit Wales, self assessment checklist

promote the message that fraud will not be tolerated, supporting the work of officers responsible for counter-fraud arrangements and activity. The lack of reporting to the GAC is a significant weakness in the Council's arrangements, and means that the GAC does not have assurance on the appropriateness or effectiveness of the Council's counter fraud 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

Questions

Audit Criteria (what we are looking for)

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

Questions

Audit Criteria (what we are looking for)

- 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

Questions

Audit Criteria (what we are looking for)

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

| Questions | Audit Criteria (what we are looking for) |
|--|--|
| <p>6. Does the Council publicise cases of fraud that been successfully addressed to re-enforce a robust message that fraud will not be tolerated?</p> | <ul style="list-style-type: none"> • 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 |
| <p>Capacity and Expertise</p> | |
| <p>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?</p> | <ul style="list-style-type: none"> • 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 |

| Questions | Audit Criteria (what we are looking for) |
|---|---|
| <p>8. Does the Council have access to trained counter-fraud staff that meet recognised professional standards?</p> | <ul style="list-style-type: none"> • 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 |
| <p>Tools and Data</p> | |
| <p>9. Does the Council have dynamic and agile counter-fraud responses which maximise the likelihood of a successful enforcement action?</p> | <ul style="list-style-type: none"> • 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. |

Questions

Audit Criteria (what we are looking for)

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

| Questions | Audit Criteria (what we are looking for) |
|---|--|
| Reporting and Scrutiny | |
| <p>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 enhance monitoring and support targeted action?</p> | <ul style="list-style-type: none"> • 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 |
| <p>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?</p> | <ul style="list-style-type: none"> • 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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