

Counter-Fraud Arrangements – Torfaen County Borough Council

Audit year: 2023-24

Date issued: December 2024

Document reference: 4643A2024

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Why we did this audit

Our audit duties

- 1 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 Torfaen County Borough Council.

Our objectives for this audit

- 2 Our objective for this audit was to:
 - assess the progress that the Council has made in implementing the 15 Recommendations made in the Auditor General for Wales's report – [Raising Our Game' Tackling Fraud in Wales July 2020](#);
 - gain assurance that the Council has proper arrangements in place to prevent and detect fraud and, therefore, to help it secure value for money in the use of resources; and
 - identify areas of the arrangements that can be strengthened.

What we looked at

- 3 We assessed the progress the Council has made to implement the 15 recommendations made in the Auditor General for Wales's report on fraud¹. We also reviewed the extent to which the Council has in place proper arrangements to prevent and detect fraud and, therefore, to help it secure value for money in the use of resources.
- 4 We set out to answer the question: Has the Council put in place proper arrangements to secure value for money in its approach to preventing and detecting fraud?
- 5 **Appendix 1** sets out the detailed questions we set out to answer along with the audit criteria we used to arrive at our findings.

¹ Auditor General for Wales, ['Raising Our Game' Tackling Fraud in Wales](#), July 2020



Our audit methods and when we undertook the audit

- 6 Our review was informed by a review of Council documents and interviews with officers and members who have a key role in the Council's counter-fraud arrangements. Our evidence is limited to these sources.
- 7 We undertook the review during the period August to October 2024.

Why counter-fraud is important

- 8 A 2019 report² by the Auditor General for Wales stated that the value the public sector loses to fraud is unknown. A Cabinet Office report³ in 2019 identified an upper and lower range for likely losses in government spending of between 0.5% and 5% of expenditure. Applying those estimates to the £295 million gross revenue budget of Torfaen County Borough Council in 2024-25⁴ suggests that losses to fraud and error may be anywhere between £1.5 million and £15 million per annum.

What we found

The Council's focus on strong governance and controls provides a sound foundation for preventing and detecting fraud, but there is scope to strengthen some aspects of its arrangements

- 9 Overall, we found that **the Council's focus on strong governance and controls provides a sound foundation for preventing and detecting fraud, but there is scope to strengthen some aspects of its arrangements**. We set out below why we reached this conclusion.

The Council's anti-fraud culture could be further strengthened by extending fraud awareness training to all staff and members

- 10 Designated responsibility for counter fraud at the Council lies with the Deputy Chief Executive and the Head of Internal Audit. Accountability at a suitably senior level

² Auditor General for Wales, [Counter-Fraud Arrangements in the Welsh Public Sector](#), June 2019

³ Cabinet Office, [Cross-Government Fraud Landscape Annual Report 2019](#), February 2020

⁴ Welsh Government, Stats Wales, [Local Government Revenue Outturns](#)

helps set cultural expectations in relation to counter fraud. It also provides clear access to the leadership team and Governance and Audit Committee (GAC).

- 11 The Council's approach to counter fraud places significant emphasis on a strong governance culture and minimising the risk of fraud through effective internal controls and systems. Internal Audit plays a key role in this through its regular testing of systems. Officers we spoke to commented on how the frequency and robustness of audits impact the culture at the Council and act as a deterrent to fraud.
- 12 The Council's anti-fraud and corruption policy clearly sets out that fraud will not be tolerated. This is also reflected in its Housing Benefit and Council Tax Anti-Fraud Strategy Statement. But whilst both these documents refer to sanctions and consequences, there are limited examples of the Council publicising its response to proven fraud. Doing so can act as a deterrent and help demonstrate that the Council does not tolerate fraud.
- 13 Although officers within the Shared Benefits Service receive fraud awareness training, equivalent training is not provided routinely to all Council staff and members. Nor is fraud awareness part of the induction training for new staff and members. This presents the risk that not all staff understand the role they play in helping to detect and prevent fraud. Effective counter-fraud training would help staff and members to understand their role in respect of counter-fraud, give them the confidence and skills to report suspected fraud, and contribute towards the Council's anti-fraud culture.

The Council undertakes regular fraud risk assessments to help identify and manage the risk of fraud

- 14 A fraud risk assessment helps an organisation to identify and tackle different types of fraud, as well as any weaknesses in counter-fraud arrangements or areas at higher risk of fraud. It also helps target resources and activities appropriately, particularly as new fraud risks emerge.
- 15 The Council completes an annual fraud risk assessment to inform its Internal Audit work programme. The assessment considers fraud risk across the Council's systems and draws on a range of internal and external sources. Internal Audit's annual work programme is then designed to test those systems and controls. This helps provide assurance that controls are effective or identifies areas of weakness that fraudsters could exploit.
- 16 GAC reviews and approves the annual Internal Audit work programme but does not consider the fraud risk assessment itself. Sharing the assessment with GAC could help members better understand fraud risks and the actions the Council is taking to minimise them. It also helps reinforce that the Council takes fraud seriously.
- 17 Risk of fraud does not feature on the Council's corporate risk register, as the risk is considered to be managed through existing arrangements. This is in line with the Council's risk management process, which only adds risks to corporate and service

registers if they are not being managed through business as usual. However, the Head of Internal Audit sits on the corporate risk group, so is well placed to escalate any issues identified through the fraud risk assessment to the corporate register if necessary.

The Council has appropriate policies to support its approach to counter-fraud, but the Anti-Fraud and Corruption Policy urgently requires review

- 18 An Anti-Fraud and Corruption Policy sets out the Council's approach and defines responsibilities for managing fraud risks. However, the Council's Policy has not been updated since 2016 and should be formally reviewed to ensure it is current and relevant. Also, while the Policy is easily accessible on the Council's website and intranet site, the Council does not actively promote it. Publicising the updated Policy would provide the Council with an opportunity to raise awareness of counter-fraud and demonstrate its zero-tolerance to fraud.
- 19 The Anti-Fraud and Corruption Policy is underpinned by a strong policy framework and includes links to several other policies such as the Code of Conduct and Whistleblowing Policy. These documents are up to date and accessible and set out clear guidance for the Council's staff and members.
- 20 Council staff and members must declare any interests when starting a new job and should update this as necessary. However, there is no central database of staff interests, and managers are responsible for putting in place any necessary mitigations where staff have a potential conflict of interest. Without a central register, it is not clear how the Council gains assurance at a corporate level that these risks are appropriately mitigated.

The Council sets clear responsibilities for counter-fraud work and can access specialist staff when needed

- 21 The Council has clear responsibilities for counter-fraud work. The Shared Benefits Service investigates council tax reduction fraud and works with the Department of Work and Pensions (DWP) to identify and investigate benefit fraud. Internal Audit assess and investigate all other potential incidences of fraud, flexing their work programme to accommodate investigations as necessary.
- 22 The Shared Benefits Service has a trained fraud officer who is qualified to undertake investigations. But there are no specialist counter-fraud officers in Internal Audit, and staff in the team have not received any recent training relating to fraud investigation. Instead, the Council relies on the experience and knowledge of longstanding Internal Audit team members.
- 23 The Council is also able to draw on its annual fraud risk assessment to understand if it needs to bring in specialist skills to support its work programme. Whilst there are no recent examples of the Council buying in specialist counter-fraud support,

officers recognise that as fraud becomes more sophisticated, it may require additional capacity or expertise.

The Council makes active use of data analytics in its counter-fraud work but does not assess if it is deriving maximum benefit from taking part in the National Fraud Initiative

- 24 The Council does not have a specific counter-fraud annual plan but its work to tackle fraud includes both proactive and responsive approaches. This includes:
- Internal Audit's annual work programme to assess the robustness of systems and controls;
 - responding to fraud bulletins to assess if the Council is impacted by, or vulnerable to, fraud currently taking place elsewhere;
 - responding to and investigating referrals of potential fraud;
 - using data analysis software to analyse and match internal data to identify anomalies for more targeted investigation; and
 - participating in the National Fraud Initiative⁵ (NFI).
- 25 Officers we spoke to felt that the NFI process was beneficial and provided assurance over their counter-fraud arrangements. But the Council does not formally assess or report on the effectiveness of its NFI work. This means that the Council may not be identifying opportunities to maximise the impact of its involvement in the NFI, and is therefore potentially missing opportunities to identify instances of fraud. It also limits GAC's oversight of a key counter-fraud activity.

The Council is using shared learning to strengthen its counter-fraud arrangements

- 26 The sharing of data to help find fraud is a rapidly evolving area and has been facilitated by changes in the law. The Digital Economy Act 2017 enables public authorities to share personal data to prevent, detect, investigate and prosecute public sector fraud. The Act recognises that the wider use of data-sharing could improve the prevention, detection and investigation of fraud.
- 27 We found limited examples of the Council formally collaborating with other organisations in relation to counter-fraud. The Council has a memorandum of understanding with DWP to share data for counter-fraud purposes and there is a protocol in place to share secure data between authorities.
- 28 The Council is also involved in several national networks and groups which enable sharing of learning and intelligence relating to fraud. Officers are also in regular

⁵ The NFI matches data across organisations and systems to help public bodies identify fraud and overpayments. Since its commencement in 1996, NFI exercises have resulted in the detection and prevention of more than £49.4 million of fraud and overpayments in Wales and £2.37 billion across the UK.

dialogue with neighbouring councils. The Council has used learning from these sources to inform its fraud risk assessments and subsequent testing programme, and to assess if examples of fraud experienced elsewhere are affecting Torfaen.

GAC receives limited information on counter fraud which restricts its ability to review the effectiveness of current arrangements

- 29 The Council maintains a record of fraud losses and recoveries within the Shared Benefits Service, but not across the wider organisation. This makes it difficult to understand the full extent to which fraud is impacting the Council.
- 30 There have been no dedicated reports on counter fraud to GAC in recent years. Instead, the committee relies on regular Internal Audit reports and the Head of Internal Audit’s annual report. The latter provides a brief overview of fraud arrangements and activity but does not include sufficient detail to allow members to scrutinise or challenge current arrangements.
- 31 Reporting on counter-fraud arrangements and activity to those charged with the governance of councils is important as it can provide GAC with the information and intelligence it needs to assess and challenge effectiveness. GAC can also further promote the message that fraud will not be tolerated, supporting the work of officers responsible for counter-fraud arrangements and activity.

 **Our recommendations for the Council**

Exhibit 1: our recommendations for the Council

Recommendations	
R1	The Council should promote its zero-tolerance approach to fraud and ensure all staff and members understand their responsibilities by: <ul style="list-style-type: none">• updating and publicising its Anti-Fraud and Corruption Policy; and• incorporating fraud awareness training into the induction process for all new employees and members.
R2	The Council should extend its record of fraud losses and recoveries to cover the whole authority. This will allow it to assess the full impact of fraud and use it to inform future fraud risk assessments.
R3	The Council should ensure GAC receives sufficient information to discharge its duties and assess the effectiveness of counter-fraud arrangements. This should include the annual fraud risk assessment and information on the National Fraud Initiative and other anti-fraud work completed during the year.

Appendix 1

Audit questions and criteria

Exhibit 2: audit questions and audit criteria

Below are the questions we sought to answer in carrying out this audit, along with the audit criteria we used to arrive at our findings.

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	
<p>2. Does the Council undertake comprehensive fraud risk assessments?</p>	<ul style="list-style-type: none"> • The Council has undertaken a thorough fraud risk assessment in the last two years to provide an honest appraisal of risk and the 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: <ul style="list-style-type: none"> – used appropriately skilled staff; – considered national intelligence; and – considered its own Council specific intelligence. • The fraud risk assessment is reviewed by the Governance and Audit Committee.
<p>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?</p>	<ul style="list-style-type: none"> • 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 eg 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)
Policies and Training	
<p>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?</p>	<p>Counter-fraud strategy:</p> <ul style="list-style-type: none"> • 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 ie code of conduct, whistleblowing and fraud response plan; and • the counter-fraud strategy has been communicated to staff and is readily available to all staff as a reference document. <hr/> <p>Code of Conduct:</p> <ul style="list-style-type: none"> • the Council has an up-to-date Code of Conduct in place which sets out standards expected by employees and contractors, and which highlights that unethical behaviour will lead to disciplinary action; and • all Council staff are required to sign up to the requirements of the Code of Conduct. <hr/> <p>Whistleblowing:</p> <ul style="list-style-type: none"> • the Council has whistleblowing arrangements in place to ensure that staff and external parties have the confidence to raise concerns; • the Council's whistleblowing arrangements are monitored for take-up to demonstrate that suspicions have been acted upon; • the Council's whistleblowing policy is up to date and sets out clear mechanisms to raise concerns confidentially about matters including fraud; and • contractors and third parties also have to sign up to the Council's whistleblowing policy.

Questions	Audit Criteria (what we are looking for)
	<p>Register of Interest:</p> <ul style="list-style-type: none"> • the Council maintains its register of interests regularly to record staff and members' interests; • the register of interests is compared against schemes of delegation for approving expenditure; • the Council undertakes pre-employment screening through various checks eg 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 are made aware of the need to register any gifts and hospitality received; and • the Council has a Fraud Response Plan that: <ul style="list-style-type: none"> – outlines the entire fraud investigation process; – clearly defines the roles and responsibilities of senior management and others involved in the investigation process; – outlines procedures for securing evidence and undertaking interviews; – sets out arrangements for dealing with staff under suspicion; – includes arrangements for when, and how, to contact the police; – commits to pursuing the full range of sanctions – disciplinary, regulatory, civil and criminal; – makes clear that recovery action will be taken in relation to all fraud losses; and – clarifies how lessons learned from frauds will be used to strengthen controls to prevent recurrence; • the Council monitors that allegations of fraud are assessed according to its Fraud Response Plan; and • the Council seeks redress including recovery of assets and money lost to fraud where possible

Questions	Audit Criteria (what we are looking for)
<p>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?</p>	<ul style="list-style-type: none"> • 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
<p>6. Does the Council publicise cases of fraud that have 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.

Questions	Audit Criteria (what we are looking for)
Capacity and Expertise	
<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.
<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.

Questions	Audit Criteria (what we are looking for)
Tools and Data	
<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.
<p>10. Does the Council seek and embrace new opportunities to innovate with data analytics to strengthen both the prevention and detection of fraud?</p>	<ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> – seeking to maximise the National Fraud Initiative (NFI) work; and – 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.

Questions	Audit Criteria (what we are looking for)
Collaboration	
<p>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?</p>	<ul style="list-style-type: none"> • 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 eg memorandum of understanding setting out arrangements for sharing data. • There is evidence that the organisation applies the learning through collaboration to help inform risk assessments. • NFI collaboration.
Reporting and Scrutiny	
<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.

Questions	Audit Criteria (what we are looking for)
13. Is the Council's Governance and Audit Committee (GAC) fully engaged with counter-fraud, providing support and direction, monitoring and holding officials to account?	<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 caseloads 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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