



**MINISTRY OF SOCIAL
DEVELOPMENT**

TE MANATŪ WHAKAHIATO ORA

25 JUN 2021

Tēnā koe

On 27 May 2021, you emailed the Ministry of Social Development (the Ministry) requesting, under the Official Information Act 1982 (the Act), the following information:

- *A full copy of this report Deloitte provided MSD and a full copy of any other advice Deloitte provided MSD about the wage-subsidy developed in response to COVID-19.*

The Wage Subsidy Scheme enabled rapid support for thousands of New Zealand businesses during a time of uncertainty.

The Government made it clear that the Wage Subsidy Scheme was set up on a high-trust model in order to quickly deliver funds to support workers, families and businesses impacted by COVID-19.

The Ministry, supported by other agencies, developed an integrity programme to provide assurance around application integrity, within the context of a high-trust model. The Wage Subsidy integrity programme was strengthened by an independent integrity risk assessment undertaken by Deloitte.

Integrity enhancements were made from 10 June 2020 for the Wage Subsidy Extension payment and subsequent schemes, based on recommendations made in this assessment.

The Ministry has found the following two documents to be in scope of your request:

- *Deloitte Interim Draft Progress Memo*, dated 30 April 2020.
- *Integrity Risk Assessment of the Wage Subsidy Scheme*, dated July 2020.

You will note that some information has been withheld under section 9(2)(a) of the Act, to protect the privacy of natural persons. The need to protect the privacy of these individuals outweighs any public interest in this information.

Furthermore, some information has also been withheld under section 9(2)(k) of the Act, to prevent the disclosure or use of official information for improper gain or improper advantage. This is because information released under the Act may end up in the public domain, for example, on websites including the Ministry's own website.

The principles and purposes of the Official Information Act 1982 under which you made your request are:

- to create greater openness and transparency about the plans, work and activities of the Government,
- to increase the ability of the public to participate in the making and administration of our laws and policies and
- to lead to greater accountability in the conduct of public affairs.

This Ministry fully supports those principles and purposes. The Ministry therefore intends to make the information contained in this letter and any attached documents available to the wider public. The Ministry will do this by publishing this letter and attachments on the Ministry of Social Development's website. Your personal details will be deleted, and the Ministry will not publish any information that would identify you as the person who requested the information.

If you wish to discuss this response with us, please feel free to contact OIA_Requests@msd.govt.nz.

If you are not satisfied with this response on reports and advice Deloitte provided to the Ministry relating to the Wage Subsidy, you have the right to seek an investigation and review by the Ombudsman. Information about how to make a complaint is available at www.ombudsman.parliament.nz or 0800 802 602.

Ngā mihi nui



George Van Ooyen
Group General Manager
Client Service Support



Memo

Date: 30 April 2020
To: Warren Hudson - MSD
From: 9(2)(a) - Deloitte Forensic
Subject: Progress Update Memo - Wage Subsidy Scheme Risk Assessment

Background

The Wage Subsidy Scheme (**WSS** or **the Scheme**) is a ~\$13 billion dollar stimulus package recently introduced by the New Zealand Government in response to the COVID-19 national 'lockdown' measures. The Scheme was established and operationalised within days, and was designed to operate as a 'high-trust' model to ensure financial support reached those in need without delay.

The Ministry of Social Development (**MSD**) and the Inland Revenue Department (**IRD**) recognised this high trust model presented elevated inherent fraud, waste and error risks to the Scheme. The agencies have worked together to rapidly design and implement a series of process and control measures, **in a very short timeframe**, to help manage this risk down.

The Ministry of Business Innovation and Employment (**MBIE**) has also been heavily involved in this joint agency approach focused on protecting the integrity of this significant investment.

The subsidy applications are being administered using systems and some of the procedures that were previously used for the surge payments following the Christchurch (2011) and Kaikoura (2016) earthquakes, and adapted for the WSS.

Your objectives and our approach

MSD engaged Deloitte to conduct a Fraud, Corruption, Waste¹ and Error Risk Assessment of the Wage Subsidy Scheme (**WSS**) to:

- Identify the internal and external fraud, corruption, waste, and error related risks faced by the WSS;
- Assess the design of existing and planned processes, controls and auditing measures in place to manage the risks; and
- Identify practical control strengthening opportunities.

Our agreed approach involved us focusing on identifying strengthening opportunities across two phases of work:

- **Phase 1:** Our first priority was to assess the design of the processes and controls in place up to the point a WSS applicant employer receives the subsidy into their bank account(s); and
- **Phase 2:** This work has seen us consider the design of the post-payment processes, controls and auditing measures applied to manage the key risk of employers not passing the subsidy on to the

¹ Broadly defined as a careless act or omission that results in an advantage contrary to policy, practice or procedure

employees, as well as detecting the wider range of fraud, waste and error risks that exist across the WSS.

Work completed

As of 24 April 2020 we have:

- Obtained and considered key process and control documents provided by MSD;
- Joined inter-agency meetings to understand the key risk themes and the constantly evolving processes and controls;
- Facilitated twelve workshops with key individuals from MSD, IRD and MBIE to:
 - better understand the design of the key processes and current controls;
 - capture agency employee views around known and potential risks;
 - explore risks that had not been considered; and
 - through conversation, 'stress test' the described design of the controls against the known and 'potentially new' risks.
- Facilitated workshops with Deloitte subject matter experts:
 - Deloitte New Zealand Tax specialists who are providing advice to business making WSS claims in New Zealand; and
 - Deloitte Australia Forensic specialists who have experience supporting agencies with similar 'surge payment schemes' in Australia.
- After the information sharing memorandum was signed on 23/4/20 between MSD and IRD, we participated in an MSD-IRD workshop that explored the key known fraud and error risks faced by the Scheme, with the agencies agreeing on the top risks that will be targeted through a combined detection-focused, data analytics effort in the coming days and weeks.

Phase 1 - Preliminary findings

Guidance to agencies from the New Zealand Serious Fraud Office

We understand that MSD has taken steps to adopt an approach that aligns with the guiding principles and specific measures issued by the New Zealand Serious Fraud Office (**SFO**) in relation to COVID-19 relief response:

SFO 'specific counter fraud measure'	MSD steps
Policy design and risk assessment	MSD has engaged Deloitte forensic specialists to undertake a fraud risk assessment of the WSS process
Use of existing payment systems and partners	MSD has mobilised an existing payment platform and the associated processes, previous used to facilitate payment-based stimulus programmes
Collection of high quality and consistent information	MSD is retaining records of applications, decisions, payments and post payment audit steps taken
Protective clauses	MSD has included a protective clause on the application form
Post-event assurance planning	MSD is considering shift from emergency payments to return its focus on business as usual services, and is also considering what the assurance activity will look like

Communication

MSD has engaged its internal communications team to provide messaging to stakeholders

The risks - Fraud and error

In the table below, we set out our summary of **key risks** identified to date. Note that this list is not exhaustive. At this stage we have not included detail about controls MSD has put in place to manage the risks. A more detailed view of the risks, the key control design and associated recommendations will be provided with our final report.

Number	Area	Risk description
1	EXTERNAL FRAUD & ERROR RISKS	<p>Applicants being paid the subsidy <i>without meeting the Scheme eligibility criteria</i>.</p> <p>Examples include:</p> <ul style="list-style-type: none"> Not meeting the revenue reduction criteria threshold; Legitimacy of the status of the trading organisation / individual e.g. set up in order to make an application; Applicants (Employers or sole traders) that are no longer trading / have no intention to continue trading claiming and being paid the subsidy.
2	EXTERNAL FRAUD & ERROR RISKS	<p>Applicants <i>being overpaid the subsidy</i> as a result of:</p> <ul style="list-style-type: none"> Duplicate / multiple applications to MSD being paid; Applicants inflating applications by; <ul style="list-style-type: none"> Number of employees; Employment status of employee - FTE vs PTE; Inclusion of ex-employees; Inclusion of employees not linked to their organisation.
3	EXTERNAL FRAUD & ERROR RISKS	Applicants leveraging access to information at their employer to submit a <i>false application with third party bank details</i> for an employer that has not claimed the subsidy.
4	INTERNAL FRAUD & ERROR RISKS	MSD staff <i>manipulation of application data</i> in large employer CSV files to benefit personally or collude with a third party
5	INTERNAL FRAUD & ERROR RISKS	<p>MSD staff <i>manipulating and / or approving ineligible applications</i>:</p> <ul style="list-style-type: none"> Through individual error; Intentionally and through system access, create / edit / approve / reopen applications to benefit personally or collude with a third party. <p>MSD staff <i>manipulating the CSV payment file</i> for personal gain</p>
6	INTERNAL FRAUD & ERROR RISKS	MSD staff <i>inappropriate access to data</i> e.g. the IRD data held by MSD, to use for personal gain (e.g. using data to inform a fraudulent application)

Phase 2 - Preliminary themes

Risks and themes of allegations received to date:

This aspect will be reported on in detail in our final report.

As MSD has published online the list of employers that are in receipt of the wage subsidy, this is likely to have increased transparency of the WSS payments. This step allows for an element of self-policing by employees, who are able to search for their employer, and raise concerns regarding payments and/or wider concerns via the reporting mechanisms hosted by MBIE, MSD and IRD.

As at 24 April 2020, over a thousand complaints have been received by MBIE, MSD & IRD relating to a wide range of concerns. The majority relate to alleged activity and behaviour of employers.



We are in the process of considering that information, together with the risks, control design, planned approach to the data analytics and the current and planned 'auditing' approach.

We have outlined below some preliminary recommendations outlining pro-active measures that can be undertaken to identify possible risk areas and supplement the work MSD is already completing.

In the tables below, we set out our **key recommendations** to address the key risks outlined above. We also outline our short term improvement opportunities and broader preliminary recommendations.

Recommendations – Short term improvement opportunities & Broader Preliminary recommendations

Preliminary Recommendations – Short term improvement opportunities:

We recognise that the majority of the WSS payments have already been made (more than \$10 billion of at 24 April 2020). However, there are some steps that MSD can still make to bolster protection for the remainder of the applications made and for any future extensions of the Scheme, or new stimulus schemes. We have not worked with MSD to fully assess the practicality of MSD implementing these steps.

Number	Recommendation	Detailed description
1	Access rights & system development	<ol style="list-style-type: none"> MSD should consider system enhancements to the S2P/EES system to: <ul style="list-style-type: none"> Group multiple related applications together to be assessed by no more than one MSD employee at any given point to reduce the risk of multiple payments being made to an employer incorrectly and / or inappropriately. MSD should also consider reviewing the S2P/EES user access groups and their system rights, including the list of administrators. This should include user ability to: This includes limiting employees ability to: <ul style="list-style-type: none"> Change bank account details on applications; Change employee numbers or status (Full-time vs Part-time); and Re-opening closed applications for repayment, changing application data (including bank accounts) or selecting an application (rather than being sent an application via a workflow) and approving for payment. MSD (and IRD) should consider reviewing the access rights to data stored in the shared folder in the secure file transfer portal (SFTP). MSD should also explore the possibility to capture audit logging of actions taken within the SFTP.
2	WSS application enhancement	<ol style="list-style-type: none"> MSD should consider requiring applicants to include more bank account information as part of their WSS application (e.g. bank name, branch, account holder). This will provide MSD with a greater number of key data points to inform decision making / audit work. Contact cell phone numbers should be added to the employee data sought, to better enable post payment verification that employees did receive the subsidies. This would also have a deterrent effect on employers who may be considering not passing on the subsidy.
3	Process improvement	<ol style="list-style-type: none"> When processing applications, MSD should consider using an independently sourced telephone number to call the employer (e.g. not the telephone number provided on the application). We note that some evaluators have already adopted this approach, including for the 80+ employee applications, managed by the MSD investigations team.
4	System improvement for large employer applications	<ol style="list-style-type: none"> Due to the manual nature of the large employer CSV file application process & existing lack of oversight, MSD should introduce a reconciliation between the large employer CSV files received from the IT team and those sent back to the IT team for upload, following the manual processing.

In addition, we recommend that MSD consider how best to communicate with WSS recipients to remind them of their obligations and to maximise the potential of early voluntary refunds. While it is an option to communicate bluntly with all Scheme recipients, we recognise the majority of the employers receiving such a communication have acted entirely appropriately. A more targeted approach could involve MSD profiling applications to identify any sub-groups that could present a voluntary refund opportunity, and could warrant an appropriate proactive communications strategy.

In a similar vein, the option of offering some form of an 'amnesty' is a blunt instrument if widely communicated and may not reflect actual levels of compliance which could be very high. Again, this may be an option to apply to a much smaller subset who warrant such an intervention.

We also note that MSD is in the process of communicating with employer applicants that does not focus on the integrity of their applications. There is a plan to include a reminder of employer obligations within that communication.

A key aspect of determining the success of this intervention would be to measure the impact following interventions, including initiatives such as the planned employer communication mentioned above (e.g. increase in in-bound calls and value of voluntary refunds).

Broader preliminary recommendations:

Below we make some broader high level recommendations for MSD to consider. We will expand on these further in our final report.

Post-payment risk profiling, data analytics and targeting of the available auditing resources

The information sharing MOU is in place with IRD. IRD has also prepared a document outlining options for MSD to engage its intelligence based support to help protect the Scheme. A workshop was held between the two agencies on 24/4/20. This session highlighted a longer list of potential and known WSS fraud and error related risks, with attendees ranking the perceived higher priority risks. Our initial observations:

1. We endorse the application of the detection-focused data analytics capability of both agencies to elevate potential and material fraud and error risk. The philosophy of early identification of and engaging with applicants who may have been paid in error will increase the potential of greater recoveries.
2. The plan to concurrently focus on people who may be defrauding the Scheme, in particular those who may have done so in a material way, is also a sound strategy, while maintaining a sharp focus on potential recoveries in (1).
3. The agencies both have analytics teams who are positively considering how best to share insights, expertise, infrastructure and data to optimise the outcomes.

As this approach is developing, we would recommend completing a review of the planned and in-progress integrity-focused analytics testing, completing an assessment of MSD's overall estimate of WSS fraud and error (e.g. through population segmentation to target the scarce resources at maximum recovery opportunities) and reviewing the system(s) that is in place to robustly manage the various types of concerns through to conclusion.

Some additional considerations for MSD to consider include:

- Opportunities to consider broader application system developments & enabling audit logging;
- Making changes to the use of CSV files for large employer applications and in payment processes;
- Reviewing the audit and investigation people and technology capability to respond to the anticipated and significant increase in workload;
- Centralisation of fraud and error risks and the ongoing use of audit and investigation work to inform this;

- Use of a communications strategy to support MSD's prevention and detection efforts; and
- Consider the desired level of assurance needed to demonstrate the integrity of the Scheme to stakeholders.

Work to complete

At this stage there are a number of steps that remain:

- One workshop with the IRD Integrity Assurance team who will help explore potential internal WSS-related threats at IRD;
- Collect and review outstanding document and information requests;
- Follow-up discussions and clarifications from workshops completed;
- Validate our understanding of the controls in place with the control owners;
- Consider starting work on steps outlined in our recommendation outlining an analytics approach; and
- Preparing the final report, with more detailed observations around risks, enhancing control design effectiveness, and providing advice around enhancing the post payment auditing activity to further protect the integrity of the Scheme.

Limitations

We note the following limitations in respect of this memo:

- a. This memo is subject to the limitations outlined in the Consultancy Services Order (CSO) dated 1 April 2020;
- b. This memo only serves as an interim progress update. It is not the final report;
- c. This memo has been prepared based on work completed as at 24 April 2020. We assume no responsibility for updating this memo for events and circumstances occurring after that date; and
- d. We reserve the right, but are under no obligation, to alter the findings reached in this memo should information that is relevant to our findings subsequently be identified.

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Ministry of Social Development

Integrity Risk Assessment of the Wage Subsidy Scheme

July 2020

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Contents

Limitations and Disclaimer	2
Executive summary	3
Introduction	8
Findings	10
Recommendations	14

Appendices

Appendix A – Limitations	
Appendix B – Risks identified	
Appendix C – WSS Process	
Appendix D – Key process steps & controls	
Appendix E – Combined inter-agency complaints data	(as at 28 April 2020)
Appendix F – MSD Communication with WSS recipients	

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Use of Report

We have prepared this report solely for the use of the Ministry of Social Development. The report contains constructive recommendations to improve some practices, which we identified in the course of our review procedures. These procedures are designed to identify process weaknesses but cannot be relied upon to identify all weaknesses. We would be pleased to discuss any items mentioned in this report and to review the corrective action implemented by management.

Acknowledgements

We have had the full cooperation and assistance of staff and management of the Ministry of Social Development throughout this review. We are also grateful for the time and assistance provided by personnel from other organisations, such as Inland Revenue and the Ministry of Business Innovation and Employment, who assisted us with this review.

1 Executive summary

Background

The Wage Subsidy Scheme (**WSS** or **the Scheme**) is an approximately \$12 billion dollar stimulus package recently introduced by the New Zealand Government in response to the COVID-19 national 'lockdown' measures. The Government's intention is for the Scheme to support employers to continue to pay their employees, even if they are unable to work¹.

Cabinet directed the Ministry of Social Development (**MSD** or **the Ministry**) to administer the policy, including assessment of employer and sole trader applications, payment, and post-payment audit and investigation activities. Within a very short timeframe, it operationalised the WSS from 17 March 2020. The Scheme was intentionally designed to operate as a 'high-trust' model, with Cabinet agreeing that information in applications would not be verified before MSD makes payments, so employers could receive the subsidy and pay their employees without delay – instead it was agreed that MSD would have the ability to later audit applications and verify eligibility, referring possible instances of fraud for investigation.

MSD, with the support of Inland Revenue (**IR**) and the Ministry of Business Innovation and Employment (**MBIE**) have taken a joint-agency approach focused on protecting the integrity of this significant investment.

Despite the very short timeframes between decisions to establish the scheme and "go-live" MSD and partner agencies were able to design and rapidly implement a series of pre-payment checks and processes to mitigate the inherent fraud and error risk, and have incrementally added protections as the scheme evolved. The agencies have also commenced a programme of post-grant audits and co-ordinated on the resolution of complaints and allegations received from the public. Enforcement and investigations work is based on cases identified through these processes, and has started. The publishing of recipients of the wage subsidy provided a level of transparency and accountability resulting in the voluntary repayment of subsidies from a range of businesses, and enabling employees and the public to raise complaints about misuse. We understand repayments have also resulted from the outcomes of the audit process.

Your objectives and our approach

MSD engaged Deloitte to conduct an integrity-focused risk assessment (**Risk Assessment**), encompassing Fraud, Corruption, Waste² and Error (**Fraud and Error**) of the WSS to identify key risks and control improvement opportunities, both for immediate short-term strengthening and longer-term benefits for subsequent Scheme phases and any future schemes.

We adopted a two-stage approach:

1. Firstly, we assessed the design of the processes and controls in place and identified opportunities to strengthen these, up to the point MSD made and continues to make a payment to the WSS applicants' bank account(s); and
2. Secondly, we considered the existing design potential improvement opportunities of the post-payment processes, controls and auditing measures applied to manage the key risks. This phase included reviewing measures, both planned and those in place, to detect the wider range of Fraud and Error risks that exist across the WSS.

Key Findings – Fraud and Error Risks

We have undertaken our Risk Assessment of the WSS, acknowledging the high-trust model with which it was designed and recognising that MSD, IR and MBIE have collaborated to develop and operationalise the Scheme within a few days. Accordingly we have applied a different lens than we normally would, taking account of the unique situation the lockdown demanded.

¹ <https://www.employment.govt.nz/leave-and-holidays/other-types-of-leave/coronavirus-workplace/wage-subsidy/>

² Broadly defined as a careless act or omission that results in an advantage contrary to policy, practice or procedure

During the course of our work we identified a series of risks to the Scheme. The key material Fraud and Error risks we identified as part of our Risk Assessment are summarised at a high level below. These represent a combination of:

- **External threats:** Individuals or groups of individuals outside of MSD and/or IR taking steps to obtain a benefit inappropriately, or having the opportunity to make mistakes or errors of judgment resulting in payments; and
- **Internal threats:** MSD and/or IR personnel abusing their position within the Ministry and/or IR to obtain an inappropriate benefit, or creating a loss to MSD as a result of error.



The **internal threats** present a lower risk to the Scheme in terms of likely financial loss when compared to the external threats, but still comprise a material reputational risk to be managed.

Diagram One: WSS Integrity - Key Fraud and Error Risks

For each of the risks identified, we have gained an understanding of the key controls in place to help prevent and/or detect the risk from materialising. We then worked with the MSD and IR personnel (and leveraged our fraud and control experience) to explore practical control improvement opportunities. The detailed risks and recommendations to improve controls are set out at sections 3 and 4.

Key Findings – Post-payment auditing

As the pre-payment process and controls were developed, deployed and adjusted, post-payment 'auditing' by MSD commenced, and has been underway for a few weeks at the time of writing this report. The approach taken

to date has seen resources applied in a targeted manner (driven by intelligence gained from processing applications and complaints) and also in a more random manner (such as calling randomly selected employees direct, to verify their receipt of the subsidies). The agencies have also created an online portal for employees to share concerns and/or allegations about their employers. The response to each of these concerns and/or allegations is being coordinated by MBIE using their 'TIKA' system. The issues in TIKA are triaged by MBIE and then allocated to the lead agency, depending on the type of concern, for further audit or investigation.

This auditing work completed to date has highlighted a relatively small number of issues such as instances where employers have not passed the subsidy on to employees, employee IRD numbers appearing on multiple applications or applicants not meeting or understanding the eligibility criteria. There have also been instances where recipients of the Scheme have self-identified that they no longer need and/or qualify for the Scheme, and have voluntarily repaid the subsidy.




MSD has supplemented its random and initial targeted audit efforts with additional proactive audits based on risks identified during the processing of applications, and through allegations / complaints received. MSD is working proactively with IR to identify additional fraud and error risk areas through cross-agency analysis. However, there may be additional, and potentially material Fraud and Error risks that have not yet become apparent through either the existing approach to audit activity and/or the nature of the allegations received that need to be managed.

Key Recommendations





We recommend MSD considers taking a series of steps to further protect the integrity of the Scheme. MSD worked with IR to implement some pre-payment controls such as matching application information to IR data, and more extensive pre-payment audits for large employers. We recognise that a large volume of payments have already been made however, with the recently announced extension to the WSS, with an additional budget of \$3.2bn, the opportunity to make timely pre-payment improvements still exists. With this in mind, we issued an *Interim Progress Update Memo* on 30 April that shared some of the potential short-term and wider improvements, even though we had not completed our fieldwork at that point. We understand that MSD considered these improvements in implementing the Wage Subsidy Extension from 10 June, noting that we had not fully explored the viability of implementation.



Our strengthening recommendations (provided in more detail in section 4 of this report) cover the pre-payment processes and controls and suggestions regarding the post-payment 'auditing'. For the recommendations that we indicate as 'short-term improvement opportunities', we have not fully explored the viability of implementation. We also highlight our recommendations that MSD should consider as a priority.



Our **key recommendations** can be summarised as follows:

Key	
 Indicates potential short-term improvement opportunity	 Indicates recommendation to address external risk
 Indicates priority action	 Indicates recommendation relating to pre-payment stage
 Indicates recommendation to address internal risk	 Indicates recommendation relating to post-payment stage

Recommendation Description

Recommendation	Description	
1. Increase communication with WSS recipients and stakeholders	<p>With a goal of maximising the potential for early voluntary repayments by applicants who may be less certain of their eligibility, and before funds dissipate further, drive appropriately messaged and targeted proactive communication with subsidy recipients to:</p> <ol style="list-style-type: none"> Remind them of their obligations, with practical examples to help with understanding (including examples of voluntary repayments); Provide options to contact MSD to clarify their eligibility; and 	   

Recommendation	Description	
	<p>c. Provide support to enable the applicants to return any full or partial overpayment.</p> <p>A key aspect of the proactive communication will be to measure their impact (e.g. through changes in the levels of in-bound communication from applicants and the volume/value of voluntary repayments received).</p> <p>To help ensure the subsidies reach those employers, sole traders and employees as intended by the Scheme, continue to communicate with stakeholders such as the media, general public and Ministers, to provide reminders of the agencies' 'audit' and investigation measures and examples of outcomes.</p> <p>Publishing the WSS recipients through the WSS Employer Search has increased transparency and media scrutiny, resulting in recipients voluntarily repaying many millions of dollars. To provide further transparency and help to increase the accountability of recipients, MSD could release a .csv (or similar) list of all recipients, and their subsidy amount as part of its proactive communications. We acknowledge that there are other factors and risks that MSD would need to consider in implementing this, including privacy issues.</p>	
3. Post-payment analytics to target audit resources and activity	<p>MSD and IR are already underway with analytics to identify potential Fraud and Error. This approach continues to develop, however we recommend:</p> <ol style="list-style-type: none"> Developing a centralised register of Fraud and Error risks; Reviewing the analytics testing and mapping these against the identified risks. MSD has engaged Deloitte to support with this and we are currently taking steps to better understand the approach being taken by these teams, so we can suggest improvements as soon as possible (if applicable). Broadly, we expect: <ol style="list-style-type: none"> The analytics will be a combination of rules designed to identify known Fraud and Error risks and data science techniques to identify <i>potential</i> Fraud and Error risks that may elude the rules based approach; Segmentation and prioritisation of the recipients flagged by the alerts, which in turn would drive the triaging and downstream audit and investigation approach. Completing a high-level assessment of the estimated overall WSS Fraud and Error. We understand MSD's post-payment audits to date indicate a relatively high level of compliance. We recommend segmenting the WSS population to understand the various low to high risk 'clusters'. MSD can then apply rough values to those clusters. This may help reinforce the auditing priorities to date, and/or enhance that auditing effort going forward, and help MSD to understand the overall loss to Fraud and Error; and Reviewing the processes in place to manage the range of risks and concerns identified. This includes having a holistic view of analytics findings across the different agencies and the prioritisation of these. 	
4-9. System & process improvements to improve prevention and detection	<p>To supplement the existing pre-payment controls in place, MSD should consider:</p> <ol style="list-style-type: none"> Requiring additional employee contact detail (mobile phone numbers, email addresses) from employers as part of their WSS online applications; Additional data matching pre-payment (e.g. comparing applicant bank details with IR-held bank account data, and bank account details contained in applications to MSD/IR/MBIE employee bank account details); Considering agency integrity-related data (e.g. people convicted of committing fraud or agency 'blacklists') during the processing of applications; Enhanced workflow and payment platform and process audit logging functionality; 	

Recommendation	Description	
	<p>e. Reviewing and considering existing system access rights;</p> <p>f. Enhancing controls with regard to large employer applications; and</p> <p>g. Automating the generation of payment files.</p>	
10. Enhance the audit and assurance programme	<p>MSD has a Compliance and Enforcement Strategy in place aimed at ensuring employers comply with their obligations under the WSS. The strategy includes publishing the names of the WSS recipients, and a range of audit activity (a mix of random, targeted and allegation-driven audits).</p> <p>MSD should consider further enhancing its efforts to develop a top down risk and evidence-based assurance program (including proactive "routine" employer focused audits) where:</p> <ol style="list-style-type: none"> 1. Treasury plays a key role in working with MSD, MBIE and IR in setting the mandate and outcomes of the assurance across the approximately \$12bn payments that aligns with Government expectations; 2. Particular focus is given to recipient eligibility and the payment of the subsidies to employees; and 3. The primary focus is set on getting non-eligible funds back soon (to reduce the increasing risk of dissipation). <p>MSD has supplemented its initial targeted audit efforts with additional proactive audits based on risks identified during the processing of applications, and through allegations received. MSD should consider extending its proactive and detection activity to identify additional and potentially material Fraud and Error, so that it can more confidently understand the extent to which the WSS has been subject to Fraud and Error. We note that MSD and IR commenced cross-agency analysis to identify additional fraud and error risk areas. This work should inform the assessment of WSS Fraud and Error (see recommendation above).</p>	   
11. Consider MSD's audit and investigative resource requirements	<p>MSD should consider its ability to deliver a top down assurance programme and any significant surge in audit and investigative work.</p> <p>This includes considering its existing capability with regard to people/skills and technology to manage a likely significant increase in volume of audits and investigations. Critically, at least some of the work will likely involve complex employer-fraud allegations and schemes, which will require careful consideration of the required skills, processes and technology required to effectively and efficiently address the concerns.</p> <p>We understand that MSD is collaborating with IR and the Department of Internal Affairs to increase its capability and capacity.</p> <p>We also note the New Zealand Government recently announced an additional loan relief scheme for employers that IR is administering, and that future schemes may be announced. MSD's existing reliance on inter-agency resource support, in particular from IR personnel that have an employer focus, may be impacted by these decisions, as well as changes in business as usual volume due to the economic environment.</p>	  

Our remaining recommendations, which can be found in section 4, relate to:

- Proposed improvements to the application approvals process;
- System grouping of 'related' applications;
- Reconciling payments made in the large employer applications process (due to them being manually administered outside of the normal application system); and
- Providing extensive guidance to potential applicants of the Scheme at the application phase.

2 Introduction

In this section of our report we:

- a. Provide a background to the Wage Subsidy Scheme;
- b. Outline MSD's objectives for this engagement and our approach; and
- c. Outline the work we completed.

Background

The WSS was initially agreed upon by Government during a Cabinet Decision on 16 March 2020. It was first introduced the following day on 17 March. Some subsequent modifications and clarifications were made in the following weeks.

With the Scheme being established and introduced within days, MSD had to act very quickly to operationalise it. MSD also had to be flexible and reactive when the Government modified the WSS or introduced other schemes, such as the Essential Worker Leave Scheme (**EWLS**). The Scheme was intentionally designed to operate as a 'high-trust' model, with little supporting evidence being required as part of the application, to minimise potential barriers to payment, and to ensure financial support reached those most in need without delay.

To reduce the set up time, the subsidy applications are being administered by MSD using systems and some of the procedures that were previously used for the surge payments following the Canterbury (2011) and Kaikoura (2016) earthquakes, with modifications for the WSS.

Your objectives and our approach

To support MSD in managing the elevated risk of Fraud and Error, the Department engaged Deloitte to conduct an integrity-focused Risk Assessment of the WSS to:

- a. Identify the internal and external Fraud and Error related risks faced by the WSS;
- b. Assess the design of existing and planned processes, controls and auditing measures in place to manage the risks; and
- c. Identify practical control strengthening opportunities.

Work completed

We have completed the following work to date:

- a. Obtained and considered key process and control documents provided by MSD;
- b. Participated in inter-agency meetings to understand the key risk themes and the constantly evolving processes and controls;
- c. Facilitated thirteen workshops with key individuals from MSD, IR and MBIE to:
 - i. Better understand the design of the key processes and current controls;
 - ii. Capture agency employee views around known and potential risks;
 - iii. Explore risks that had not been considered; and
 - iv. Through conversation, 'stress test' the described design of the controls against the known and 'potentially new' risks.
- d. Facilitated workshops with Deloitte subject matter experts:
 - i. Deloitte New Zealand Tax specialists who are providing advice to business making WSS claims in New Zealand; and

- ii. Deloitte Australia Forensic specialists who have experience supporting agencies with similar stimulus 'surge payment schemes' in Australia.
- e. After the information sharing memorandum was signed on 23 April 2020 between MSD and IR, we participated in an MSD-IR workshop that explored the key known Fraud and Error risks faced by the Scheme, with the agencies agreeing on the top risks that will be targeted through a combined detection-focused, data analytics effort. This work is currently being initiated by MSD and IR.

Limitations

The limitations in respect of this report are set out in **Appendix A**, however it is important to note that the following activities were out of scope:

- Provision of legal advice;
- Testing or verification of the controls described to us; and
- Provision of an assurance conclusion or audit opinion.

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3 Findings

We conducted our Risk Assessment of the WSS acknowledging the high-trust model and the Scheme's main objective - to ensure the subsidy payments were able to be made quickly to those employees in need.

However, a high-trust model like the WSS, with limited up-front controls such as assessing the eligibility of all employers and sole traders receiving the payments, has an elevated inherent risk of Fraud and Error occurring. In this section of our report we:

- Comment on steps MSD has taken with respect to New Zealand Serious Fraud Office (**SFO**) guidance;
- Outline the key risks identified from our Risk Assessment; and
- Outline the key themes arising from the allegations / complaints MBIE, MSD and IR have been receiving.

Guidance to agencies from the New Zealand Serious Fraud Office

We understand that MSD has taken steps to adopt an approach that aligns with the guiding principles and specific measures issued by the New Zealand Serious Fraud Office (**SFO**) in April 2020 in relation to COVID-19 relief response:















SFO 'specific counter fraud measure'	MSD steps taken
Policy design and risk assessment	MSD has engaged Deloitte forensic specialists to undertake a fraud risk assessment of the WSS
Use of existing payment systems and partners	MSD has mobilised an existing payment platform and the associated processes, previously used to facilitate payment-based stimulus programmes
Collection of high quality and consistent information	MSD is retaining records of applications, decisions, payments and post payment audit steps taken
Protective clauses	MSD has included a protective clause on the application form
Post-event assurance planning	MSD is considering shift from emergency payments to return its focus on business as usual services, and is also considering what the assurance activity will look like
Communication	MSD has engaged its internal communications team to provide messaging to stakeholders

Key Risks

In the table below, we set out our summary of the **key risks** identified to date. A more comprehensive list of risks to the Scheme is included at **Appendix B**. Note that neither list is an exhaustive list. We also include a flowchart of the high level WSS process at **Appendix C**, and a list of key process steps and controls identified at **Appendix D**.

Risk type	Fraud	Corruption	Waste & Error	Internal	External
Icon					

Risk Number	Internal / External	Fraud / Corruption / Waste & Error	Risk Description
1			<p>Applicants being paid the subsidy without meeting the Scheme eligibility criteria (either with knowledge or with no knowledge).</p> <p>Examples include:</p> <ul style="list-style-type: none"> Not meeting the actual or anticipated revenue reduction criteria threshold but submitting an application regardless; Legitimacy of the status of the organisation and/or individual not meeting the criteria, e.g.: <ul style="list-style-type: none"> Entity set up in order to make an application; Applicants that are no longer trading / have no intention to continue trading claiming and being paid the subsidy; Applicants claiming the subsidy with no intention of complying with Scheme requirements to pass it on to employees. Ineligible applications being erroneously accepted by MSD, or accepted intentionally as a result of internal employee compromise.
2			<p>Applicants being overpaid the subsidy as a result of:</p> <ul style="list-style-type: none"> Duplicate / multiple applications to MSD being paid (either knowingly or unknowingly). For example, as a result of: <ul style="list-style-type: none"> Applicants submitting multiple applications in order to intentionally obtain increased payment; Complex organisational structures; Changes in the Scheme payment threshold; and Submitting applications for multiple schemes (such as the WSS and the Essential Worker Leave Scheme (EWLS)). (We note that at the completion of our fieldwork, payments to the EWLS had not yet started). Applicants inflating applications. For example by; <ul style="list-style-type: none"> Increasing the number of employees; Manipulating the employment status of employees – e.g. suggesting part time employees work full time, intentionally stating casual or seasonal employees are working full time etc.; Inclusion of ex-employees; and

Risk Number	Internal / External	Fraud / Corruption / Waste & Error	Risk Description
			<ul style="list-style-type: none">o Inclusion of employees not linked to their organisation.
3			 Employers not passing the subsidy on to employees (fully or partially), either intentionally or from misunderstanding their obligations
4			Third parties leveraging access to information to submit false applications on behalf of an entity they know has not claimed the subsidy and divert a payment to themselves. These third parties could be known (e.g. employee, tax adviser) or unknown to the employer or sole trader (with access to the necessary employee information).
5			A third party using phishing or other cyber-attack methods to intercept MSD application data to inappropriately benefit either themselves or a third party, or to cause a loss to MSD
6	 		 The Scheme subsidy being paid in to an incorrect third party bank account as a result of erroneous bank details being included (or entered by MSD personnel) on a legitimate Scheme application
7		 	 MSD or IR employees exploiting their position (e.g. through access to IR data / MSD application data) for personal gain or collusion with a third party. Examples may include: <ul style="list-style-type: none">• Inappropriately accessing IR data to create and submit a false application as an organisation who has not applied and using third party bank account details;• Providing sensitive data and details of organisations who have not applied to a third party (who can then submit a false application) in exchange for a benefit or 'kickback';• Exploiting the process for large employer applications (that are administered outside of the normal application system) to benefit personally or collude with a third party;• Manipulating the .csv payment file for personal gain or in exchange for a benefit;• MBIE, MSD, or IR employees manipulating and / or closing allegations during processing to benefit personally or collude with a third party (noting that this risk applies to programmes beyond just the WSS); and• Manipulating and / or approving ineligible applications to benefit personally or in return for a benefit (this could also be as a result of individual error).

Allegations and complaints about employers

To mitigate the risk of employers not passing the subsidy on to their employees (Risk #3 in the table above), on 6 April 2020 (with daily updated thereafter), MSD published the list of recipients of the WSS online. Additionally, MSD and MBIE have developed an online complaint form for employees to make a complaint about an employer if they believe their employer is receiving the subsidy, but not meeting the conditions they agreed to.

These steps will have increased transparency of the WSS payments and allow for an element of self-policing by employees. They are able to search for their employer, and raise concerns regarding payments and/or wider concerns via the complaints form and other reporting mechanisms hosted by MBIE, MSD and IR. As at 6 May 2020, over three thousand complaints had been received by MBIE, MSD and IR relating to a wide range of concerns. The themes of the complaints received as at 28 April 2020³ are outlined below:

MSD

- **Employers claimed the subsidy but didn't meet the eligibility criteria**
- **Employers overclaimed the subsidy**
- **Employers should have repaid the subsidy but haven't**

MBIE

- **Employees not retained for the 12-week period**
- **Employers compel employees to use leave entitlements**
- **Employment Terms & Conditions changed by employer without good faith**
- **Subsidies received by employers but not passed on**

IR

- **Employers not meeting tax obligations that may arise through the payment of employer wage subsidy**

³ Appendix E

4 Recommendations

In this section of our report we provide our recommendations, based on the risks identified and our integrity-related observations of the approach taken.


Experiences from previous large government policy initiatives in Australia can be a useful reference point to consider with respect to 'surge payment schemes' in general and the WSS in particular (noting of course that there will be differences in context). We note two reports from Australia that are particularly relevant:





- a. The *Learning From Failure Report* by Professor Peter Shergold AC (**the Shergold Report**) outlines findings and conclusions from an independent review of Australian Government processes for the development and implementation of large public programmes and projects⁴.
- b. Ian Hanger AM QC's *Report of the Royal Commission into the Home Insulation Program* (**the RC HIP Report**)⁵.

The relevant and applicable findings from the Shergold Report and the RC HIP Report are referenced in some of our recommendations below.

We recognise that as at early May 2020, the vast majority of the Scheme funds have already been spent (more than \$10 billion as at 24 April 2020). However, there are opportunities for MSD and other agencies to improve the protection of any future phases of this Scheme, or indeed any additional 'surge payment' schemes that may be announced. We have not worked with MSD to fully assess the practicality of MSD implementing these steps.









Key








	Indicates potential short-term improvement opportunity		Indicates recommendation to address external risk
	Indicates priority action		Indicates recommendation relating to pre-payment stage
	Indicates recommendation to address internal risk		Indicates recommendation relating to post-payment stage

#	Recommendation	Description	
1	Follow-up communication with Scheme recipients	<p>We recommend that MSD quickly consider how best to communicate with WSS recipients to remind them of their obligations and to maximise the potential of early voluntary repayments.</p> <p>One option is to send a blanket communication to all Scheme recipients, however we recognise the majority of the WSS recipients receiving such a communication have acted entirely appropriately.</p>	   




⁴ <https://www.apsc.gov.au/learning-failure-why-large-government-policy-initiatives-have-gone-so-badly-wrong-past-and-how>

⁵ <https://apo.org.au/sites/default/files/resource-files/2014-03/apo-nid41087.pdf>

#	Recommendation	Description	
		<p>A more targeted approach could involve MSD profiling applications to identify any sub-groups that could present a voluntary repayment opportunity, and could warrant an appropriate proactive communications strategy.</p> <p>Communicating, in an appropriate way, with recipients of the Scheme who have received the subsidy in error (either due to an error in applications processing or a misunderstanding by the employer of the eligibility criteria), rather than those who have acted with unscrupulous intentions, will be critical to encouraging these individuals to repay any amounts paid to them in error. The earlier this is applied, the greater the potential repayments to the Scheme.</p> <ul style="list-style-type: none"> A key aspect of determining the success of this and other proactive steps will be to measure the impact following the interventions (e.g. through increase in in-bound calls and the volume/value of voluntary repayments). We understand that as at 7 May 2020 all recipients were contacted by MSD to outline the circumstances under which they must repay Scheme funds. As at 2 June 2020 the online guidance had been updated. We include a summary of this communication at Appendix F. This is a positive step to address the need to communicate with recipients and should be extended to applicants post 7 May 2020. 	
2	Use of a communications strategy to support MSD's prevention and detection efforts	<p>Connected to recommendation #1 above, MSD should consider implementing a communications strategy to communicate to stakeholders (including the general public) the audit and investigation work that is being planned and undertaken, as well as the reporting option(s) available to stakeholders. This will support MSD's prevention and detection efforts.</p> <p>Publicising the WSS recipients through the WSS Employer Search has increased transparency and media scrutiny, resulting in recipients voluntarily repaying many millions of dollars. To provide further transparency and help to increase the accountability of recipients, MSD could release a .csv (or similar) list of all recipients, and their subsidy amount as part of its proactive communications. We acknowledge that there are other factors and risks that MSD would need to consider in implementing this, including privacy issues.</p> <p>This strategy should also include publishing results and examples of voluntary repayments, successful enforcement actions and agency-led recovery of funds.</p>	   
3	Post-payment risk profiling, data analytics and targeting of the available auditing resources	<p>MSD and IR have a WSS information sharing MOU in place. Workshops have been held between the two agencies to develop a list of potential and known WSS Fraud and Error related risks, with attendees ranking the perceived higher-priority risks. MSD has now shared the WSS payments data with IR and the two agencies have started working on their joint data analytics. Our initial observations are as follows:</p> <ol style="list-style-type: none"> We endorse the application of the detection-focused data analytics capability of both agencies to elevate potential and material Fraud and Error risk. It is important to understand the Fraud and Error risks by profiling the data available. The philosophy of early identification of and engaging with applicants who may have been paid in error will increase the potential of greater recoveries. 	   

#	Recommendation	Description	
		<p>2. The plan to concurrently focus on people who may be defrauding the Scheme, in particular those who may have done so in a material way, is also a sound strategy, while maintaining a sharp focus on potential recoveries in (1) above.</p> <p>3. The agencies both have analytics teams who are positively considering how best to share insights, expertise, infrastructure and data to optimise the outcomes.</p> <p>As this approach is developing, we would recommend:</p> <ul style="list-style-type: none"> Developing a centralised register of Fraud and Error risks (the risks identified at Appendix B could be a starting point for this). The ongoing audit and investigation work should also inform and further develop this view; Completing a review of the planned and in-progress integrity-focused analytics testing and mapping specific data analytics tests against the risks. We note that MSD has already engaged Deloitte to review the approach and identify potential gaps, and this will be completed imminently; Completing a high-level assessment of the estimated overall WSS Fraud and Error. We understand MSD's post-payment audits to date indicate a relatively high level of compliance. We recommend segmenting the WSS population to understand the various low to high risk 'clusters'. MSD can then apply rough values to those clusters. This may help reinforce the auditing priorities to date, and/or enhance that auditing effort going forward, and help MSD to understand the overall loss to Fraud and Error. <p>We understand that MSD's view is that estimating the overall WSS Fraud and Error would be difficult to do accurately, due to the complexity of business operations and assessing the extent of entitlement, in particular for the more complex medium and large sized entities. This view should be balanced against how targeted the auditing effort was;</p> <ul style="list-style-type: none"> Using the above assessment of Fraud and Error to inform discussions with key stakeholders, confirm the expectations on the Ministry regarding risk appetite of the WSS. In designing the WSS as a high-trust scheme, the Government has in some ways defined its risk appetite. However, the risk appetite may change based on the above assessment. This approach is in line with Shergold's definition that good advice is factually accurate and backed by evidence; and Reviewing the system(s) in place to robustly manage the various types of concerns through to conclusion, including the consolidation of analytics findings across the different agencies and the prioritisation / workflows associated with addressing the alerts triggered by the analytics. 	
4	Reconciliation of large employer file data and payments	<p>Due to the manual nature of the large employer .csv file application process & existing lack of oversight, there is an elevated level of inherent risk.</p> <p>MSD should introduce a reconciliation between the large employer .csv files received from the applicant and those sent to the IT team for upload in to S2P/EES, following the manual processing.</p>	  
5	WSS application enhancement	<p>We recognise that MSD set up the WSS application process within a few days and set up pre-payment controls such as only allowing IP addresses from NZ or Australia to access the online applications. However, MSD should consider requiring employer applicants to include more detail as part of their WSS application. Additional detail should be sought from applicants regarding:</p> <ul style="list-style-type: none"> Bank account details e.g. bank name, branch, account holder. This will provide MSD with a greater number of key data points to inform decision making / audit work (we acknowledge that MSD will only make payments to NZ bank accounts). 	   

#	Recommendation	Description	
		<ul style="list-style-type: none"> Employee details. Contact cell phone numbers and personal email addresses should be added to the employee data sought, to better enable post payment verification that employees did receive the subsidies. This would also have a deterrent effect on employers who may be considering not passing on the subsidy. 	
6	Evaluation process improvements	<p>MSD implemented some effective pre-payment controls, such as matching application details to IRD data. When processing applications, MSD should consider the following to provide greater Scheme protection:</p> <ul style="list-style-type: none"> Using an independently sourced telephone number to call the applicant (e.g. not the telephone number provided on the application). We note that some evaluators have already adopted this approach for the WSS, including for the 80+ employee applications, managed by the MSD investigations team; MSD should match details on applications (bank details and names) to MSD employee details prior to making payment for approved applications. We note that MSD is already matching payment bank details to employee bank details, however this is currently completed post-payment; Include the applicant bank account details as part of the automatic data matching exercise with IR data. This would improve confidence that payments are being made to the legitimate business bank account of the applicant and reduce the risk of diverting payments to third party accounts; Capture IP addresses and using these as part of the application processing decision making (acknowledging that MSD has restricted access to online applications to NZ and Australian IP addresses); and MSD should consider improving decision-making by considering integrity data relating to applicants held by MSD and other agencies (which is currently available to MSD under the MSD/IR MOU). This will help identify higher risk applications. 	
7	Access rights & system improvements	<p><u>System improvements</u></p> <p>1. MSD should consider system enhancements to the S2P/EES system to improve Scheme protection. This should:</p> <ul style="list-style-type: none"> Allow related applications to be grouped together to be assessed by no more than one MSD employee at any given point. This will reduce the risk of multiple payments being made to an applicant incorrectly and / or inappropriately. Consideration should also be given to stopping / flagging duplicate applications in future; Improve audit logging functionality to capture actions taken by users. <p>Due to the urgency to process applications and make payments quickly to enable those in need to receive the subsidy, we recognise that there has been no secondary review or approval of processed applications that required human intervention (the approximately 70% of applications for under 80 employees that did not automatically match IR data).</p> <p>Applications that do not automatically match IR data are currently reviewed and approved by one MSD assessor. We note that following implementation of the Scheme, MSD has subsequently requested approvers to write a comment in the application outlining their steps and decision making process. Given this, we recommend MSD considers system development to support the use of:</p> <ul style="list-style-type: none"> Forced fields e.g. documentation of approver decision making process; and 	



#	Recommendation	Description	
		<ul style="list-style-type: none"> Workflow 2nd review and approval of applications, along with a training programme for assessors to support high quality decision making. <p>We recognise that there has been an example of an internal incident where poor decision making from an MSD employee has led to approval of payments that should not have been made. System development and increasing training to employees (supported by an internal audit programme), will improve quality and provide increased comfort to stakeholders.</p> <p><u>Access rights</u></p> <ol style="list-style-type: none"> MSD should also consider reviewing the S2P/EES user access groups and their system rights, including the list of administrators. This should include user ability to: <ul style="list-style-type: none"> Change bank account details on applications; Change employee numbers or status (Full-time vs Part-time); and Re-opening declined applications for payment, changing application data (including bank accounts) or selecting an application (rather than being sent an application via a workflow) and approving for payment. Given the existing automated processing relies entirely on data matching with the IR dataset, MSD (and IR) should consider reviewing the access rights to IR data stored in the shared folder and in the secure file transfer protocol (SFTP). MSD should also explore the possibility to capture audit logging of actions taken within the SFTP. 	
8	System improvement for large employer applications	<p>MSD should consider improving the application system for large employers to avoid the use of .csv files during application. This will include the need to add large volumes of employees. We note that MSD has already identified this.</p> <p>As an alternative, MSD should consider making some updates to the .csv file used for large employer applications to:</p> <ul style="list-style-type: none"> Reduce the errors and manual processing required by pre-populating sections (such as the rates for full-time & part-time employees); and Restrict editing and formatting of the document as much as possible. 	
9	Automate transfer of payment file to Finance	MSD should consider exploring system improvements and workflow options to automate the transfer of the payment files into the Finance system and reduce the risk of human error / the file being amended.	
10	Enhance the existing audit program to meet the agreed level of risk appetite and required level of assurance	<p>MSD has a Compliance and Enforcement Strategy in place that has been established to ensure that employers comply with their obligations under the WSS. This includes publishing the names of the WSS recipients, and random, targeted, and allegation-driven audits.</p> <p>MSD should consider enhancing its existing efforts to develop an assurance program that:</p> <ul style="list-style-type: none"> That takes an approach that is proportional, risk-based, and evidence-based; Where Treasury plays a key role in setting the mandate and outcomes of the assurance with MSD and other agencies, that aligns with Government expectations for assurance over the subsidy claims and payments; 	

#	Recommendation	Description
		<ul style="list-style-type: none"> Is focused on getting funds that were received by applicants outside of eligibility /entitlement back soon (to reduce the increasing risk of dissipation); and Includes verification effort at the employer end for approximately 3 months, applying a targeted risk-based approach. This can be framed as part of "routine plan of claim and payment confirmation". <p>At a high level, the framework could incorporate and consider the below aspects, which is consistent with risk assurance good practices and other subsidy or wage type support or compensation that Deloitte has assisted with in the past:</p> <ul style="list-style-type: none"> Purposes and outcomes; Communication; Sponsors; Principles of assurance programme; Risk based approach having regard to the levels of confidence required; Assurance strategy considerations; Tools and templates; and Capability. <p>As outlined in the RC HIP Report <i>"any large program involving the expenditure of huge sums of taxpayers' funds ought to be accompanied by rigorous checks of such a kind to ensure the minimisation of fraud"</i>⁶. With expenditure already exceeding \$10bn, the same principle should apply to the WSS.</p> <p>The same report highlights the importance of commencing audit activities as soon as possible, which MSD has done with its audit efforts to date. However, Hanger states that the HIP would also have benefitted from further external, formal audit and inspection services⁷.</p> <p>MSD has supplemented its initial targeted audit efforts with additional proactive audits based on risks identified during the processing of applications, and through allegations received. MSD should consider extending its proactive, detection activity to identify additional and potentially material Fraud and Error, so that it can more confidently understand the potential schemes that exist. This work could inform the assessment of WSS Fraud and Error (see recommendation 3 above).</p>
11	Review the audit and investigation capability and requirements to respond to the anticipated and	<p>We note that the Scheme is already creating a significantly increased audit and investigation workload for MSD, and we understand that MSD and IR working together to help provide the resources that MSD require. Further, the nature of the investigations and issues may require a mix of skills (e.g. forensic accountants as well as investigators) to address.</p>



⁶ The RC HIP Report, page 213, para 10.1.13

⁷ The RC HIP Report, page 219, para 10.5.11

#	Recommendation	Description	
	significant increase in workload	<p>MSD should continue to assess its audit and investigative requirements and capability. This includes its ability to mobilise a function that is comprised of the appropriate levels of both people / technical skills and technology to undertake fluctuating levels of potentially complex employer investigations.</p> <p>We acknowledge that MSD is collaborating with IR and the Department of Internal Affairs to get auditing and investigative support and increase its capability and capacity.</p> <p>We note that the New Zealand Government recently announced an additional relief scheme providing loans to employers, and that IR are administering this scheme. There may still yet be further relief schemes announced by the government. In this context, given the additional resource constraints that schemes will place on agencies and the key role IR resources are currently taking in MSD's WSS prevention, detection and response efforts, this is particularly important for MSD to consider.</p>	
12	Provide extensive guidance to potential applicants of the scheme at the application phase	<p>It is recognised that MSD has had, and continues to invest resources and effort to recover funds from applicants who may have submitted applications in error, or who, with the benefit of time, now consider themselves to not be eligible and need to make repayments.</p> <p>MSD should consider providing clearer and more extensive information up-front in the application to reduce this risk of error. This information could include information on the cross-agency interrelations & links that exist, as well as practical examples of those who should and should not apply.</p> <p>This advice may also include:</p> <ul style="list-style-type: none"> • Situational examples that outline repayment expectations should the eligibility criteria be considered to be no longer met at a future point in time' and • A requirement for ongoing self-assessment from applicants, given the judgement requirement to meet the eligibility criteria. <p>In the case of the WSS, we recognise that this may not have been possible because MSD (and the partner agencies) needed to implement the Scheme in a matter of days.</p>	 

Additional high-level observations:

System around employer eligibility-focused schemes

During the course of our engagement we observed that:

1. In administering the WSS, it is necessary for MSD personnel to have a cross-industry understanding of employers and sole traders in New Zealand, and the potential risks associated with them;
2. MSD has in the past dealt with administering large-scale surge payments, and has existing tools and processes it used for the WSS. However, MSD's core capabilities lie with supporting beneficiaries, not dealing with employers;

3. MSD managed to quickly deploy its personnel, including those with core investigative skills (albeit beneficiary/client focused), to assess and approve payments. However, we note that in order to deal with some large employer applicants, MSD personnel require a strong understanding of complex organisational structures, varying employee types and intricate accounting or revenue recognition practices;
4. The existing Scheme has required a significant level of manual intervention involving quickly mobilised teams from MSD and IR to complete data matching exercising (e.g. MSD staff calling IR staff to verify IR data in applications). This data sharing has been completed with differing levels of success, particularly in the early stages. There are opportunities to consider whether this represents the best use of both agency's resources, as well as whether this introduces an unnecessary level of risk; and
5. Whilst the recently signed MOU allows for more information sharing across MSD and IR, it is IR who holds rich employer and sole trader data used to validate applications. Furthermore, the system used for the WSS heavily relies on the information shared being accurate and up to date.
6. Any future schemes would benefit from MSD personnel receiving training to address the gaps in these areas and/or supplement the team with IR specialists and MBIE specialists from an employer perspective.

Based on the above observations, and as part of a review of the Wage Subsidy Scheme, MSD and its partner agencies could hold a discussion with key stakeholders, including peer agencies, the system used to facilitate these Schemes in the future, including resourcing capacity and capability requirements.

Any future schemes would also benefit from up-front input at the design stage from:

- Financial crime experts (in line with SFO guidelines), both from an internal integrity and external fraud standpoint;
- Legal experts;
- Risk experts; and
- Operational-level employees.

The level of resource required will be dependent upon:

- Government objectives and Government and MSD risk appetite; and
- The anticipated level of Fraud and Error.

Distribution of payments:

For any future schemes, MSD could consider using an external intermediary to distribute the payments to help improve the accuracy and integrity of payments made. This would also allow MSD to focus on processing applications. MSD may also consider paying employees the subsidy directly in future.

We recognise that different payment models present different Fraud and Error risks. However, options to consider that reduce the risk of large payments being made to one account (and therefore increasing the risk of material mis-payments) include:

- Employers apply on behalf of employees but provide employee bank details in the application so that direct payment to employees can be made; and
- Employees apply individually and are paid directly.

Appendix A - Limitations

















We note the following limitations in respect of this report:

- a. This report is subject to the limitations outlined in the Consultancy Services Order (CSO) dated 1 April 2020:
 - i. The Services do not constitute an assurance engagement in accordance with New Zealand standards for assurance engagements, nor do they represent any form of audit under New Zealand standards on auditing (International Standards on Auditing (New Zealand)), and consequently, no assurance conclusion nor audit opinion will be provided. We do not warrant that our enquiries will identify or reveal any matter which an assurance engagement or audit might disclose;
 - ii. Our work and understanding of controls and processes in place has relied heavily on the comments and observations of your management and staff. We have not audited or otherwise verified these comments and observations. Accordingly there is an inherent limitation that material gaps or Fraud and Error risks may have not been identified;
 - iii. We have relied upon and assume, without independent verification, the accuracy and completeness of all information that is available from public sources; and
- b. This report was prepared for the use of the Ministry of Social Development;
- c. No other party is to be provided with this report or a copy of it, or may rely on it or our work, without our express prior written approval;
- d. We are not qualified to provide legal advice. Legal advice should be sought on legal matters;
- e. This report has been prepared based on work completed as at 8 May 2020. We assume no responsibility for updating this report for events and circumstances occurring after that date; and
- f. We reserve the right, but are under no obligation, to alter the findings reached in this report should information that is relevant to our findings subsequently be identified.

Appendix B –Risks identified






The below is not an exhaustive list of the risks relating to the WSS. MSD should consider risks beyond this listing.

Risk type	Fraud	Corruption	Waste & Error	Internal	External
Icon					

#	External / Internal	Fraud / Corruption / Waste & Error	High Level Risk	Risk Description
1			Ineligible applicants being paid	Applicants intentionally claiming the subsidy without expecting or realising a 30% decline in revenue
2				Applicants delaying invoicing intentionally to meet the 30% decline in revenue criteria
3				Overseas applicants intentionally claiming the subsidy despite knowing they are not eligible
4				Applicants claiming the subsidy by intentionally creating an entity with the sole purpose of claiming the subsidy
5				Applicants who ceased trading prior to the introduction of the Scheme (and are therefore ineligible) intentionally claiming the subsidy
6				Applicants intentionally claiming the subsidy despite being on other government initiatives designed to support those who are not working e.g. MSD, ACC
7				Applicants intentionally claiming the subsidy despite being in Corrections institutions
8				Applicants intentionally claiming the subsidy as sole traders despite not being self-employed, e.g. landlords (this risk is heightened pre-MSD's process change to validate sole trader status with IR)

#	External / Internal	Fraud / Corruption / Waste & Error	High Level Risk	Risk Description
9				Professional services providers (e.g. accountants) intentionally and falsely claiming the subsidy on behalf of their clients, to divert payment
10				Applicants intentionally claiming the subsidy by leveraging access to information at their employer to submit a false application with third party bank details for an employer that has not claimed the subsidy
11				Insolvent applicants intentionally claiming the subsidy paid and diverting payment in to an overdrawn bank account to reduce their level of secured debt
12				Applicants being paid the subsidy in error due to misunderstanding the eligibility criteria
13				The Scheme subsidy being paid in to an incorrect third party bank account as a result of erroneous bank details being included on a legitimate Scheme application
14				Applicants intentionally over claiming the subsidy by submitting duplicate or multiple applications to the WSS and other schemes (such as the EWLS)
15				Applicants intentionally over claiming the subsidy where they have inflated their application by claiming for a higher number of FTE vs PTE, or casual employees
16				Applicants intentionally over claiming the subsidy by claiming for employees that no longer work for them, including ex-employees who are no longer in NZ or seasonal employees
17			Applicants being overpaid the subsidy	Applicants intentionally over claiming the subsidy by claiming for employees that have never worked for them
18				Applicants intentionally over claiming the subsidy by claiming for family members, children/dependents, or known acquaintances
19				Applicants intentionally over claiming the subsidy by claiming for ineligible minors
20				Applicants intentionally over claiming the subsidy by claiming for IRD numbers belonging to individuals who are no longer living

#	External / Internal	Fraud / Corruption / Waste & Error	High Level Risk	Risk Description
21				Applicants intentionally over claiming the subsidy by claiming for seasonal workers that would not normally be working during the lockdown
22				Applicants intentionally over claiming the wage subsidy by submitting applications as both an employee and a sole trader for the same entity
23				Applicants over claiming and being overpaid the subsidy in error
24			Employers not passing the subsidy on to employees	Employers intentionally not passing the subsidy on to employees (either fully or partially)
25			Cyber security attack	A third party using phishing or other cyber-attack methods to intercept MSD application data to use to inappropriately benefit either themselves or another third party or cause a loss to MSD
26				MSD or IR staff exploiting their position e.g. through access to IR data, to use for personal gain (e.g. using data to inform a fraudulent application)
27				MSD or IR staff exploiting their position and colluding with a third party to submit a fraudulent application in return for a benefit
28				MSD staff intentionally manipulating the .csv payment file for personal gain
29			MSD or IR employees exploiting their position	MSD staff intentionally manipulating application data in large employer .csv files to benefit personally or collude with a third party
30				MSD staff intentionally manipulating and / or approving ineligible applications to benefit personally
31				MSD staff intentionally manipulating and / or approving ineligible applications in return for a benefit
32				MSD, IR or MBIE staff manipulating and / or closing allegations during processing to benefit personally or collude with a third party

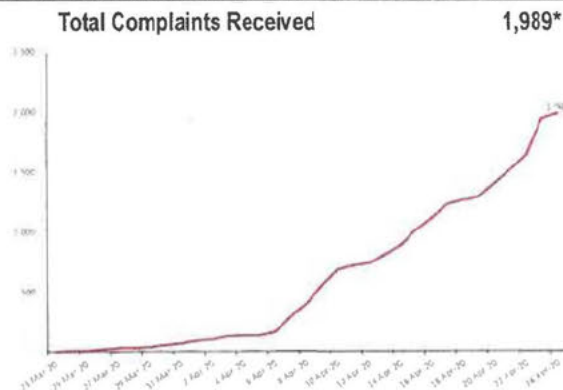
#	External / Internal	Fraud / Corruption / Waste & Error	High Level Risk	Risk Description
33			MSD or IR employee processing error	MSD staff amending and / or approving ineligible applications through individual error
34		 	IR data is not accurate	The data IR shares with MSD contains errors, is not fit for purpose, or is not in the correct format (as a result of error or internal manipulation at IR).

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COVID-19 Wage Subsidy Complaints/ Allegations Cross Agency Report - 28 April 2020

Includes complaints/ allegations received by Ministry of Social Development, Ministry of Business, Innovation & Employment, and Department of Inland Revenue



Resolved Complaints



The various themes of complaints received through the 3 agencies are as below:

- Employers are basing hours on their employees contracts versus what they are working and hence perhaps not applying for the correct subsidy.
- Employees employment is being terminated without following the correct procedure as set out in individual Employment Agreements or minimum standards
- Employers applying for the Work Subsidy but not paying Employees
- Employees employment being terminated and then being offered their jobs back at less hours and in some cases at a lower hourly rate.
- Issues with temporary agencies not applying for the subsidy, likely because they have no contractual obligations to pay employees when no work is available.

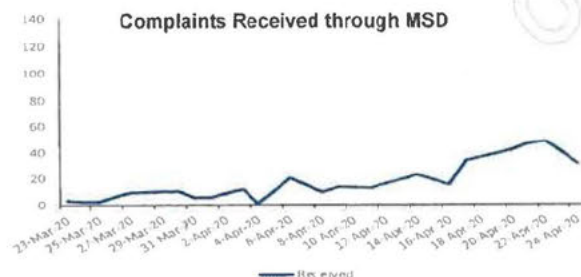
MSD

Complaints /allegations relating to:

- Applicant claimed the subsidy but didn't qualify
- Applicant claimed too much subsidy
- Applicants should have refunded subsidy but hasn't
- Applicant didn't meet the obligations of the scheme they signed up to

Received	424
On Hand	319
Closed	105

Referred to another agency	9
Resolved NFA	75
Resolved Refund Requested NFA	14
Referred for Investigation	7



MBIE

Complaints /allegations relating to:

- Employees not retained as employees for the 12-week period of subsidy receipt
- Employers compel employees to use leave entitlements to cover period of subsidy receipt
- Employee employment terms and conditions changed by employers without evidence of 'good faith'
- Subsidy received by employer but not passed on to employees
- Hours of work do not decrease but payment does forcing employee below the minimum wage
- Deductions are made from the subsidy which cause a breach of employment standards

Received	1,351
On Hand	1,018
Closed	333

Referred to another agency	62
No Further Action	181
Other (including resolved by advice)	90



IR

Complaints /allegations relating to:

- Applicants not meeting tax obligations that may arise through the payment of employer wage subsidies

Received	214
On Hand	142
Closed	72

Referred to another agency	14
Others	58



* The total received complaints might contain duplicates due to cases referred across agencies. Operational data subject to change. MSD information extracted as at 24 April 12:00:00, MBIE at 24 April 14:15:00 and IR end of 23 April

Appendix F – MSD Communication with WSS recipients

Repaying the COVID-19 Wage Subsidy

How to repay the COVID-19 Wage Subsidy if you need to.

If you're not sure whether you need to repay the Wage Subsidy, call us on **0800 40 80 40**

When you need to repay

You need to repay some or all the COVID-19 Wage Subsidy if:

- you no longer meet the criteria for the subsidy
- you're not meeting your obligation to use the subsidy to retain and pay your employees
- you've received insurance (eg, business continuity insurance) for any costs covered by the subsidy
- you provided false or misleading information in your application.

Have money left over after paying wages

If your employee's usual wages are less than the subsidy, you must pay them their usual wages. Any difference should be used for the wages of other affected staff - the Wage Subsidy is designed to keep your employees connected to you.

If there are no other employees to use the subsidy for, then the remaining Wage Subsidy should be paid back.

8

⁸ <https://www.workandincome.govt.nz/covid-19/wage-subsidy/repayments.html#null> (Accessed 2 June 2020, 12:00)

Redundancies

Your obligations state you should retain your employees you're currently receiving the COVID-19 Wage Subsidy for.

If you have to make an employee redundant during the subsidy period:

- you can use the Wage Subsidy to pay the employee any notice period arising from the redundancy, and
- you must repay any balance of the Wage Subsidy that's left after the notice period has been paid.

You cannot use the Wage Subsidy to make any contractual redundancy payments to an employee.

30% decline in revenue

When you applied for the subsidy, you declared that:

- your business experienced a minimum 30% decline in actual or predicted revenue over the period of any month from Jan 2020 to June 2020, when compared with the same month last year, and
- that decline is related to COVID-19.

For pre-revenue research and development start-up companies, 30% revenue loss includes a drop of 30% in projected capital income.

Business hasn't had a 30% decline in revenue

If you predicted a minimum 30% decline and your business hasn't experienced this, you may find you didn't need the wage subsidy. If this is the case, you can repay it.

Business has had a decline in revenue

You don't have to repay the wage subsidy if your business has experienced a minimum 30% decline in actual revenue, whether your business is able to open or not.

This also includes if your application was based on a minimum 30% decline in predicted revenue and this has happened.

Business returns to work before 12 weeks ends

If your business returns to work before the 12 weeks Wage Subsidy period has finished, you may need to repay the subsidy.

It depends on whether your business has experienced a 30% decline in revenue or not.

Business has had a decline in revenue

You don't have to repay the wage subsidy if your business has experienced a minimum 30% decline in actual revenue, whether your business is able to open or not.

Business hasn't had a 30% decline in revenue

If you predicted a minimum 30% decline and your business hasn't experienced this, you may find you didn't need the wage subsidy. If this is the case, you can repay it.

Employee resigns

If one of your employees voluntarily leaves during the 12 weeks of the wage subsidy, you need to tell MSD. You can't claim another subsidy for that person.

You don't have to repay the subsidy. Any difference should be used for the wages of other affected staff - the wage subsidy is designed to keep your employees connected to you.

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How to repay the subsidy

You can fill out the online form. You'll need your:

- business name
- IRD number
- New Zealand Business Number (NZBN), if you have one
- phone number
- email address
- postal address.

You'll also need to tell us the amount you need to repay.

Once we process the form, we'll be in touch to confirm how to make the repayment.



Repayment request

After you've made the repayment

We'll update your details in the employer list within 24-48 hours. This is where people can search for employers who have received COVID-19 Wage Subsidies.

If you made a:

- full repayment, you'll no longer be in the list
- part repayment, the amount of money paid to you will be updated
 - the number of employees won't change as we're unable to update this.

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