



16 February 2024

Tēnā koe

Official Information Act request

Thank you for your email of 18 January 2024 requesting information about the wage subsidy scheme.

I have considered your request under the Official Information Act 1982 (the Act). Please find my decision on each part of your request set out separately below. I understand that you will receive responses to your other queries of 18 January 2024 in due course.

- 1) In late July 2021, MSD wrote to a sample of 1,000 of March 2020 Wage Subsidy recipients to seek confirmation of their eligibility for that scheme and compliance with their obligations... Can MSD please provide the most comprehensive report/summary/briefing on this work?*

The Ministry has previously sent you a copy of this document, named "22c. 20230816 Email - Attachment 20230608 FINAL OHC Memo_WSS Integrity and Assurance.pdf" on 22 November 2023, in response to your request for "Correspondence between MSD and the Auditor-General's office about the WSS assessments (this particular bullet point, only, is to be restricted to this calendar year)".

It contains the most comprehensive summary of the 1,000-sample wage subsidy assurance exercise to which you refer.

For your convenience, I have included another copy of this document in the release for you.

I have reconsidered the information withheld as out of scope in the initial release, and as this information does not relate to the wage subsidy assessments, I do not consider it to be within the scope of your current request. For your convenience, I have included another copy of this document in the release for you.

2) *Post-payment risk analysis (conducted with IR) for both the WSSMAR21 and WSSAUG21 schemes was undertaken in 2022... Can MSD please provide the following information:*

- a. *An update on the integrity check numbers, with further detail about partial or full refunds (with dollar amounts), and the outcome of further investigations (including action taken, referrals, plus how many investigations are still to be completed);*

Please find **Table one** below, which shows the results of the 301 priority checks completed on the Wage Subsidy August 2021 scheme between 29 August 2022 and 27 October 2023.

Table one: results of the 301 priority checks completed on the Wage Subsidy August 2021 scheme between 29 August 2022 and 27 October 2023

<i>No further action</i>	<i>64</i>
<i>Full refund</i>	<i>62</i>
<i>Partial refund</i>	<i>59</i>
<i>Referred for investigation</i>	<i>81</i>
<i>Total cases assessed</i>	<i>266</i>

Notes:

- Cases were identified via a risk analysis carried out with Inland Revenue on the Wage Subsidy August 2021 (although included in the initial analysis, no recipients of the Wage Subsidy March 2021 met the threshold for priority checking).
- Thirty-five cases identified by the risk analysis had undergone an existing integrity check or investigation; these were excluded from further assessment.
- Note, this work is also discussed on page 14 of the document "22c. 20230816 Email - Attachment 20230608 FINAL OHC Memo_WSS Integrity and Assurance.pdf" provided again as part of this request.

I am unable to provide you with the repayment amounts or the status of cases referred for investigation, as that information is held in notes on individual case files. In order to provide it to you, Ministry staff would have to manually review a substantial number of files. As such, I refuse your request under section 18(f) of the Act. The greater public interest is in the effective and efficient administration of the public service.

I have considered whether the Ministry would be able to respond to your request given extra time, or the ability to charge for the information requested. I have concluded that, in either case, the Ministry's ability to undertake its work would still be prejudiced.

- b. *Please state how many MSD/IR staff are currently working on these checks, and whether they're working on them fulltime or part-time;*
c. *How much longer this work is expected to take.*

The Ministry completed these checks in October 2023, but many of the investigations arising from that work are still ongoing.

As of 2 February 2024, the Ministry had 23 full time equivalent (FTE) dedicated to wage subsidy scheme investigations and 14 FTE working across both benefit and wage subsidy investigations, out of a total of 108 FTE Investigators.

A further 13 non-investigative FTE staff are assigned to both wage subsidy and benefit integrity work.

3) The public will be interested to know checks if this nature are ongoing, and will want to know if the work is being prioritised, considering the high trust model for a scheme involving billions of dollars. Please provide further comment, as appropriate.

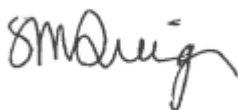
We can confirm that there still is a significant programme of work underway which includes investigations, post-payment checks, requests for repayment, civil recovery and, in the more serious cases, prosecutions where there is evidence that deliberate fraud was involved.

I will be publishing this decision letter, with your personal details deleted, on the Ministry's website in due course.

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 my decision on your request, 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.

Yours sincerely

pp. 

Magnus O'Neill
General Manager
Ministerial and Executive Services



Memo

To: Organisational Health Committee
From: Josie Smiler, General Manager Integrity and Debt
Date: 8 June 2023
Security level: In Confidence

COVID-19 Economic Supports: Wage Subsidy integrity and assurance

Purpose

- 1 The purpose of this memo is to:
 - 1.1 Address recommendations made by Audit New Zealand (Audit NZ) and the Office of the Auditor-General (OAG) to provide assurance over the Wage Subsidy Scheme (WSS) integrity programme
 - 1.2 Present the recommendations of Deloitte's second review of WSS integrity and assurance
 - 1.3 Seek agreement on MSD's position for recommendations relating to the 'current scheme'.

Commitment to Māori

- 2 In the past Māori have been disproportionately impacted by our integrity and enforcement processes;
 - 2.1 Mana Manaaki – A positive experience every time – we support MSD to prevent, detect and respond early to integrity risks, to reduce the harm caused to individuals, whānau and communities
 - 2.2 Kotahitanga – Partnering for greater impact – we engage on our practices, approach and the outcomes we want to achieve to support MSD's strategic shifts
 - 2.3 Kia Takatū Tātou – Supporting long-term social and economic development – our shift towards fraud prevention aims to reduce the harm caused by non-compliance.

Recommendations

- 3 It is recommended that the Committee:
- 3.1 **Note** that we have completed the two assurance exercises recommended by Audit NZ and the OAG, finding:
 - 3.1.1 the original scheme had a high overall level of compliance, and no evidence of widespread subsidy misuse was found
 - 3.1.2 the random integrity checks undertaken were largely effective despite not requiring documentary evidence
 - 3.1.3 self-assessment exercises rely on recipients' understanding of the eligibility criteria as they apply to them, and we can expect a high-level of compliance to be self-reported.
 - 3.2 **Note** that we engaged Deloitte to undertake a second review of MSD's integrity programme, in response to a further recommendation made by Audit NZ
 - 3.3 **Note** that Deloitte's second review of WSS integrity and assurance (the report) made ten recommendations, of which six could be considered for the 'current scheme' (i.e. existing schemes) and seven could be considered for future similar schemes
 - 3.4 **Note** that the six current scheme recommendations cannot be actioned as suggested, due to the operational challenges identified in the report
 - 3.5 **Agree** that MSD accept and close the six current scheme recommendations, as discussed in this memo
 - 3.6 **Agree** that the report, and the seven future-focused recommendations, is provided to The Treasury (and partner agencies) for consideration for future similar schemes
 - 3.7 **Agree** that the report is provided to Audit NZ and the OAG as part of reporting against their previous recommendations
 - 3.8 **Note** that following the Committee's agreement, Integrity and Debt will provide the report and a summary of its findings to the MSD Leadership team (June 2023), and responsible Ministers as part of quarterly reporting on our integrity programme (July 2023).

Context

4. COVID-19 Economic Supports were established from March 2020 during a time of national emergency, to mitigate the economic impact of the COVID-19 global pandemic on New Zealand businesses and workers.¹

¹ COVID-19 Economic Supports administered by MSD include the Wage Subsidy Scheme (WSS), Leave Support Scheme (LSS), and the Short-term Absence Payment (STAP).

- 5 To ensure WSS payments were made quickly, the Government adopted a 'high trust model', which meant approving applications based on a signed declaration from applicants that they met the eligibility criteria and/or that they would be eligible.
- 6 Cabinet agreed that information provided within the applications would not be verified before payments were made and that MSD would have the ability to later review applications and verify eligibility, referring possible instances of fraud for investigation.²
- 7 MSD, supported by the Ministry of Business, Innovation, and Employment (MBIE), Inland Revenue (IR), and The Treasury, developed an integrity programme (the Programme) to provide assurance around the COVID-19 Economic Support payments within the context of a high trust model. The Programme developed to include pre- and post-payment checks based on risk factors, a coordinated complaints process to further identify where obligations and eligibility criteria have not been met, a thorough investigation process where fraud is suspected, an enforcement response and recovery framework, and a repayment process to facilitate the recovery and receipt of voluntary and requested repayments.
- 8 The Programme has attracted a high level of public interest, in line with the level of public spending involved.³
- 9 Since early 2020, MSD has made on-going efforts to provide assurance over the Programme and to strengthen the controls in place, while continuing to administer subsequent iterations of the scheme.
- 10 Key integrity enhancements were based on the recommendations of three external organisations – Deloitte, Audit NZ, and the OAG – following their respective assessments of MSD's management of the subsidies.

External recommendations for improving scheme integrity

Deloitte's 'Fraud, Corruption, Waste and Error Risk Assessment' report

- 11 In April 2020, shortly after the first Wage Subsidy was established, MSD commissioned Deloitte to provide an external view of integrity risks for the scheme. Issued in July 2020, Deloitte's 'Fraud, Corruption, Waste and Error Risk Assessment' report assessed MSD's administration of the scheme and made 12 recommendations for integrity enhancements.

² CAB-20-MIN-0105, CAB-20-MIN-0108.

³ Note: MSD is currently a respondent to an application for judicial review by the *Gama Foundation*, who is alleging that the Ministry has failed to exercise its discretion to prosecute recipients, including the claims that MSD has a policy not to prosecute despite having evidence that some recipients were not entitled to retain the subsidy, and that MSD has failed to correctly apply the Solicitor-General's Prosecution Guidelines and MSD's own Prosecution Policy. The judicial review hearing was held on 8 May 2023, and we await the decision.

- 12 MSD adopted many of Deloitte's recommendations for the subsequent Wage Subsidy Extension (WSX) and Wage Subsidy Resurgence (WSR) schemes. This included increased communication with applicants before and after payment, improved processes to ensure the collection of accurate application data, and stronger settings for the approval of applications. Several recommendations were not adopted that related to system improvements, primarily due to their feasibility and investment required at the time.

The OAG's 'Management of the Wage Subsidy Scheme' report

- 13 In May 2021, the OAG published a performance audit on the management of the WSS⁴. Although its focus was work done by MSD to protect the integrity of the scheme, the assessment also considered the work of other agencies involved in its design and delivery, including The Treasury, IR, and MBIE.
- 14 The OAG found that the WSS was implemented in accordance with Cabinet's decisions, and that many of the steps taken by agencies were consistent with good practice guidance for emergency situations. Their report also acknowledged the extraordinary circumstances facing the Government when it implemented the WSS, and other COVID-19 support payments.
- 15 However, the OAG noted that post-payment integrity work undertaken by MSD to date likely had not met Cabinet's expectations of an 'audit', as it had not verified applicant eligibility against documentary evidence.
- 16 Prior to the publication of the OAG's report in May 2021, MSD took additional steps to enhance its integrity programme in line with the draft recommendations received. This included updating declarations to expressly require applicants to prepare and retain evidence of their eligibility, including that they met the required revenue decline, and this evidence was routinely sought from recipients as part of pre- and post-payment checks.

Audit NZ's 2021 'Report to the Chief Executive on the audit of (the) Ministry of Social Development'

- 17 Audit NZ reviewed the WSS as part of their annual audit to 30 June 2020, recommending that MSD "analyse the result of all integrity and assurance work undertaken to date to inform a risk-based assessment of the next steps, and what further integrity work needs to be completed, if any, to strengthen the integrity of the scheme."
- 18 In response, in early 2022, MSD engaged Deloitte to undertake a second independent assessment of MSD's integrity programme, the findings of which are presented in this paper.

⁴ <https://oag.parliament.nz/2021/wage-subsidy>

Assurance recommendations and findings

- 19 Two assurance exercises were recommended by Audit NZ and the OAG:
 - 19.1 Test the reliability of a sample of post-payment assurance work carried out against documentary evidence held by applicants (**OAG recommendation 3**)
 - 19.2 Seek written confirmation from applicants (which could be targeted towards larger or risk-indicated applicants) of compliance with their eligibility criteria and obligations of receiving the subsidy (**OAG recommendation 4a** and **Audit NZ recommendation 1**).
- 20 To address 19.1, MSD requested documentary evidence of eligibility from 339 recipients as a representative sample to provide assurance over the approximately 3,700 random integrity checks undertaken early in the Programme (when documentary evidence was not routinely requested). This sample was not intended to be representative of all recipients of the original scheme. The sampling focused on two groups: sole traders or employers with five or fewer employees, and employers with six or more employees.
- 21 When finalised in late 2022, this assurance work identified that:
 - 21.1 around 90% of those reassessed by MSD required no further follow-up action, around 9% were required to make a full or partial repayment, and around 1% (five applicants) were referred for investigation where fraud was suspected
 - 21.2 where repayments were identified, the most common reasons were 'circumstances changed' and 'prediction not realised'
 - 21.3 there was no significant difference in the results for the two groups, limiting our ability to identify whether business size correlated at all with integrity risk.
- 22 To address 19.2, MSD wrote to 1,000 WSS recipients who had applied between 28 March 2020 and 22 May 2020. This sample was weighted towards larger employers as recommended and used a web-based survey that asked recipients to confirm their eligibility based on a self-assessment, and documentary evidence to confirm this was not required.
- 23 The sample represented around 2% of applications and around 10% of expenditure of the March 2020 scheme. Overall, it was a time-consuming and resource-intensive exercise to undertake, centred around contacting non-respondents, with so much time having passed since the early schemes operated.
- 24 When all available responses were collated in late 2022, MSD found that:
 - 24.1 six respondents (0.7%) indicated they were not eligible for all or some of the subsidy received

- 24.2 47 recipients (5.4%) failed to respond to the survey and multiple subsequent attempts to contact them.
- 25 Across both assurance exercises, we have concluded:
- 25.1 the original scheme had a high overall level of compliance, and no evidence of widespread subsidy misuse was found
 - 25.2 eligibility was not static for all recipients, in line with policy settings for the schemes in that applicants were eligible at the time of application if predicting they would experience the relevant revenue decline
 - 25.3 the random integrity checks initially undertaken were largely effective despite not requiring documentary evidence
 - 25.4 gathering documentary evidence in and of itself may not significantly increase the level of non-compliance detected
 - 25.5 we expect any assurance exercise requiring documentary evidence will find a small level of non-compliance, in line with the high-trust settings for the scheme, and data limitations mean we are not able to easily identify recipients whose eligibility changed or who had not met their obligations for the period covered⁵
 - 25.6 because self-assessment exercises rely on recipients to understand the eligibility criteria as they apply to them, we cannot verify the accuracy of responses without also reviewing documentary evidence, and a high-level of compliance can be expected to be self-reported.
- 26 Results from both assurance exercises were communicated to Audit NZ in December 2022 and based on the results and conclusions Integrity and Debt now consider work against these two recommendations completed.
- 27 Other recommendations made by Audit NZ and the OAG related to ensuring eligibility criteria were sufficiently clear to allow for information to be adequately verified, having robust post-payment verification measures to mitigate the risks of using a high-trust approach, pursuing prosecutions, and undertaking an evaluation of the development, operation and impact of the scheme.

⁵ This was tested in preparation for risk analysis over the March 2021 and August 2021 schemes, whereby IR used information held on their systems to potentially identify recipients that may not have met the three key eligibility criteria: required revenue decline based on GST information, passing on the subsidy to employees applied for, and retaining those employees for the period covered based on PAYE information. This additional analysis was found to be unreliable when compared against documentary evidence.

Deloitte's 'Review of the Wage Subsidy Integrity and Assurance' report

Scope and key findings

- 28 Commissioned in 2022, Deloitte's second review considered the extent to which MSD had addressed the previous recommendations of:
- 28.1 Deloitte, in its Fraud, Corruption, Waste, and Error Risk Assessment of the scheme commissioned by MSD (July 2020)
 - 28.2 Audit NZ, as part of its annual audit of MSD (March 2021)
 - 28.3 The Office of the Auditor-General, in its report Management of the Wage Subsidy Scheme (May 2021).
- 29 Deloitte also considered what other key measures were available to further strengthen integrity of the existing schemes and to leverage insights for future schemes of this nature.
- 30 The report highlights the "high-pressure environment" MSD operated in to deliver the initial scheme, and to implement subsequent iterations. It finds that MSD addressed or attempted to address many of the prior recommendations made for the scheme.
- 31 It also acknowledges that MSD faced significant 'Operating Challenges' – barriers to implementation arising from technological limitations, legislative restrictions, or a need to administer the scheme at pace, amidst competing pressures and in a constantly evolving environment.
- 32 In the report, findings are grouped by 'clusters' that have shared objectives and attributes: Communication; Analytics and audit procedures; Process, system, and application enhancements; Audit and investigation capability; Pursue prosecutions; Specific follow up activity; Review and evaluate.
- 33 Appendix 1 provides the report for your reference.
- 34 The report includes ten recommendations, seven of which are applicable to future similar schemes and six of which could be considered by MSD to strengthen integrity of the current schemes. In many cases these are aligned to the findings of Audit NZ and the OAG, and/or they build on previous advice provided by Deloitte in 2020.
- 35 All recommendations should be accepted, as they reflect best practice for preventing, detecting, and managing fraud and error while administering emergency surge payment schemes.
- 36 For the seven future-focused recommendations, MSD should provide these to the relevant stakeholders and decision makers to inform improvements for any future similar schemes.

- 37 For the current schemes, although none of Deloitte's recommendations prescribe further large-scale post-payment integrity activity, key recommendations relate to determining *whether* further integrity work might be warranted, for example by valuing the return on MSD's interventions (**Recommendation Two**) and quantifying the overall scale of fraud and error of the Scheme (**Recommendation Six**), to better understand the effectiveness of our controls and interventions.
- 38 However these cannot be actioned as suggested, due to the operating challenges recognised in the report.
- 39 Of note, the limited applicant data held by MSD – a by-product of the high-trust, rapid delivery model adopted for the scheme – means MSD cannot effectively segment the population to identify additional 'high risk' subgroups of recipients for integrity purposes or targeting communications to encourage voluntary repayment (**Recommendation Four**). Application information was limited to high-level business, payment, and contact details but did not seek to confirm other potentially relevant attributes to support integrity analysis such as location, industry, essential service status, the nature of revenue or employment, or trading status.
- 40 Instead, Integrity and Debt considers the risk criteria and analysis undertaken with IR the most appropriate way to identify those applications requiring further review. Client Service Integrity (CSI) is currently working through post-payment integrity checks for the August 2021 scheme based on this risk analysis.

Recommendations for the current scheme

- 41 The following table provides our position on each of the six recommendations that could be considered for the current schemes, for your approval:

Deloitte recommendation	Commentary	Position
<p>Recommendation One: Consider the effectiveness of the IR Risk Analysis Criteria in identifying Fraud and Error, including that MSD:</p> <ul style="list-style-type: none"> • Use the results of the IR Risk Analysis of all schemes to validate the effectiveness of the risk factors and weightings. • This could include identifying additional shared attributes among recipients whose integrity checks resulted in repayments. <p><i>The report recognises that MSD may be limited in completing this exercise due to the data available to it and the format in which integrity information is stored in the Ministry's relevant systems, but this will help determine the appropriateness of using the same methodology and risk scorings for future schemes. This includes the responsible agency for any future schemes having a validated risk framework to use as a baseline for developing its risk criteria, and that the framework is responsive to new risks relevant to the future scheme/s.</i></p>	<ul style="list-style-type: none"> • IR confirmed that the risk scores and weightings were reviewed over time to reflect any changes to the scheme. Note, these risk criteria are focused on 'legitimate' employers and sole traders (i.e. who have records with IR) who IR hold information about that would indicate they may not be fully eligible for the period covered by the subsidy received • IR and MSD consider the key integrity risks did not fundamentally change from those identified for the original scheme, as the eligibility criteria and obligations remained largely consistent across all iterations – policy development after the original scheme focused on “refining the approach in a shifting context rather than re-examining the settings or revisiting the choice of scheme” (Martin Jenkins 2023) • In early May 2020, when post-payment checks were predominantly random, only 5% of recipients were required to make a partial or full repayment. By the end of October 2020, where these checks were predominantly targeted based on risk, repayments were required in 15% of cases. • Additional risk analysis based on business filings with IR, and targeted at three key eligibility criteria, was found to be unreliable when compared against documentary evidence sought from applicants (see footnote 5), limiting our ability to directly identify non-compliance against the key eligibility criteria • Recipients of subsequent schemes are likely to have received the original subsidy due to its scale. Those identified through risk analysis for subsequent schemes may be reviewed for eligibility across all subsidies received based on the risk criteria met, increasing the reach of the risk analysis across schemes • Limited application information collected in the Emergency Employment Support (EES) system, and how integrity interventions are recorded in the Investigation Management System (IMS) means we are unable to effectively identify and analyse shared attributes of higher risk or fraudulent applications – IR hold robust information on the target population (sole traders and employers) and the risk criteria reflect where non-compliance may be more likely. 	<p>Accept and close</p> <p><i>Work continues on priority integrity checks based on the risk analysis over the March 2021 and August 2021 schemes.</i></p>

<p>Recommendation Two: Value the return on interventions to date, to inform further integrity work, including that MSD:</p> <ul style="list-style-type: none"> In conjunction with quantifying the scheme's loss to fraud and error (see Recommendation 6), measure the return on its interventions to date to assess their effectiveness. This could inform the Ministry's appetite for further integrity work over the current scheme and for future schemes and which measures to apply. <p><i>The report recognises that MSD could consider the value and cost of funds not released or identified for repayment from prevention, detection and response measures, and would need to balance the practicality of completing this exercise against the current and anticipated integrity work identified across benefit and WSS integrity.</i></p>	<ul style="list-style-type: none"> Due to how information is maintained across separate application and integrity systems, and the impacts on core functions to manually undertake this level of analysis, we are limited to understanding the general effectiveness of stages of the integrity programme: <ul style="list-style-type: none"> Prevention – (low-medium cost / high return) pre-payment controls, including identification and remediation of duplicate applications and employees, higher-risk or 'locked' application exceptions, and validation of business details with IR, prevented around \$1.3b in application value (around 340,000 declined applications) being paid out across all schemes. On average, 97% of declined applications were for Sole Trader and small business (1 – 5 employees) applications Detection response and recovery – (medium-high cost / medium return) post-payment integrity controls, communications, and debt recovery processes have contributed to around \$0.8b in voluntary and requested repayments being received to date. These processes are resource intensive and ongoing, and we are unable to effectively determine common attributes across this population due to the limited application information collected and how engagement and integrity information is recorded in and across MSD systems Enforcement response – (high cost / low return) investigation and enforcement processes to date have identified around \$3.3m in application value with charges laid in Court. This includes those cases being progressed by the Serious Fraud Office. As at 31 March 2023, there were 1,519 cases referred for investigation of which 627 (41%) had been resolved. In many cases where post-payment integrity checks are unable to determine eligibility (including where applicants cannot or do not supply the information requested), cases require evidence to be sought through a Production Order process with Police. This can take months to complete. Investigation and enforcement processes also require significant legal support, both from MSD Legal Services and Crown Solicitors Meredith Connell, given the legal framework required to support investigation and enforcement processes. 	<p>Accept and close</p> <p><i>Investment in pre-payment controls, to identify, stop and review higher risk and fraudulent applications before payment is made (i.e. prevention), was found to be the most effective stage of the integrity programme, to mitigate high-trust settings employed in schemes of this nature.</i></p>
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<p>Recommendation Three: Enhance the investigation capability and outcomes through greater use of data analytics, including that MSD:</p> <ul style="list-style-type: none"> Enhance its investigation analytics capability to support the review of large volumes of bank statement data This enhanced capability could be used to benefit MSD's BAU investigation work. 	<ul style="list-style-type: none"> For WSS investigations requiring analysis of significant bank or transaction records, CSI utilises specialist capability (e.g. forensic accounting services) from external providers Cases of serious, complex and/or organised fraud may be requested by the Serious Fraud Office (SFO). To date, eleven significant WSS cases have been transferred to the SFO for investigation Where the records or transactions requiring analysis are less complex, including for benefit investigations, CSI utilise specialist software (<i>Altia's Investigation Toolkit</i>) to manage bank statement data for analysis. The Intelligence and Integrity Insights team supports the analysis of this data as required. 	<p>Accept and close</p> <p><i>Integrity and Debt capability and tools will be reviewed as part of MSD's Te Pae Tawhiti transformation programme, which includes enhancing MSD's technology platforms and better use of analytics including to identify and respond to integrity risks.</i></p>
<p>Recommendation Four: Identify a cohort of high-risk recipients (who have not been communicated with recently) to remind them of eligibility and encourage repayment, including that MSD:</p> <ul style="list-style-type: none"> Take a risk-based approach to identify higher-risk applicants of the WSS population, based on available data; and Notifying the target population of the integrity work undertaken to date to drive scheme repayments. <p><i>The report recognises that some recipients would have acted entirely appropriately, but that suitably worded messaging could drive repayments from ineligible recipients that have been apathetic to integrity messaging to date. However, it also notes that delays in completing assurance work may hinder the prospects of recovering money i.e. due to the dissipation of funds and difficulty locating applicants.</i></p> <p><i>Instead, where there are limitations in targeting messaging, MSD could consider broader communication channels to convey appropriate messaging.</i></p>	<ul style="list-style-type: none"> As per consideration of Recommendation One, data limitations mean we are unable to effectively identify higher-risk attributes of recipients beyond those identified through risk analysis with IR. These recipients are subject to post-payment integrity checks seeking documentary evidence <ul style="list-style-type: none"> Application decline data is heavily weighted towards Sole Trader and small businesses (with 1 – 5 employees), indicating higher risk for these populations but due to data limitations we are unable to effectively identify common attributes of these businesses for post-payment communications or integrity engagements Insights from the assurance exercises undertaken to date show that contact information held on application forms may no longer be in use (e.g. where the business is no longer operating, has changed ownership, or where the person responsible for submitting the application is no longer employed), limiting our ability to effectively communicate directly with recipients. 	<p>Accept and close</p> <p><i>MSD's media approach for the schemes is considered the suitable channel for ongoing integrity messaging, and we will continue to highlight integrity and enforcement work as part of media and OIA responses.</i></p> <p><i>Proactive media responses with integrity messaging may also be considered as appropriate.</i></p>

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<p>Recommendation Five: Strengthen the integrity check process to identify fraud, including that MSD:</p> <ul style="list-style-type: none"> Educate non-fraud investigation staff to recognise and understand fraud 'red flags' to be alert to. <p><i>The report notes that this could include common and emerging examples of fraud that staff are likely to encounter as part of integrity checks, and that it is important that staff are supported to recognise these to inform their decision-making.</i></p>	<ul style="list-style-type: none"> Non-CSI staff pivoted to COVID-19 Economic Supports work receive training and guidance by CSI and experienced Capability Developers. We have continued to update this training and guidance as the schemes and our integrity approaches have evolved Workflow management (the S2P system) for COVID-19 Economic Supports products has always included an escalation path for when fraud is suspected, and Capability Developers and Managers are available to support staff to make these determinations 	<p>Accept and close</p> <p><i>Integrity and Debt will continue to raise staff awareness of integrity risks through Fraud Awareness Week, as part of regular change comms, and as part of integrity advice for work on new initiatives through MSD's Integrated Work Programme.</i></p>
<p>Recommendation Six: Quantify the scheme's loss to fraud and error, to inform and direct further integrity work:</p> <ul style="list-style-type: none"> This information, along with the information in Recommendation Two, could then provide MSD with a stronger basis to determine the level of resource that should be applied to further investigation and recovery activities. <p><i>The report notes that this recommendation is similar to one made in Deloitte's 2020 assessment, and that any value derived will be an approximation only and reliant on relevant data and analytical tools – this is a complex exercise that may be limited by the systems employed and the nature of application information collected. However, international estimates of fraud and error for similar schemes may provide a useful guide to understand potential ranges of fraud and error for the current scheme.</i></p>	<ul style="list-style-type: none"> Fraud and error estimates related to international COVID-19 support schemes range between around 5 - 10%. For example, the United Kingdom's government estimated an error and fraud rate of between 3.3 - 6.5% (£3.2 billion and £6.2 billion, respectively) of three COVID-19 Support schemes⁶, with a most likely estimate of 4.6% (£4.5 billion)⁷. Other research conducted by the UK government has indicated that between 5 - 10% of two of their COVID-19 relief schemes was lost to fraud and error The value of declined subsidy applications (\$1.3b) and the value paid out under the WSS (\$18.8b) gives a total of application attempts (\$20.1b). The sum of our integrity programme stages to date is applications declined (\$1.3b) plus repayments received (\$0.8b) plus charges filed in Court (\$0.03b). Based on this, our integrity programme has identified \$2.13b in non-compliance to date, which is around 10.6% of the total value of application attempts The cross-agency evaluation (recommended by the OAG) found no systematic evidence that employers had failed to pass on subsidy payments to workers, or of any other type of subsidy misuse. 	<p>Accept and close</p> <p><i>Integrity controls identified 10.6% in non-compliance (fraud and error) across the schemes.</i></p> <p><i>This is in line with international estimates for similar schemes. As there is no other evidence of widespread misuse, we consider the integrity programme overall to have been effective despite the operational challenges identified.</i></p>

⁶ The Coronavirus Job Retention Scheme, the Self-Employed Income Support Scheme, and Eat Out to Help Out.

⁷ [Error and fraud in the COVID-19 schemes: methodology and approach \(an update for 2022\) - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/research-data-and-analysis/publications/error-and-fraud-in-the-covid-19-schemes-methodology-and-approach-an-update-for-2022)

Recommendations for future similar schemes

- 42 As noted, seven of the recommendations made relate to the establishment of a future similar scheme.
- 43 These recommendations support the responsible agency/ies for any future similar scheme to 'design integrity in' as part of the scheme's development, to mitigate the risk of error and fraud if high-trust or lower verification settings are employed and to provide assurance in line with the level of public expenditure required, or for crisis-support schemes in general.
- 44 We recommend that the report and any applicable advice be shared with the Treasury as policy lead for the schemes, and IR and MBIE as partner agencies likely to be involved in future similar schemes.
- 45 At a high-level, key components recommended to support future scheme integrity include:
- 45.1 Considering the agency/ies to deliver the scheme – this should be based on the Policy intent (e.g. to support individuals and/or to support businesses during a crisis, and how cohorts are defined and may be targeted), factoring in the required capability and resourcing, systems, impacts on core services, information holdings and cohort experience, access to or sharing of relevant externally held information, and legislation the scheme operates within or that could be leveraged by the agency/ies for integrity processes
- 45.2 Understanding risk and tolerance – this should consider risks related to the nature of the crisis event, including the urgency of providing financial support to the intended cohorts (e.g. where high-trust or lower verification settings at the point of application may be required), the risk of illegitimate (including fraudulent) cohorts accessing the assistance, and risks related to non-compliance and where post-payment verification will be required
- 45.3 Quantifying the expected level of loss to error and fraud – this should account for the intended scheme design and cohorts, identified risks, and inform appropriate investment in prevention controls. This will also inform the level of detection and response activity required post-payment, including the targeting of interventions for higher risk cohorts, and support return on investment calculations across controls and interventions to provide assurance and learnings
- 45.4 Documenting controls and planned mitigations as part of an assurance framework – this should provide stakeholders and decision makers with a comprehensive view of expected scheme integrity controls, resourcing, and interventions. This will guide

costing and investment decisions and can be used to test the effectiveness and/or appropriateness of the controls over time and/or as new integrity risks are identified.

Ongoing work to identify non-compliance

- 46 CSI continues to review applications that may pose one or more integrity risk, through the cross-agency complaints process (noting that complaints and allegations have reduced significantly since the closure of the August 2021 scheme) and risk analysis across the March 2021 and August 2021 schemes.
- 47 As of 31 May 2023, for the 301 highest risk score (priority) applications, which represent \$1.9m in subsidy payments, 35 (11.6%) had already been identified for an integrity check (17) or investigation (18) prior to the risk analysis being received.
- 48 Of 247 integrity checks that have been completed to date, 25.1% (62) required no further action, 35.9% (108) were required to make a partial or full refund but fraud was not suspected, and 31.2% (77) were referred for further investigation.
- 49 In general, applications with higher risk scores tend to result in investigation referral or repayment request outcomes. While no further action outcomes are weighted towards applications with a lower risk score, these applications may still result in repayment requests and investigation referrals.
- 50 Once the priority integrity checks are complete, CSI will consider further checks for applications with the lowest risk profiles, balanced against already identified WSS and benefit integrity work, and based on highest application value.
- 51 This may mean some lost opportunities to identify potential non-compliance, but we consider this the most effective use of our limited integrity and investigative resources, in line with the high trust settings of the scheme.

Operational context

- 52 The report acknowledges that MSD has a number of competing commitments to balance, including ongoing integrity work related to the WSS and its core integrity functions.
- 53 Since March 2020, CSI have been heavily involved in managing WSS integrity work, including integrity checks, resolving allegations of misuse, progressing investigations, and recommendations to the COVID-19 Economic Supports Recovery and Response Panel to take enforcement action.
- 54 During each scheme, nearly all investigative resources (between 100 – 120 FTE) have been pivoted to this work, and staff from IR and MBIE have been brought in to support specific periods. In between the schemes, on average,

nearly half (40 – 50 FTE) continue to progress WSS integrity work and investigations with support from wider CSI staff and managers.

55 To support investigations, enforcement action and the recovery of repayments identified, ongoing support from MSD Legal Services and Crown Solicitors, Meredith Connell, is required which is a significant ongoing cost.

56 As of 31 March 2023, there were 1,519 cases referred for investigation of which 627 cases had been resolved. Cases where enforcement action is being taken remain 'open' until Court processes are complete.

57 Out of scope

58

Next steps

59 Following the Committee's agreement, Integrity and Debt will:

59.1 provide a copy of the report and a summary of MSD's agreed position to the MSD Leadership Team (June 2023)

59.2 update the Minister for Social Development and Employment, and the Minister of Finance, as part of quarterly reporting on our integrity programme (July 2023)

59.3 provide the report to Treasury, MBIE and IR for consideration of the future-focused recommendations

59.4 provide the report to Audit NZ and the OAG as part of reporting against their previous recommendations.

Consultation

60 Integrity and Debt consulted with Policy MSD, MSD Legal Services, Workplace Integrity, and Client Service Support.

Appendices

Appendix 1 Review of Wage Subsidy Scheme Integrity and Assurance (Deloitte, May 2023)