

The evolution of fraud and anti-fraud activity in local authorities

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Key forces at work in the environment influence the evolution of fraud. These include broad economic, political, legal, socio-cultural and technological factors, such as the impact of recessionary budget limitations, the transparency agenda, acts of parliament (for example bribery), ethical standards and the ability to access and manipulate data and information. There is substantial evidence that both proven and actual fraud levels increase in austere times: 'For those that work in the wider public services, whether in central government, agencies or local authorities, these are dangerous times...fraudsters will turn their attention more and more to what they perceive as the soft under-belly of public services' (Tickner, 2010).

The effects of a fragile economy, the debt crisis and deep cuts have increased the pressure and focus on local authority financial management. For the foreseeable future, saving money is paramount and reductions in financial losses to fraud and increasing income by recovery and compensation can make a contribution. The consequences of fraud are widespread, including elements such as the loss of livelihood, reputation, danger, emotional harm, hurt and fear. However, the financial costs are staggering. The ACFE (2012) found that 5% of an organization's turnover is lost to fraud. The annual financial cost of fraud to the UK is £73 billion (National Fraud Authority, 2012a)—this is greater than the gross domestic product of 127 of the 183 world economies measured by the International Monetary Fund. Public sector fraud in the UK is estimated at £20.3 billion, of which about 3% (£2.2 billion) is in local government.

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Gee *et al.* (2011a,b) found that public sector organizations are significantly more resilient to fraud than those in the private and voluntary sectors. Further, they established that local authorities' anti-fraud arrangements result in them being better protected against fraud than all public sector organizations except the National Health Service. So there is already a solid foundation in local government, particularly for reactive work—the major scope for progress is in proactive activity.

Anti-fraud work in local authorities has evolved in recognition of the changing risks of fraud, increasing knowledge and skills in identifying and understanding the risks and changes in legislation and recommended practice. In 2011, the Department for Communities and Local Government suggested 10 ways to tackle council fraud:

1. Measure exposure to fraud risk.
2. More aggressively pursue a preventative strategy.
3. Make better use of data analytics and credit reference agency checks to prevent fraud.
4. Adopt tried-and-tested methods for tackling fraud in risk areas, such as blue badge scheme misuse.
5. Follow best practice to drive down housing tenancy and single person discount fraud.
6. Pay particular attention to high-risk areas, such as procurement and grant awards.
7. Work in partnership with service providers to tackle organized fraud across local services.
8. Maintain specialist fraud investigative teams.
9. Vet staff to a high standard to stop organized criminals infiltrating key departments.
10. Implement national anti-fraud standards developed by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The 10th tip refers to CIPFA's *Red Book 2* (2008). Gee *et al.* (2011a,b) assessed anti-fraud arrangements using the Red Book standards: adopting the right strategy; accurately identifying the risks and costs; creating and maintaining a strong structure; taking action to tackle the problem; and defining success and delivering results. Fraud risks are shaped by a number of factors—some are common to all local authorities and others are shaped by local circumstances. Identifying the

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organization's risk of fraud is an essential first step to managing it (see table 1).

The nature of fraud is that it will continue to evolve in response to these factors. In another contribution to this PMPA report, Rachael Tiffen and Ian O'Donnell detail the journey taken by local authorities from a focus on housing benefit fraud to a broader range of fraud risks. They also highlight recent developments from the National Fraud Authority and the future role of the 'Fighting Fraud Locally' board.

CIPFA has been well placed to observe and contribute to the development of anti-fraud activity, providing comprehensive assistance to local authorities, particularly via the better governance forum, which is advised by a senior level advisory panel consisting of members drawn from public sector organizations (see <http://www.cipfanetworks.net/governance>). This is an effective, working

Table 1. Identifying a public sector organization's risk of fraud.

<i>Factor</i>	<i>Example aspects to consider</i>
<i>The incentive for fraud</i>	Public services provide a number of incentives for fraud: financial benefits; other assets including land, property and equipment; access to data that can enable fraud; access to approvals and permissions that secure commercial or financial advantage.
<i>Impact of the external environment</i>	Fraud is expected to increase in austere times and individual fraud risks will fluctuate over time. The legislative environment will influence the powers to investigate and prosecute identified fraud and recover assets. The public profile of fraud and anti-fraud work will affect understanding of fraud risks and the priority given to anti-fraud activity.
<i>Presence of fraudsters</i>	There is no accurate, simple profile of a fraudster. They can be internal or external to the organization. They can work alone or in collusion or be part of a network of organized fraud. The knowledge, skills and sophistication of a fraudster can be formidable.
<i>Strength of the internal control environment</i>	In managing functions, effective internal controls are essential to prevent and detect fraud. A high level of fraud awareness among staff is a key part of this, together with strong anti-fraud leadership from the senior team.
<i>Effectiveness of the organization's response when fraud is identified</i>	The local authority requires appropriately skilled staff to investigate a potential fraud to ensure that it can be stopped, the fraudster dealt with, assets recovered and action taken to prevent further losses.

example of partnership and collaboration as advocated by the National Fraud Authority (2011). CIPFA anti-fraud initiatives help address the National Fraud Authority's (2012b) emphasis to 'acknowledge, prevent and pursue'. Specific anti-fraud activity is augmented by all-embracing governance contributions for risk management, internal audit, information governance, ethical standards and corporate governance, which are all elements towards the creation and maintenance of an anti-fraud culture. As local authorities adapt to changes such as life without the Audit Commission, the ethical standards regime of the Localism Act 2011, and respond to continuing budget pressures, maintaining and developing their anti-fraud culture and their ability to respond effectively to fraud risks must continue to be a priority.

References

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Corporate fraud is a persistent fact of business life, affecting businesses of all sizes and across all industries. Consider the following recent statistics: 49.5% of Australian businesses suffered some form of fraud between 2005 and 2007 (PricewaterhouseCoopers™ Economic Crime Survey 2007). For most organisations, internal fraud (fraud committed by an organisation's employees or officers) is its greatest risk. In fact, the PricewaterhouseCoopers™ Economic Crime Survey 2007 identified that 71.4% of Australian fraud was committed by internal perpetrators. Therefore this guide is primarily directed toward the mitigation of internal fraud, even though many of the methods described can be used to mitigate external fraud.

anti-fraud definition: relating to laws that are intended to prevent the crime of getting money by tricking people: . Learn more. Moreover, local authorities were awarded a further £6 million this year to finance a variety of anti-fraud projects. From the Hansard archive. We want to consider anti-fraud activities in the widest context in an effort to ensure that entitlement to benefit is recognised. From the Hansard archive. Example from the Hansard archive. Contains Parliamentary information licensed under the Open Parliament Licence v3.0. Over recent years the adjustments to subsidy have had a dramatic effect in influencing local authorities' attitude to anti-fraud work. From the Hansard archive. Organization of the Anti-Fraud Unit Summary of Anti-Fraud Unit Activity Litigation Activities. Lien Declaration Requirement Protected (CWCIA v. WCAB) Provider Fraud and Lien Abuse Challenges. The high-profile provider fraud prosecutions by local district attorneys that were publicized in 2016 were supported by investigations and funding from the California Department of Insurance (CDI), and the expertise and data analysis provided by DIR and its Division of Workers' Compensation (DWC). DIR's Anti-Fraud Unit has successfully defended anti-fraud laws in court, including This provision identifies the lien claimant, allows DIR's Anti-Fraud Unit to investigate and detect patterns of fraud, and provides resources to prosecuting authorities. Lien Stays. The evolution of fraud and financial crime. Fraud and financial crime adapt to developments in the domains they plunder. (Most financial institutions draw a distinction between these two types of crimes: for a view on the distinction, or lack thereof, see the sidebar Financial crime or fraud?) With the advent of digitization and automation of financial systems, these crimes have become more electronically sophisticated and impersonal. What are the key processes or activities to be conducted for customer identification and authentication, monitoring and detection of anomalies, and responding to risks or issues? 3. How Fraud Occurs. Frauds arise because of lack of proper internal control policies and procedures, failure by staff to observe internal controls, carelessness in carrying out checks, or inadequate separation of duties. Four basic elements are usually present when fraud occurs. Promoting staff awareness of fraud and training staff in anti-fraud and corruption strategies. Establishing and applying personnel policies that focus on the honesty and integrity of employment candidates and require background checks sufficient to the level and sensitivity of the position. by virtue of official position or authority, Theft or misuse of property, facilities or services. IUCN Anti-Fraud Policy. Page 9 of 16.