

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

**Greg Marks and Diana Melville**

CIPFA Better Governance Forum

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.

## PUBLIC MANAGEMENT AND POLICY ASSOCIATION REPORT

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

**PUBLIC SERVICE REFORM IN THE UK: REVOLUTIONARY OR EVOLUTIONARY?**

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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*Greg Marks was formally a governance advisor with CIPFA and is now a CIPFA associate.*

*Diana Melville is the governance advisor for the CIPFA Better Governance Forum.*

An effective fraud risk assessment may include specific fraud schemes that could be perpetrated against the organization, including the people or departments within the organization that could commit each scheme, the likelihood of that scheme occurring against the company in the current year, and the magnitude of impact that the scheme would have on the organization. It is not uncommon for employees to be confused as to what activities constitute fraud or misconduct against the organization. Some employees may abuse the company's reimbursement policy of requiring receipts for expenses greater than \$20, and other employees may conduct side business during work hours using the organization's resources. UNDP policy on fraud and other corrupt practices (UNDP Anti-fraud policy), March 2011 Results Management and Accountability in POPP The United Nations Convention Against Corruption (UNCAC) and the United Nations Convention Against Transnational Organized Crime (UNTOC). All credible allegations of fraud and corruption in connection with the implementation of activities funded by UNDP will be investigated by the appropriate governmental authorities. 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. From voter fraud to bank account fraud, Americans' personal information is more vulnerable than ever. Here are the 9 types of fraud you need to watch out for: Mail Fraud. Driver's License Fraud. This type of fraud is known as stolen refund fraud, and it happens when someone else receives your refund by stealing your Social Security number and filing your taxes themselves. By the time you send in your real return, it's rejected by the IRS because you've already filed. It sounds crazy, but this kind of identity theft happens more often than you think actually, it's one of the top scams the IRS encounters each year.(2). They'll help them stay alert of any suspicious activity on their accounts. Don't Be a Victim of Fraud!