Fighting fraud

Fraud costs local government around £2.1bn a year – money that could be used for service provision at a time when the sector faces significant financial challenges. In order to fight it, risk managers need to understand both the likely profile of perpetrators and the types of fraud that may be involved.

Why does fraud occur?

A combination of three factors act as an inducement to fraud:

- Motivation – an individual may have financial problems, addictions or be under pressure to demonstrate good performance

- Opportunity – controls may be weak or leave vulnerable gaps

- Rationalisation – the individual is able to justify to themselves their dishonest actions.

Types of fraud

Fraud is an act of deception committed with the intention of personal gain or causing loss to another party. The Fraud Act 2006 focuses on the perpetrator's intent or behaviour regardless of whether they achieve their intention.

The Fraud Act specifies the three primary offences as:

- Fraud by abuse of position for example, employees facilitating fraudulent payments or stealing data

- Fraud by false representation for example, signature forgery

- Fraud by failing to disclose, for example, withholding information as part of an application for benefits.

Fraud often includes other types of crime such as bribery and corruption, false accounting, money laundering, etc.

Employee fraud

- Payments – falsely creating or diverting payments

- Procurement – for example, tendering irregularities or collusion to pay for goods that were never delivered

- False expenses – for example, claims for travel not undertaken

- Recruitment – for example false references

- Inappropriate use of authority assets – using assets for personal gain.

External fraud

- Service provision – an individual using services they are not entitled to such as blue badge scheme misuse

- Fraudulent claims for public funding and grants

- Tax and benefit fraud, for example council tax discounts and exemptions

- Occupation of social housing to make profits, for example unlawful subletting.

What the research tells us

A 2014 survey conducted for Zurich Municipal by Ipsos MORI shows that most local authorities take fraud seriously, with a system in place to deal with cases of employee and benefit fraud including whistle blowing policies. How much of a priority local authorities perceive fraud to be often depends on whether they have had any particular issues with employee or benefit fraud recently. Where fraud is
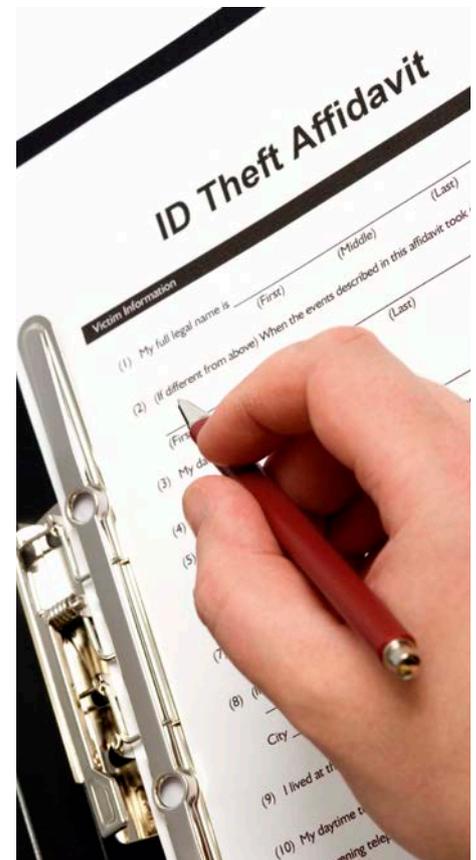
on the increase in an area it has also driven awareness of fraud among both council staff and the local communities involved.

> "
> They see the council as an easy touch and so it's from the insurance perspective to manage those risks."

Local government risk manager's comments

Risk indicators

Motivation, rationalisation or opportunity for increased fraudulent activity can arise from:

- Lack of job security following organisational transformations, leaving employees disaffected

- An increase in outsourcing and partnerships with employees being tempted by bribes to award contracts

- Reductions in staff resources resulting in control measures not being followed correctly so fraud, whether internal or external, may go undetected

- Reductions in services leading to fraud by members of the public

- Public perception that local authorities are 'an easy touch', as illustrated by risk managers' comments.

Risk consequences

Risk managers may view the main consequence of fraud as financial. In addition to misappropriated funds, there may be fines and legal fees. However, there are more subtle, and potentially higher impact, repercussions.

If the fraud is widely publicised – and the prevalent use of social media makes this likely – there may be damage to reputation. Further, there may be impacts on employee morale if staff believe that colleagues have been "allowed to get away with it" or have been left feeling betrayed. Fraud investigation and substantiating loss are also time-consuming, diverting people from carrying out their normal activities.

Zurich Municipal's view

It is essential to create the right culture around fraud. The message should be that this is something that will not be tolerated and anyone attempting to defraud local authorities will be pursued to the limits of the law.

In addition, it is important to dispel the illusion that this is a victimless crime. Each pound lost to fraud represents a loss to the public purse and reduces the ability of local authorities to provide services to people who need them.

Local authorities cannot directly influence motivation and rationalisation. However, they can reduce the opportunity for fraud by having well designed control frameworks which comprise both preventive and detective controls.

Delivering key services against challenging budgets is tough enough without the additional costs and distraction that fraud can bring.

Key questions that you should ask

- Are documented procedures in place covering the end to end process?

- Is there appropriate segregation of duties in the process?

- Are delegations of authority enforced by a system control?

- Can standing data in the system be amended and if so how is this reported and reviewed?

Are you aware of the warning signs?

From an employee behavioural perspective, these might be people who live beyond their means, do not take vacations, have an overly close relationship with vendors and/or behave irrationally or inconsistently.

Regarding members of the public, benefits and other fraud can occur in geographical clusters, similar to motor accident fraud. Neighbours may see others in their street fraudulently claiming successfully and simply feel why should they miss out. From a controls perspective, warning signs might be missing documentation, missing approvals, photocopies instead of original documents, altered documents and/or a number of transactions just below the next level of approval.

Potential strategies

- Conduct a fraud risk assessment by looking at areas traditionally vulnerable to fraud and undertaking an assessment of risks and controls

- Ensure that the internal audit programme properly considers fraud risk

- Put in place mechanisms for employees and the public to raise any suspicions they may have. A whistle blowing policy will only be effective if employees are assured that there will be no reprisals for them

- Work effectively with partners, other authorities and the police to identify and prosecute fraud

- Publicise fraud cases and resultant actions as a deterrent to others.

Further reading

Fighting Fraud Locally – The Local Government Fraud Strategy
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/118508/strategy-document.pdf

Eliminating Public Sector Fraud
http://www.cabinetoffice.gov.uk/sites/default/files/resources/eliminating-public-sector-fraud-final.pdf

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