

Developing Corporate Anti-Fraud Capability in the Public Services

Briefing from the CIPFA Better Governance Forum

This briefing sets out the rationale for developing or improving a corporate anti-fraud capability in a public service organisation. It sets out the benefits to be gained such as improving resilience and making savings from reduced fraud losses and identifies the key steps to be taken.

The Case for Tackling Fraud

In 2012 fraud is estimated to cost the public services £20 billion a year¹. Tackling fraud against the public purse has been a long-standing goal of the public services. The traditional focus in local government has been on claimant fraud in areas like housing benefits, but many organisations have successfully focused their attention on a wider range of services and have established a corporate fraud team to operate across all departments and all services of their organisation. CIPFA has long supported this approach, encapsulated in its publication 'Managing the risk of fraud, actions to counter fraud and corruption'² which has become the standard of anti-fraud activity in the public services.

Nationally there is now a drive to improve and extend the capability and capacity of anti-fraud resilience, pro-active and reactive work. Key strategies include Fighting Fraud Together³, Fighting Fraud Locally⁴ and the work of the Fraud, Error and Debt Taskforce⁵. At the same time there are a number of changes impacting on the organisation of counter-fraud activity in local government in England:

- Proposals to establish the Single Fraud Investigation Service.
- Proposals under the draft Local Audit Bill to transfer the National Fraud Initiative from the Audit Commission to central government.
- Prevention of Social Housing Fraud bill.

One of the key benefits of having an effective anti-fraud resource is that it can save the organisation from losing money: the 2012 local government fraud loss being £2.2 billion. Localising council tax benefit and changes to non-domestic rates will mean that there is a greater financial incentive to reduce fraud losses in these areas. Effective recovery strategies can mean that fraud losses are retrieved and publicly owned assets brought back into proper use.

CIPFA's principal support for the development and improvement of counter-fraud in the public services is the [Better Governance Forum](#). Together with the fraud resources on [TISonline](#) and CIPFA's new [Counter-Fraud Benchmarking Club](#), the CIPFA Better Governance Forum is supporting the implementation of the Fighting Fraud Locally recommendations and supporting practitioners in the development of effective corporate counter fraud activity.

¹ Annual Fraud Indicator, National Fraud Authority 2012

² Managing the Risk of Fraud, Actions to counter fraud and corruption, (Red Book 2) CIPFA 2008

³ Fighting Fraud Together, National Fraud Authority 2011

⁴ Fighting Fraud Locally, National Fraud Authority 2012

⁵ Cabinet Office

The Key Stages of Evaluation

Every public service organisation is encouraged to evaluate their current situation and identify what more they should do to improve their resilience to fraud, improve their capability to tackle it and to identify their best opportunities to cut fraud losses and save money. This briefing will not consider strategic developments in counter-fraud at the national or regional level but focuses on the key steps each organisation should take.

Step 1 – Identify and understand your fraud risks and potential exposure to fraud loss

Step 2 – Assess your current resilience to fraud

Step 3 – Evaluate your ability to respond to potential or identified fraud

Step 4 – Develop your strategy

Step 1 – Identify and understand your fraud risks and potential exposure to fraud loss

The first stage is to understand the different types of fraud risks and which parts of the organisation may be most vulnerable to them. Some types of fraud relate to many different parts of the organisation, for example submission of fraudulent invoices or fraudulent expense claims. Other frauds are particular to a certain service area, for example tenancy fraud, benefit fraud or single person discounts on council tax. Some frauds associated with contracts such as bid rigging will be of greatest concern where there is significant procurement activity. Bribery and corruption can take place to facilitate a fraud.

When undertaking this assessment it is worth remembering that the perpetrators of fraud can be external or internal to your organisation and that it may involve collusion. The fraudster may be an individual, a group, a business, partnership and an organised threat.

Building up a 'map' of fraud risks will help managers across the organisation and those charged with governance, such as the audit committee, to understand the potential for fraud. Managers have a responsibility to manage their fraud risks, just like other sources of risk, so developing a good awareness of the risks is a critical first stage.

Using data from external sources can help you understand the level of fraud loss your organisation might be exposed to. The National Fraud Authority Annual Fraud Indicator includes the level of fraud arising from major fraud types across the public services. For local authorities the Fraud Loss Profile Tool provides an indicator for major areas of fraud risk. Publications such as the Audit Commission's 'Protecting the Public Purse' documents identified fraud and helps to quantify the costs of those frauds. Identifying and understanding your potential fraud losses and risks will help quantify the opportunity for gaining savings from reducing fraud losses.

Step 2 – Assess your current resilience to fraud

Having understood the full extent of the risks your organisation is exposed to, the next stage is to understand how resilient to these risks you are. Overall levels of assurance can be evaluated from the arrangements in place that have a cross-cutting impact such as staff screening, the degree of emphasis on ethical conduct, the formal and informal organisational cultures that operate, the extent of wider involvement, appreciation, cooperation and awareness and attitude to fraud. General sources of evidence will come from internal and external audit reports on the effectiveness of the internal control environment. Good levels of internal control are essential for managing fraud risks in your services. Controls such as management checks, separation of duties and protection of core data from unauthorised access all support greater resilience to fraud, as well as minimising other risks such as error.

For critical systems where there is a higher risk of fraud then assessing specific resilience to fraud is also recommended. Counter-fraud specialists with knowledge of these areas should be encouraged to advise the organisation on the measures and controls to put in place.

Developing an anti-fraud culture is an important part of improving resilience. Key elements to this are likely to include:

- Educating staff about the risks of fraud in their areas.
- Top level commitment
- Ensuring that there are robust arrangements in place for raising concerns.
- Encouraging staff to not only raise concerns but also identify weaknesses in controls or other vulnerabilities.
- Praise and recognition for staff who have helped to prevent, detect or investigate a fraud.
- Publicising successes widely
- Aligning the anti-fraud strategy with the organisational strategy
- Benchmarking to identify outliers
- Promoting a climate of fairness, transparency, responsibility and accountability.

The benefits of improving resilience to fraud include reduced exposure to fraud and an organisation that is better able to identify attempted frauds or vulnerabilities.

Step 3 - Evaluate your ability to respond to potential or identified fraud

An effective response to fraud does not just involve the conduct of an investigation; it should also include measures to detect potential frauds for action. Examples of pro-active work could include:

- Data-matching to identify potential discrepancies in separate data-sets
- Sample verification procedures to validate entitlement to services or base data.
- Automated fraud risk indicators to highlight exceptions or patterns for further investigation
- Targeting resources at high risk areas
- Audit Committee leadership of fraud activity
- Awareness campaigns
- Staff training and briefings.

Where your organisation's capability in these areas is limited then it is likely that potential frauds will not be identified. It is also more likely that the fraud will have carried on for longer, with a higher monetary loss, than might otherwise be the case.

The investigation of fraud should only be undertaken by properly trained and skilled fraud investigators. This is essential to ensure that the investigation is in accordance with legal requirements and that the evidence is lawfully obtained and managed. A trained & skilled investigator is more likely to undertake an efficient, comprehensive and speedy investigation as well. This can have benefits for the organisation such as reducing the length of time staff are suspended whilst an investigation takes place. The impact of an internal fraud investigation on staff can be difficult so a rapid, professional result is highly desirable. Ideally the fraud investigations resource will have experience of a wide range of fraud types and good knowledge of the service areas affected.

Step 4 – Develop your strategy

The following template provides an outline of the key objectives and developments needed to develop an effective anti-fraud response.

Benefits

Core benefits:

By improving the understanding, detection and investigation of fraud this organisation will reduce its fraud losses. We aim to identify a higher percentage of fraud being perpetrated against this organisation and stop more fraud. (Organisations are encouraged to identify a specific target for savings, based on their experience of fraud and their assessment of fraud risks.)

The organisation will be more resilient to fraud and more aware of new fraud risks.

We will work with partners on tackling fraud that affects us and support the national agenda of fighting fraud.

Additional benefits:

We will be able to clearly account for the effectiveness of our counter fraud arrangements to the public, partners and national stakeholders. This will feature as a core element in our Annual Governance Statement.

There will be clear links to contributing to the achievement of the organisation's key objectives.

Assurance over counter fraud arrangements and reporting to the audit committee will be improved.

There will be clear allocation of resources for counter fraud activity, for which there will be clear accountability. Other resources such as internal audit will be clearly allocated to assurance and audit activity rather than fraud work.

Fraud risk is being managed.

Key actions

The organisation has reviewed its arrangements for identifying and managing its fraud risks and evaluated its current arrangements for tackling fraud. It has identified the following actions as being required to establish (or enhance) a corporate anti-fraud capability that can respond to our level of risk.

(Select from the following according to your requirements)

- Ensure there is a clear mandate for the anti-fraud strategy from the leadership of the organisation.
- Establish clear managerial responsibility for counter fraud.
- Establish a programme of fraud awareness training and other communications.
- Identify a plan for pro-active counter fraud activity to prevent and detect more fraud.
- Develop existing anti-fraud capacity. For example:
 - Using benefit investigators to investigate a wider portfolio of frauds.
 - Prioritising fraud investigations on areas where the greatest savings can be achieved.
 - Ensuring fraud investigators receive proper training.
 - Establishing access to specialist resources, such as a financial investigator, on a partnership basis.
- Work with partners where there is a common interest in tackling fraud.
- Keep in touch with national developments and best practice.

Resource requirements

Detail any re-allocation of resources or changes to organisational structure.

Timetable

Key milestones and dates.

Performance measures

Performance targets for anti-fraud activity and collection of base data that will enable progress to be monitored.

Examples could include:

- Cases investigated.
- Losses / assets recovered.
- Length of time the fraud was perpetrated for. (Once base date is established a goal of reducing this time span can be established.)
- % of referrals investigated
- Elapsed time from referral to closure.
- Number of people attending fraud awareness training.
- National Fraud Initiative resource input and outcomes
- Number of fraud risk assessments involving operational staff
- Assessments of anti-fraud arrangements.



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