

## Helping you to tackle fraud

### A closer look at fraud prevention

#### 9. Vet staff to a high standard to stop organised criminals infiltrating key departments

- Identify key risk posts/contracts
- Decide on a proportionate approach and ensure checks are conducted lawfully

It has long been acknowledged that the public sector is very much on the radar of organised criminals. In addition, the current economic climate has made seeking employment far more difficult and competitive than in previous years and there is a real temptation to inflate CVs to secure work. Competition between contractors and suppliers is tough and increased due diligence in all areas that require checks should be considered.

Case study: We worked with an organisation to identify key-risk areas and set up robust pre-employment (and due diligence) policies and procedures to ensure it was protected from the outset against would-be fraudsters and organised criminals. Joint work with the various agencies brought about a number of criminal and immigration sanctions.

#### 10. Implement national counter fraud standards developed by the Chartered Institute of Public Finance and Accountancy

- Undertake a review of your existing counter-fraud arrangements
- Benchmark against best practice and guidance
- Adopt a common-sense approach to ensure the organisation's risks and the responses to them match and are proportionate, cost-effective and achievable

The CIPFA Red Book 2 'Managing the Risk of Fraud' is an excellent document against which you can benchmark your organisation's counter-fraud capability and governance arrangements and has long been held as an 'industry standard' By following its guidance, you will adopt a comprehensive approach to reducing your fraud losses to an absolute minimum.

Case study: We have undertaken numerous reviews of organisations' counter-fraud arrangements, in-line with CIPFA guidance. As a result of doing this, we have identified best practice from both public and private sectors and provided our clients with a 'traffic light' report with recommendations to ensure they are able to meet the required standards and better protect themselves from fraud and corruption.

#### Why tackle local authority fraud?

**Eric Pickles said:** "It's time to get tough and take on the fraud cons. At a time when we need to cut the national deficit and government waste, cleaning up fraud could save the taxpayer over £2 billion in recovered cash currently being fraudulently stolen or lost to tax cheats. Better prevention, detection and recovery of fraud will help reduce the financial pressure on councils and help protect frontline services.

**Mike Haley, Director of Public Sector Fraud, National Fraud Authority said:** "At a time when councils are attempting to protect front line services, fraud can no longer be tolerated. Substantial savings can be made, as demonstrated by the best local authorities, and reducing fraud can make a significant difference to local government finances".

Despite the cuts in public sector spending, countering fraud is an area that can give you a return on your investment by reducing your fraud losses to an absolute minimum.

Last week, Eric Pickles, Communities and Local Government minister, published his top ten tips for tackling local authority fraud. With over £2 billion at stake, you are probably undertaking or planning activities in each of these areas. Below, RSM Tenon, which has one of the largest Fraud Services teams of any UK accounting and professional services firm, sets out some ways in which you can implement Pickles' advice.

#### How to tackle local authority fraud

##### 1. Measure exposure to fraud risk

- Run fraud risk workshops with your key staff
- Understand the scale and nature of your losses by undertaking fraud risk assessments

Local Authorities are exposed to fraud risk in a whole range of areas, from expenses and timesheets to procurement and bribery. Training your key staff in the risks you face and how to identify suspicious activities will enable you to spot and prevent frauds before they occur.

Case study: Following an RSM Tenon fraud awareness workshop, a benefits administrator identified a potential tenancy sub-let fraud. The subsequent investigation identified that the fraud had been going on for some years and led to the successful prosecution of the fraudster and the recovery of much of the fraudulently obtained benefits.

##### 2. More aggressively pursue a preventative strategy

- Build a counter-fraud strategy, based on your fraud risk assessment and a bespoke, detailed fraud risk register
- Consider what type of strategy, structure and skills mix you need to deliver this
- Move resources from a reactive to a proactive approach where possible

Building a bespoke counter-fraud strategy and fraud risk register tailored to the risks your organisation faces will enable you to develop a proportionate response that delivers the most effective return on your investment. This strategy should be revisited from time to time, as fraudsters will learn which frauds you are targeting and move to new areas.

Case study: Despite spending a small fortune on counter-fraud activities, a local authority felt it was still at significant risk to fraud. Our team identified that their fraud strategy and risk assessment/register had been developed some time ago and the fraudsters had changed their approach. The local authority was dealing with the challenge by increasing investment in the wrong areas and not picking up on the new fraud threats.

### 3. Make better use of data analytics and credit reference agency checks to prevent fraud

- Match data where lawfully permissible
- Look for anomalies and outliers
- Look for patterns

Many frauds are identified through anomalies and patterns in data, however it is essential that you are aware of the relevant rules governing data usage before starting the analysis. Other uses of data to prevent fraud include better pre-employment checks and due diligence on new suppliers and customers to ensure your gateways are robust against fraudsters.

**Case study:** We were asked to investigate an employee who had been reported as claiming sick leave while working for another organisation in the same sector. During the investigation, we discovered that he had supported his original job application with false documents and had no right to work in the UK. The employer was at risk of fines for employing an illegal immigrant - which could have been avoided by a simple data check.

### 4. Adopt tried and tested methods for tackling fraud in risk areas - such as blue badge scheme misuse

- Adopt best practice to prevent re-inventing the wheel
- Use a collaborative approach where possible
- Adopt an intelligence led approach

Fraud risk changes over time and collaboration with other organisations can help you identify and avoid new fraud risks before they come to your area. Many frauds follow patterns established in one area that are then exported into new ones. With the right training and information sharing networks, these can be easily avoided by the majority of local authorities.

**Case study:** When we heard that blue badge fraud was becoming more prevalent in one of our clients, we notified the rest of our client base and provided fraud awareness training and processes to help them avoid the fraud. Within six months, our client base was noticing - and preventing - an increase in the number of attempted blue badge frauds.

### 5. Follow best practice to drive down Housing Tenancy and Single Person Discount fraud

- Use your existing in-house skills and knowledge where possible
- Adopt best practice
- Benchmark with similar organisations
- Work in partnership with key stakeholders and Registered Providers

It is recognised that Housing Tenancy fraud now makes up a significant part (£900 million) of the losses in the public sector. Attention has to be re-focused on more traditional areas of work to ensure emerging threats are addressed. This has to be done in a risk-based way to ensure other areas do not suffer an increase in fraud as a result.

**Case study:** We switched the resources within one of our clients into sub-letting fraud. As a result, we have already recovered numerous properties and worked in partnership with a host of Registered Providers to educate them to better identify similar frauds.

### 6. Pay particular attention to high risk areas such as procurement and grant awards

- Use your fraud risk assessments to target 'big-ticket' items
- Identify what skills-mix you need for specialist areas and capitalise on your in-house expertise

Procurement is the second most likely target for fraudsters (after Finance). Worryingly, £2.4bn of the £21.2bn was lost in detected procurement fraud in the public sector alone last year! With scarce resources, it is critical that these are directed on a risk-based approach at the areas that will bring about the best return on your investment.

**Case study:** We delivered a number of Procurement Fraud workshops to a large city council following a major procurement fraud they had suffered. These workshops were conducted with key staff in Finance, Capital Projects, Procurement and Depot. As a result of these workshops, 160 staff in key risk areas were trained to recognise fraud indicators, how to respond and populated departmental fraud risk registers, feeding into the corporate risk register.

### 7. Work in partnership with service providers to tackle organised fraud across local services

- Identify who you need to work with
- Seek common agreement on your strategy
- Put in place agreements and measurements of success

Working in partnership is a key component in tackling fraud. Many fraudsters are operating in organised rings and only by liaison and closer-working can intelligence be shared and a co-ordinated response developed.

**Case study:** We were asked to devise a counter-fraud strategy. As part of this, we ran a workshop to identify key stakeholders and partners. Once identified, we approached each in turn to draft closer-working protocols and Service Level Agreements to facilitate lawful sharing of intelligence and sharing of best practice. As a result, the organisation has developed relations with the Police, the UKBA and regulatory bodies which have assisted in progressing investigations in a professional and timely manner.

### 8. Maintain specialist fraud investigative teams

- Identify what skills you need
- Look to partner where you cannot provide in-house
- Ensure staff are fully trained and up-to-date with current legislation

Having a team of professionally trained investigators is not always a feasible option, especially in today's economic climate. However, if you do not have either an in-house team or a call-off arrangement in place, there is a very realistic chance that investigations will be conducted unlawfully and evidence gathered will be dismissed by the courts. This can lead to failed sanctions, reputational damage, wasted money and possible legal action against your organisation.

**Case study:** We have over 40 fully trained investigators from a wide variety of counter-fraud and law enforcement backgrounds. Last year, we investigated over 300 cases and helped organisations take out criminal, civil, disciplinary and regulatory sanctions.