

perspectives on fraud

insights from local government



Research conducted by:



Foreword



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Every pound lost to fraud in the public sector is a pound that weakens public services and constitutes a significant cost to local authorities. One government-sanctioned Annual Fraud Indicator, issued in 2017, put the value at £7.8bn.

CIPFA's Counter Fraud Centre commissioned research in order to improve awareness and generate new insights into counter fraud management in the public sector. Completed by Perpetuity Research, the report *Tackling Fraud in the Public Sector – a Local Government Perspective* is an in-depth look at fraud from professionals within UK local authorities – from counter fraud professionals to heads of service delivery. This ground-level research gives us a snapshot of what people see, think and feel about fraudulent activity today, and how they think it's likely to change in the future.

Understanding the trends and risks that similar organisations face can help the broader public sector increase awareness, collaborate more effectively and take tailored action to prevent illegal activity from growing. The report shows officers are aware that fraud exists within their organisation but feel positive about their ability to handle it.

CIPFA takes an evidence-based approach to helping local authorities and these findings, focused on individuals' perceptions of fraud, complement CIPFA's Fraud and Corruption Tracker report (CFaCT), which looks at the number of fraud and corruption cases reported and recovered by local authorities. Taken together, they offer a unique picture of a sector making significant inroads in the fight against fraud, but one impacted by ongoing budget cuts and new technologies.

In this study, prevention has emerged as a key theme and an overwhelming priority for those responsible for protecting public funds. Though it may be impossible to fully eradicate fraudulent activity from society, it certainly is possible to implement measures to prevent financial crime from happening in the first place.

While governments may choose to fight fraud in different ways, CIPFA agrees with those who participated in the study: preventative strategies, strong governance and long-term planning are without doubt the most effective measures for countering fraud.

Building on CIPFA's 135-year history of championing excellence in public finance management, the CIPFA Counter Fraud Centre helps organisations across the sector to prevent, detect and recover fraud losses. We support the national counter fraud and anti-corruption strategy, *Fighting Fraud and Corruption Locally* and were named in the UK Government's 2017–22 Anti-Corruption Strategy as having a key role to play in combating financial crime, both within the UK and abroad.

You can keep in touch via social media, by coming to one of our events, subscribing to the Centre and signing up to our newsletter. To find out more www.cipfa.org/counterfraudcentre



**CIPFA COUNTER
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Perspectives on fraud

Fraud, bribery and corruption are constant and shifting threats. Financial crime of this type impacts local government's ability to deliver public services to citizens, threatens the reputations of councils and undermines financial resilience.

CIPFA wanted to understand how those working in local authorities perceive both the problem of fraud and potential solutions. We commissioned Perpetuity Research to survey key professionals and capture intelligence through a series of roundtable discussions. The findings are collated in *Tackling Fraud in the Public Sector: a Local Government Perspective* and presented in summary form here, together with our view of the current landscape.

A few key themes emerged from this research, which reflect CIPFA's own understanding.



Culture: the importance of a robust counter fraud culture, supported by effective systems and controls.



Technology: the increasingly visible benefits and challenges associated with digital technologies.



Resources: the necessity of sharing information and working together to make the most of limited human, financial and technological resources.



Prevention: the critical role that preventative measures and prevention-minded individuals play in the fight against fraud.

The survey found:

64%

of respondents said fraud is a major problem for local authorities

52%

considered fraud to be increasing

45%

said fraud levels were under-reported in their organisations

34%

considered fraud loss in UK local authorities to be high

10%

thought their organisation lost a lot through fraud



Culture

Developing and implementing an effective counter fraud culture means building an organisation that is resilient to the risks of fraud, bribery and corruption. A strong culture is also one where every individual working within a local authority is aware of relevant risks and knows how to identify instances, or potential instances, of fraud.

Why are local authorities vulnerable to external fraud?

69%

Poor organisational controls

49%

Lack of staff training to identify fraudulent activity

A productive counter fraud and anti-corruption culture should flow throughout all levels of an organisation, with senior management and leaders setting the right tone from the top. This audible 'tone' from senior management must also be supported by robust policies and procedures, tailored awareness training and a visible commitment to the counter fraud agenda. The data also shows that many people perceive fraud losses to be both high and not attributable to their organisation or departments. This disconnect in acknowledging the fraud threat while failing to attribute losses internally is a concern. A culture where each and every professional sees and understands the potential areas of fraud in their respective areas of work can't be more important.

Weak organisational controls and tolerance of non-compliance undermine the essence of a sound counter fraud culture and ultimately leave authorities vulnerable to both internal and external threats. As the only accountancy institute focused on the public sector, building resilience through robust controls and processes is core to CIPFA's values. Poor organisational controls and a lack of awareness training were cited as key enablers of external fraud.



Technology

The digital world is evolving at a tremendous speed. Digital technology is one of the most significant disruptors for our society and the financial systems that underpin it. It is revolutionising how services are delivered and simultaneously creating new vulnerabilities that fraudsters and organised criminals can exploit. A key element of building a robust control environment is ensuring the public sector keeps pace, both in terms of how services are delivered and how it responds to new types of fraud that emerge.

Digital technology also expands our ability to detect, prevent and raise awareness of fraud. Data matching and online training platforms are just two examples of how new technology can be deployed. The research found that technology was seen as the key tool for fighting fraud in the future. CIPFA also holds the view that technology will play an increasingly integral role in effective counter fraud efforts.

The ability to react appropriately to an ever-changing fraud environment requires that local authorities have robust risk assessment processes in place. These protocols must recognise the risks of fraud, bribery and corruption as they emerge. Organisations need to ensure that technology-enabled fraud risks are actively considered when services are rolled out in new ways.

The most important approaches to tackling fraud in the future





Resources

The need to build a robust counter fraud culture and respond to the dynamic challenges of digital technology are set against a backdrop of stretched financial and human resources. There is a constant demand to 'do more with less'. The research shows us that most senior management teams think austerity has heightened the risk of fraud.

71%

of respondents believed that recent austerity had increased the risk of frauds in local authorities



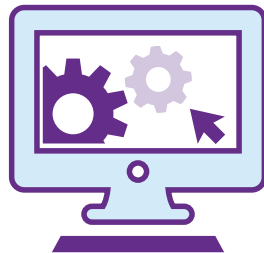
Resources that are spread too thin have both a direct and indirect impact on government efforts to increase resilience to fraud, bribery and corruption. Streamlining oversight and back-office functions, while delivering efficiencies, may inadvertently remove an important layer of due diligence.

Making the business case for greater investment in counter fraud staff and resources is a perennial challenge. Respondents highlighted that securing investment in staff and resources is particularly difficult where there are no agreed methodologies for quantifying savings that would result from prevention activities. One way to make the most of limited resources and create stronger business cases for investment is through information sharing within individual councils, across councils and with the wider public sector. Local councils hold a wealth of data and expertise, and case studies can provide valuable, nuanced insight.

CIPFA supports the Fighting Fraud and Corruption Locally strategy and will continue to act as a knowledge-broker for the sector.

46%

believed that putting more services online for users had increased exposure to fraud





Prevention

CIPFA's key priority for fighting public sector fraud and corruption is prevention. A successful counter fraud culture should be supported by digital systems and internal controls, which are risk-aware and agile enough to react to emerging threats with confidence.

The research underlines that a large majority of respondents agreed prevention is the top priority now and would remain so. Prevention was described as a nebulous concept compared to investigation, the resources needed to stop emerging threats being hard to quantify. The Data Protection Act (2018) makes officers fearful of sharing data and therefore collaboration to spot crimes across authorities is challenging. While laudable, officers reported that prioritising fraud prevention often fell victim to the push to make savings.

Prevention is often the most difficult component of a strategy to quantify, but is the most effective way to combat fraud. CIPFA views prevention as a true investment and considers that resources deployed effectively now will yield greater benefits in the future.

The top two priorities for tackling fraud currently:



70%

Preventing fraud from happening in the first place



46%

Raising fraud awareness

The top two priorities for tackling fraud in the future:

87%

Preventing fraud from happening in the first place



60%

Raising fraud awareness



About Tackling Fraud in the Public Sector

The research adopted two approaches. First, an online survey targeting senior officers working in local authorities across the UK and secondly three roundtable discussions – two in London, one in Chester. A total of 303 local government professionals responded to the survey. The majority were senior managers or heads of department, and most worked in finance, human resources, IT, internal audit and counter fraud.

Thirty per cent of respondents came from London and the South East, while 18% were based in the Midlands and 10% in the North West.

Perpetuity also conducted a review of existing literature on tackling fraud in organisations in order to identify current and emerging practices, especially those relating to fraud prevention.

A full copy of the report, *Tackling Fraud in the Public Sector: a Local Government Perspective* can be downloaded from <https://perpetuityresearch.com/category/publications>

About CIPFA

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our members and trainees work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

Building on CIPFA's extensive history of championing excellence in public finance management, our Counter Fraud Centre offers a range of products and services to help organisations detect, prevent and recover fraud losses.

About Perpetuity Research

Perpetuity Research is a leading research company with expertise in both quantitative and qualitative approaches. They have extensively researched economic-crime, including fraudsters' reflections on their offending; added value of fraud prevention; how offenders overcome fraud strategies; evaluation of a fraudster reparation scheme; a survey of fraud and bribery in the Middle East. They have also undertaken studies with the Police Foundation and produced publications looking at the impact of fraud on local communities and improving the response to the victims of fraud.



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