



HM TREASURY

2008-2009 Fraud Report:

an analysis of reported fraud in
government departments

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ISBN 978-1-84532-661-6
PU906

Contents

	Page
Executive summary	3
Chapter 1 Main analyses	5
Annex A Large value frauds perpetrated by staff	11
Annex B Large value frauds - external cases	15
Annex C Fraud update	19

Executive summary

This report analyses the information on fraud activity in 2008-09 material submitted to the Treasury. It concentrates on fraud relating to departments' administrative affairs and does not capture information about fraud perpetrated by external fraudsters (e.g. the carousel fraud affecting VAT receipts).

The analysis does not necessarily offer a complete picture of the extent of fraud activity in departments. There is evidence that the data is affected by the improved fraud detection and management activity of a single department and this, together with greater fraud awareness all round, resulted in an increase in reported fraud from 761 to 1,320 cases although their overall value fell from £4.278m to £4.219m. To put this in perspective, this is only 0.026 per cent of all departments' administrative expenditure.

For the majority of cases analysed in the Report, details about control weaknesses exploited are not provided. Based on an analysis of the large value cases (£20,000 or more) where this information is sought, control processes which departments should consider include:

- Monitoring and checking the activities of staff in trusted positions;
- Checking credentials of all potential new employees;
- Security over goods in storage and transit;
- Checking contractors' payment claims.

1

Main analyses

This section contains the main analyses of data relating to fraud and theft by staff reported by departments for the year 2008-09.

Introduction

1.1 This report informs departments of the scale and nature of administrative fraud cases which have been reported to the Treasury covering the period 1 April 2008 to 31 March 2009. This information is provided to help departments learn from the experiences of others when reviewing and developing their own control systems. The Report also aims to increase awareness of the risk of fraud and, in some areas, to suggest ways in which the risk can be managed and reduced.

1.2 The report analyses data submitted by central government departments and their agencies about fraud and theft perpetrated by staff. It also includes details of those fraud cases perpetrated by members of the public or contractors where losses of £20,000 or more were reported and containing generic lessons for others (see **Annexes A and B**). **Annex C** provides some useful information about fraud issues that might have an impact on anti-fraud activities in central government.

1.3 The report is not a definitive account of all frauds affecting Government during the relevant period. The Treasury collates the data reported by departments ensuring as far as possible, that the report is based on a consistent analysis and classification.

Overview

1.4 The analysis in this section is based on fraud data supplied by 45 central Government bodies, including all the main departments, covering the period 1 April 2008 to 31 March 2009. Overall the analysis shows:

- 20 bodies provided 'nil' returns (i.e. had no cases of theft or fraud to report);
- The remaining 25 bodies reported 1,320 cases of internal fraud or theft with a total value of £4,219,500;
- The overall value of losses fell from £4,278,000 last year to £4,219,500. However, there was a significant increase over the number of cases reported last year. The largest increases occurred in the categories exploiting assets and information (50 to 187 cases) travel and subsistence (44 to 132 cases), personnel management related fraud (105 to 214 cases) and theft of assets (308 to 497 cases);
- There were 27 large value cases (£20,000 or more) accounting for a total loss of £2,502,500 (59 per cent of total losses reported). Seven of these cases each exceeded £100,000 in value with losses totalling £1,781,500 (42 per cent of total losses); and

- Fraud relating to receipt fraud included two high-value cases with losses totalling nearly £500,000. One case involved the theft of cash payments totalling £366,000.

Fraud data

1.5 The following paragraphs provide analyses of the business areas in which the frauds/thefts were perpetrated.

Table 1.A: Fraud Data Analysis

Fraud category	Number of cases		Value	
	Number	per cent	£	per cent
Theft of assets	497	37.65	1,167,500	27.67
Payment fraud	77	5.83	1,070,000	25.36
Receipt fraud	51	3.86	546,800	12.96
Pay or allowances paid via the payroll	90	6.82	423,800	10.04
Travel, subsistence and other allowances	132	10.00	211,100	5.00
Exploiting assets and information	187	14.17	104,000	2.46
Personnel management related fraud	214	16.21	95,000	2.25
Procurement fraud	20	1.52	509,800	12.08
GPC/credit card fraud	35	2.65	70,700	1.68
Other	17	1.29	20,800	0.49
Total	1,320		4,219,500	

Theft of assets

1.6 This category relates to the theft of physical assets, including cash. Many cases arose because of weak security but some were opportunistic thefts (e.g. items such as laptops or mobile phones stolen from peoples' desks), demonstrating the importance of storing items securely at all times when not in use, raising staff awareness of risks and reminding staff about their responsibilities for the safeguarding of assets allocated to them.

1.7 This year saw significant increases over last year's figures for both the number of cases reported (from 308 to 497) and their overall value (from £442,900 to £1,167,500). Most of the increases occurred in one large department where improved anti-fraud processes were introduced including better coordination of anti-fraud activities, greatly improved processes for reporting fraud and collecting fraud data, increased use of data matching and a sustained programme of fraud-awareness training across the department. All of this activity may have resulted in more fraud being discovered this year.

1.8 This was the highest category both in terms of number of cases reported and value. Included were nine large value cases (i.e. £20,000 or more) with losses totalling £474,000 or 41% of losses in this category. The highest value case (£151,500) involved the theft of items from sealed and locked shipping containers.

1.9 It is important to focus on the basic physical controls that should prevent and detect these kinds of offences. These fundamental controls include asset registers and inventories; regular checks and reconciliation of holdings; secure storage and movement of valuable items; and effective control of exit and entry from or to government sites.

Payment fraud

1.10 These are frauds that involve falsely creating or diverting payments. Examples of cases reported included:

- Creating bogus customer records and bank accounts in order to generate false payments;
- Intercepting cheques and Payable Orders and attempts to cash them. In some cases alterations were made to payee details and amounts;
- Creating false records to support fraudulent claims for benefits;
- Processing false claims by accomplices for benefits, grants or repayments; and
- A member of staff authorising payments to himself.

1.11 This is the second largest category in terms of value lost, £1,070,000 from 77 cases. Individual losses were sometimes significant with 9 cases, each exceeding £20,000 in value, accounting for losses totalling £833,000 (78 per cent of total losses in this category). Two cases each exceeding £100,000 accounted for losses totalling £603,500 accounting for 56 per cent of the losses in this category in value terms.

1.12 Many of the large value frauds arose because individuals with key responsibilities worked largely unsupervised, allowing the frauds to go undetected for a time. These cases highlight the importance of rotating duties and effective monitoring where other controls such as segregation of duties cannot easily be implemented. Once someone is in a position to affect the processing of payments, they can pose a significant risk.

1.13 Segregation of duties, adequate audit trails, meaningful and regularly produced management reports, good budget management, regular management or independent reviews (e.g. by internal audit) and the secure holding of blank or completed instruments of payment are all examples of the basic controls that can be applied to the payment process. The wider use of electronic forms of payment might also reduce the risk of payment fraud. Collusion can be a difficult problem to deal with but the active encouragement of staff to report their suspicions of fraud and the deterrent effect of always taking appropriate action against known perpetrators can help reduce this risk. **Appendix 8** of “**Managing the Risk of Fraud – a Guide for Managers**” offers advice about the controls that should be in place to help prevent or detect fraud in this area and Treasury’s **Fraud Casenotes** provide advice on controlling cash handling, bill paying, electronic funds transfer and payment by cheque or Payable Order.

Receipt fraud

1.14 Fraud in this area can include the theft of incoming cash or cheques (which can be opportunistic or coupled with the manipulation of financial records to disguise thefts) or adjusting records of amounts owed by customers to departments in return for cash rewards or other incentives.

1.15 The overall value of fraud in this category was £546,800 (13 per cent) involving 51 cases. This is a big increase over last year’s figures of 28 cases where losses totalled £15,200. Two large value cases (£366,200 and £132,000) accounted for much of the increase in the value of losses reported. One case involved the theft of cash payments received from a department’s customers and the other involved the diversion of income to an account set up by the fraudster.

1.16 The scale of income collected by the Government is vast and individual frauds can potentially be very significant. There is a need for fraud-risk assessment and effective anti-fraud measures (e.g. accurate debtor records, regular management and independent checks to ensure

that income is collected and brought to account, supervision of officers with responsibility for pursuing large value debts). Segregation of duties between those who raise debts, those who pursue them and those who bring payments to account together with good audit trails and management information will also help to reduce the risk of fraud in this area.

Travel and subsistence, pay and other allowances

1.17 Fraud in this area involves such activities as the completion of fraudulent claims for payment or the creation of false payroll records. Examples of fraud include claims for journeys that were not made, overstated claims, claims for allowances for which there was no entitlement, forged signatures authorising payment, forged documentation supporting claims or applications for employment, falsification and/or unauthorised amendments of timesheets, false claims for working unsociable hours, deliberate failure to repay salary overpayments and the creation of non-existent personnel on payrolls.

1.18 In total there were 222 (132 travel & subsistence, 90 payroll frauds) with losses totalling £634,900 (15 per cent). There were significant increases both in the number of cases reported (88 last year) and their overall value (£377,500 last year). Much of the increase in case numbers was reported by one department where improvements in the way anti-fraud effort is coordinated and fraud data collected may have been responsible for the discovery of more cases. Six cases exceeded £20,000 in value accounting for total losses of £269,000 with one case involving up to 120 individuals and estimated losses of £100,000.

1.19 Controls to prevent or detect fraud in this area are straightforward (e.g. clear set of rules, an approval process, management checks, finance team checks, spot checks and monitoring via the budgetary control process). To overcome collusion, good management checks and rotation of duties might reduce this risk. The key controls relating to travel and subsistence can be found in Treasury's **Fraud Casenote Number 4** and in **appendix 8** of Treasury's publication "**Managing the Risk of Fraud – a Guide for Managers**".

Exploiting assets and information

1.20 This type of fraud involves using the assets of the organisation for other than official purposes and/or supplying information to outsiders for personal gain.

1.21 This year departments reported 187 cases (14 per cent) in this category with losses totalling £104,000. This is potentially a high-risk area and fraud could involve government employees providing details of departmental records to external accomplices. This category saw a significant increase over the number of cases reported last year (50 last year) with much of the increase due to one new government body issuing staff with mobile phones but failing to introduce effective controls to prevent their use for personal calls.

1.22 Clear rules about how assets can be used, appropriate segregation of duties, effective audit trails, effective supervision of employees and regular management checks on the existence and use of assets can be effective in discouraging or preventing the misuse of assets or information. Good detective controls such as staff reporting their suspicions (there need to be clearly advertised avenues for staff to do this), the use of IT checks (e.g. data mining or data matching) to provide indicators that fraud might be occurring and spot checks of claims for large refunds (e.g. tax and VAT) from members of the public can also be effective.

Personnel management related fraud

1.23 Many of these cases had no reported value, as assessing losses is not always possible. Departments are required to report only those cases where the action taken against perpetrators goes beyond the oral or written stage (e.g. dismissal, downgrading, promotion bar). Examples of fraudulent activities reported under this category included:

- Staff on sick leave but working elsewhere;
- Abuses of flexible working time systems;
- Misuse of official time (e.g. abusing the department's computer misuse policy); and
- Deceit or misrepresentation for advantage (e.g. false references or false qualifications used to secure employment).

1.24 The second highest number of cases (214, 16 per cent) was reported under this category. In most cases action had been taken against perpetrators that included dismissals, demotions, and loss of pay spine points and bars on promotion. This year saw an increase in the total value of losses reported in this category (from £18,100 to £95,000). This is due largely to one department that is now calculating a monetary loss where staff are found to be spending time browsing IT information that is not relevant to their job and seeking to recover these losses as well as taking other disciplinary action.

1.25 Whilst these cases are usually low-risk in terms of value, it is nevertheless important that departments try to detect them as staff who get away with this type of fraud may be tempted to attempt much more serious frauds. They can also reflect badly on a department's ethical standards. Clear policies, closer checking of data supplied in order to gain employment, more frequent management checks of sick leave records, close scrutiny of flexible working hours records and independent monitoring of staff accesses to official data are all examples of controls that can be applied in this area.

Procurement, GPC and credit card fraud

1.26 Procurement is the whole process of acquisition from third parties and covers goods, services and construction projects. Procurement fraud can involve contractors, sub-contractors, crown servants or any combination of these. These categories cover tendering irregularities, unauthorised or irregular use of the government procurement card (GPC) and payment claims for goods or services that were not delivered.

1.27 These two categories accounted for 55 (4 per cent) cases of fraud with a total value of £580,500 (13 per cent). There was one large-value fraud involving losses of £428,300 involving the suspected fraudulent purchase of flights for personnel who were not entitled to them. This year's figures included 35 GPC/credit card frauds with losses totalling £70,700 (£123,700 last year).

1.28 Examples of controls to reduce risks associated with purchasing or associated with the use of contractors can be found in **Appendix 8** of Treasury's publication "**Managing the Risk of Fraud – a Guide for Managers**". Where credit cards are concerned, it is important that credit card statements are reconciled by budget holders (or on their behalf by somebody other than the cardholder) to receipts or vouchers supplied by the cardholder and that any unusual expenditure is properly investigated.

Other fraud

1.29 This category accounted for 17 cases and a total value of £20,800.

External and contractor frauds

1.30 Departments are asked to report any high value (i.e. £20,000 or more) external frauds including fraud perpetrated by contractors that contain lessons for other bodies. These are not included in the main analyses above.

1.31 In all, 13 external fraud cases were reported with losses totalling over £1.9million. Summaries of individual cases can be found in **Annex C**. This annex does not represent a

complete record of all fraud perpetrated by contractors or members of the public against Government. Most external fraud is related to the main work of individual departments (e.g. benefit payments) and these cases are not reported to the Treasury for this exercise because they contain lessons for those departments only, and may be covered in other reports and publications.

1.32 Nine cases involved contractors engaged to deliver services on behalf of departments and in most cases losses had been, or were likely to be, recovered. In some cases the frauds arose because of weak controls such as insufficient checking of evidence to support claims for payment by the contractors and inadequate monitoring of contractor activities.

1.33 Advice on managing external fraud risk effectively can be found in the joint Treasury and NAO publication "**Good Practice in Tackling External Fraud**"¹.

¹ http://www.hm-treasury.gov.uk/media/E/2/tackling_external_fraud.pdf

A

Large value frauds perpetrated by staff

The following summaries relate to cases with values where losses exceeded £20,000 and which were perpetrated by or involved staff. These cases are included in the main analyses.

Theft of assets

£434,000

A department reported a number of cases involving the theft of assets which were fully investigated but failed to identify any perpetrators. These included:

- The theft of personal and Crown assets from shipping containers. The containers were packed under supervision with customs seals and padlocked but it was later found that while the seals and padlocks remained in place the containers were empty. A police investigation failed to identify the perpetrators (£151,500);
- The theft of high-grade petroleum pipes (£73,300);
- The theft of a silver mounted statue (£60,000);
- This case involved the removal of items of communication equipment from the rear of three vehicles parked in a secure area. The police reported that some of the items had been sold on eBay (£42,100);
- A stock check revealed that six new Land Rover engines and 3 gearboxes were missing (£39,000);
- The theft of goods in transit (£26,400);
- A shipping container in transit was accessed and various items including personal effects were removed (£21,700); and
- A person(s) entered a property on a secure site via a boarded up rear window and removed radiators and copper piping (£20,000).

£40,000

Line managers within a department were scheduled to conduct a cash and bank cheque reconciliation involving local accounts. Advance notice of this action prompted an individual to surrender his pass and keys and admit that he had stolen cash but could not repay the money. The perpetrator received a 15-month prison sentence and the department instigated action to recover lost monies.

Payment fraud

£357,100

A member of staff created false records and authorised fraudulent repayment claims. The officer was dismissed and, at the time of reporting, legal proceedings were ongoing. Detection controls are built into systems but the Department continues to explore ways to further strengthen these.

£246,400

The case involved a member of the Finance team creating invoices for a non-existent supplier quoting a virtual office address and fictional Companies House and VAT registrations. The employee created eight invoices for the same supplier, five of which were paid. The employee was a registered approver of invoices and a senior member of the finance management team.

The fraud came to light following a tip-off of unusual activity on an individual's bank account. The investigation identified weaknesses in processes relating to supplier set-up where new suppliers were created on receipt of invoices without any validation checks. New controls established include segregation of duties (new suppliers are now initiated by procurement and authentication checks by someone in the finance team with no responsibility for processing invoices or approving payments) and checking of all new suppliers by the Chief Accountant.

The employee has been dismissed from the department and charged by the police with theft, together with an accomplice whose account the money went into. Both have pleaded not guilty and will be tried for the offences. Just over £100,000 remains in the bank account that has been frozen and hopefully will be recovered.

£105,500

Investigations into two cases of fraud (£73,700 and £31,800) involving members of the public led to the discovery of involvement by members of staff. The staff members were dismissed and in one case legal action was taken resulting in a suspended prison sentence for the member of the public and the member of staff. In the both cases action was taken to recover the losses.

£29,400

A member of staff stole blank cheques that were scheduled for destruction, completed them in their name and paid them into their bank account. The fraud was possible because the member of staff used their knowledge of procedures to circumvent the controls in place. Routine reconciliations between banking records and departmental accounting records identified the fraud. The individual was dismissed, prosecuted and recovery action is being pursued.

£28,800

A bank queried a cheque that had been issued by a government body because it was suspected that the payee name had been changed. Information from the bank revealed that the new payee details on the cheque belonged to a member of staff in the finance department. The individual concerned was immediately interviewed by the Chief Executive and the Finance Director and confessed to the attempted fraud. He was dismissed and the police informed.

A retrospective review of cheque payments going back two years was undertaken by the finance department and revealed evidence of a similar fraud by the same individual in the past.

Police and departmental investigations concluded that the individual had used his position to defraud his employers of the sum of £29,829.05 and subsequently to attempt to defraud them of a further £38,955.40. He was sentenced to eighteen months imprisonment after pleading guilty to charges of obtaining a money transfer by deception and passing a fraudulent cheque.

The government body suffered no financial loss as a result of the second incident and the bank made good the earlier loss. Departmental internal audit staff carried out an independent review of finance systems.

£24,300

An investigation revealed that a member of staff used information about claimants to create false payments. The officer was prosecuted and received 16 months imprisonment. Internal audit reviewed systems and their recommendations about improving recruitment checks, increasing fraud awareness, and increasing checks on high-risk transactions have been successfully implemented. At the time of reporting the department was considering taking action to recover losses through confiscation hearings.

£21,000

A member of staff supplied customer details to third parties who used the information to make false claims against the department. Routine monitoring of data accesses by staff led to the discovery of the fraud. The member of staff was dismissed and prosecuted. The department is reviewing its monitoring processes to develop risk-based targeted checks that will more readily identify this type of offence.

£20,500

Internal control procedures identified a staff member who diverted payments for the benefit of others. The officer was suspended from duty and legal proceedings were being taken at the time of reporting.

No loss

A department held a current account with a UK commercial bank. A third party, allegedly a customer of an overseas bank, set up a direct debit and attempted to remove £45,000 from the department's current account. This attempt was discovered by the UK bank and no money was transferred. The direct debit was frozen and the bank closed the case following an investigation. Thereafter, the department was requested to confirm the validity of another direct debit that had been set up against the department's account as this was for the same amount as the original attempt.

Receipts fraud

£366,200

A staff member was alleged to have stolen cash payments received from customers. Information received from a third party highlighted that receipts issued to customers were photocopies of official receipts. The officer was suspended from duty during the investigation, which was ongoing at the time of reporting. Additional security and monitoring controls have been introduced to prevent any future reoccurrence.

£132,000

Following a query raised by a bank, suspicions were aroused that monies owed to the department had been diverted into a non-departmental account. The investigation into this matter is still ongoing and the appropriate sanctions will be sought. The department will be seeking to recover the loss of these funds using the most appropriate legislation. Internal audit are carrying out a review of the controls in the area where the fraud was identified.

Travel and subsistence, pay and other allowances

£100,000

Line management reported to a departmental fraud unit a suspicion that up to 120 individuals had submitted fraudulent claims for subsistence costs relating to duty overseas. Examples included three or four individuals employing the same receipt or tampering with receipts to support their various claims. There was insufficient evidence to take disciplinary action against specific individuals.

£45,900

It was suspected that an individual had claimed excessive overtime over a two-year period. Following specialist internal investigation the individual was given an oral warning. There was insufficient evidence to take stronger action.

£44,800

As a result of suspicions reported by a member of staff, it was discovered that another staff member who opted for part time working continued to be paid at a full time rate. The staff member failed to notify management. The staff member was not dismissed because mitigating

circumstances were taken into consideration and the staff member agreed to repay the full amount. As a result of this case, the department reinstated monthly reconciliations between payroll and establishment listing which now includes a check against contracted hours.

£28,300

Internal control procedures identified anomalies on a member of staff's travel claims, such as claims for travel on days when the officer was on leave or when it was known that trips were not undertaken. The officer was suspended from duty and legal proceedings were being taken at the time of reporting. Recommendations made by an Internal Audit report on travel and subsistence processes have strengthened controls in this area.

£26,000

An internal audit of claims for travel and subsistence discovered that an individual had submitted false claims amounting to approximately £16,000. Further investigations revealed that, despite there being no requirement for overtime to be worked, he had submitted overtime claims amounting to approximately £10,000 for the majority of which no approval had been sought or given. The individual resigned but there was insufficient evidence to take criminal action.

£24,000

This relates to an overpayment of excess fares. In essence, an employee failed to inform management that the monthly amount included in their salary for excess fares significantly exceeded their entitlement. The overpayment arose when staff assisting the payroll unit to clear a backlog of work and input of data directly onto the payroll database bypassing the payroll application and associated controls. An error by an input clerk resulted in the employee being paid the backlog of excess fares as a regular monthly entitlement. The error was not discovered immediately, as entries input directly to the database do not appear on the normal payroll highlight reports and was only discovered when the payroll unit undertook a review of excess fares some time later. Action has been taken to recover all losses and to ensure that all future payroll amendments are made via the payroll application. At the time of reporting disciplinary action against the staff member was being taken.

Procurement fraud

£428,300

Following an internal audit of an overseas operation a suspected fraud was identified involving the provision of flights for non-departmental personnel. The fraud involved amending billing documentation for legitimate flights and then presenting the amended information through the normal channels. The fraudsters were not identified and, at the time of reporting, the local police were looking into the matter.

B

Large value frauds - external cases

Members of the public or contractors perpetrated the following cases. This is not a complete list of all external fraud cases but only those that contain general lessons for other Government bodies. These cases are **not** included in the main analyses.

Contractor fraud

£375,000

Following suspicions identified in 2007/08 a police investigation had acquired evidence suggesting that a sub-contractor involved with estate maintenance had declared perfectly serviceable domestic appliances obsolete before selling them privately. There was also evidence of equipment orders being altered to secure extra spare parts that were then sold for private gain and the alteration of engineer's job sheets billed ultimately to the department. A criminal prosecution was not instigated but the department successfully negotiated a commercial recovery valued at £375,000.

£350,000

The case concerns a suspected building contractor fraud, and alleged over claiming of monies due under the contract terms with a department for a period of up to 6 years. The alleged over-claiming began in 2002 and so if proven will attract statutory interest due to the department on any overpaid amounts from that date forward.

The suspected fraud came to light following a sample check of invoices by a newly appointed Senior Quantity Surveyor and arose because the process of supervision and review was inadequate.

At the time of reporting the suspected fraud was under investigation and preliminary meetings had taken place between the department and contractor's solicitors. Action had also been taken to withhold payments relating to recent invoices.

Actions taken to reduce the risk of similar frauds arising in future include:

- Checking contract details for all building suppliers against invoice charges before approval; and
- Checking invoices to verify that actual work had been completed to an acceptable standard.

£325,000

A contractor employed to manage a project on behalf of a department identified irregularities via a financial review within their organisation. This case involved procurement fraud and the theft of fuel. A number of the contractor's employees were dismissed as a result of the investigation. The contractor reimbursed the losses in full, and agreed to strengthen controls over the project.

£326,500

A number of cases involving contractors employed to deliver services to customers of a department were reported. As a result of these cases, contracting requirements have been reviewed resulting in greater responsibility being placed on contractors to have robust controls and monitoring processes in place over the activities of their staff:

- Two contractor employees coerced others to falsify paperwork to support claims that services had been delivered. The contractor submitted the claims to the department in good faith. Criminal proceedings against the two employees were being considered at the time of reporting and action taken to recover the losses (£247,600);
- Through routine departmental contractor performance monitoring checks it was discovered that a contractor had failed to identify irregularities in documentation provided by employees to support payment claims. Recovery action was being pursued by the department at the time of reporting (£41,800); and
- An employee of a company submitted false claims with forged customer signatures for services that were not provided. The fraud was discovered as a result of routine checks of payment claims by the department. The employee was dismissed and full recovery was being pursued by the department at the time of reporting (£37,100).

£228,000

Following allegations by a former employee, a senior staff member of an overseas charitable foundation was found to have been taking unauthorised loans from the Department's funds. Given the circumstances, including destruction of evidence, legal advice was that criminal action was unlikely to succeed and did not recommend civil action either. The foundation staff member died during the investigation, and the full sum was subsequently written-off. Funding was withdrawn from the organisation.

£111,800

Directors of a company benefiting from government support funding raised and presented inaccurate invoices and other documents in support of purchases made under the scheme. In some cases the purchases could not be verified. Routine departmental checks identified a number of concerns but there was not enough evidence to pursue a criminal prosecution.

£86,000

This fraud came to light following an internal review of a contractor employed to deliver services on behalf of a department. The case involved a serious conflict of interest by a senior member of the contractor's staff. A police investigation confirmed that the fraudster had charged the department over-inflated prices and failed to supply supporting invoices. The contractor staff member resigned was prosecuted, the contractor's office was closed and the full loss of £86,000 recovered. An Action Plan was produced to improve control over future contracts.

£50,000

A company was awarded £30,000 as revenue grant and £30,000 as a capital grant. The capital grant was provided to set up a mobile unit for providing services to members of the public. They also received funds of £50,000 for further project management work.

It was alleged that the £30,000 capital grant had been spent but had not been used for its intended purpose. Following an investigation, the contractor was asked to return £80,000. The contractor agreed to repay the £30,000 capital grant but felt that the remaining £50,000 could not be repaid without making the company insolvent (although it had yet to start trading).

By October 2007, the contractor had paid back over £25,000 from the revenue grant and invoices for legal fees, telephone bills and a salary for the contractor were provided to support money spent.

Action taken by the department to improve control over the contract included:

- Strict monitoring of the way in which the unit's funds are spent;
- Regular monitoring visits to the project office or site of those companies/organisations who have received grants; and
- All spending to be supported by documentary evidence.

£32,900

A contractor received double funding from a scheme administered jointly by two departments. Reconciliation between the departments of the sums paid identified the duplicate payments but only after some time had elapsed. At the time of reporting negotiations were ongoing as to the amount to be repaid.

£20,000

A contractor was alleged to have made payments of around £20,000 to himself and to his fiancée via his own company from a department's funds.

The contractor was tasked with organising a seminar in London and following a tender exercise a company was contracted in for this purpose. However, the contractor had specifically left the issue of event management out of the tender exercise as he informed the department that his team would cover this. In reality this work was sub-contracted to a company of which both the contractor and his fiancée were Directors. Payments totalling £20K were subsequently made to the company once work was completed.

In relation to awarding work to a company in which he had a financial interest he advised the investigators that this was with the full knowledge of his line manager. This was subsequently found not to be the case and his contract of employment was terminated.

Legal advice concluded that there was insufficient evidence available to prosecute.

Other external fraud

£37,500

An individual in a company employing disabled workers forged signatures and submitted claims falsifying the extent of support provided. The fraud came to light following allegations made by one of the company's employees. The individual involved in the fraud has left the company and the department is pursuing full recovery of all losses. Controls have been reviewed to determine how to strengthen their effectiveness.

No loss

An external party tried to create a new standing order that would have, if it had succeeded, diverted payments from a company used to manage training events to the fraudster's bank account. The intention of the fraudster was to set up a standing order to transfer £475 every Monday from 15th December 2008 until the 5th January 2009. Investigations revealed that the attempted fraud involved the use of a signature of a senior member of the government body (which might have been obtained from the body's Annual Report available on their public website) and company banking details (available on on-line brochures advertising training events to encourage easy and convenient payment). The attempt might have succeeded had the fraudster had access to and used the signature of someone authorised to create standing orders. However, the attempt was identified by the bank because the person trying to make the changes was not authorised to do so.



Fraud update

This section covers fraud-related issues including an update on progress towards implementing the recommendations of the Government Fraud Review; extending the National Fraud Initiative; some novel or interesting frauds; and fraud-related PAC or NAO Reports.

PAC and NAO reports

C.1 The following Public Accounts Committee (PAC) or National Audit Office (NAO) reports relating to or including fraud were published in the period covered by this report (i.e. 1 Apr 2008 to 31 Mar 2009). Details can be found on the PAC or NAO websites¹.

C.2 PAC Reports:

- **Tackling Benefit Fraud, HC 488, 8 July 2008.** The report examined: progress in tackling fraud; making the best use of resources and powers; and effectiveness in tackling different types of fraud. Estimated fraud, at the time of reporting, accounted for 0.6 per cent of benefit expenditure, around £800 million (down from £2billion in 2001-02). A number of new anti-fraud measures contributed to the reduction in fraud.
- **Tackling the Hidden Economy, HC 341, 9 Dec 2008.** The report examined the scale and nature of the hidden economy and the department's use of penalties and criminal investigations. Although detection rates of people in the hidden economy were disappointing, the amount of tax from cases detected increased by 13 per cent since 2003-04.
- **Revenue and Customs Prosecutions Office Resource Accounts 2005-06, HC 273, 11 Nov 2008.** The report noted shortcomings in the department's internal control systems including: an under resourced and inexperienced finance team; a lack of basic finance, procurement and human resources policies and procedures; a director who lacked the necessary support, training and experience to identify or mitigate risks.

C.3 NAO Reports:

- **Financial Management in the European Union, HC 480, 25 Apr 2008.** The report identified some improvements in the financial management of European Union funds. It also said that data from the European anti-fraud office OLAF showed that the number of irregularities reported to the Commission, including fraud, decreased by 7.3 per cent in 2006 but their total value increased by 10 per cent to £788

¹ <http://www.publications.parliament.uk/pa/cm200708>
<http://www.nao.gov.uk>

million. It was recommended that HM treasury press OLAF and other member states to develop a consistent arrangement for reporting and recording fraud across the European Community.

- **HMRC – Tackling the Hidden Economy, HC 341, 3 Apr 2008** – see above.
- **Financial Reporting and Financial Management – General Report of the C&AG, HC133, 27 Feb 2009.** The report drew attention to levels of error and fraud by tax credit claimants and made recommendations about reducing the level of Vehicle Excise Duty fraud.

National Fraud Initiative

C.4 The seventh Audit Commission National Fraud Initiative (NFI) data-matching exercise is now under way using sophisticated data-matching techniques to identify potential fraud, error and overpayments. The cumulative total arising from this biennial exercise is now just over £500 million and early signs are that the levels of fraud detected by participants during the current exercise will exceed previous totals. This does not necessarily indicate increasing fraud levels, but is a result of improved data matching and the inclusion of data that addresses new fraud risk areas.

C.5 Bodies the Audit Commission audited continue to be the main providers of the data. However, the Serious Crime Act 2007 gave the Audit Commission new statutory powers to conduct data matching exercises by inserting a new Part 2A into the Audit Commission Act 1998. This also enables bodies in the private sector as well central government departments and their agencies to participate in and share the benefits of the NFI on a voluntary basis where the Commission considers it appropriate.

C.6 A Code of Data Matching Practice, which has been drawn up by the Commission laid before both Houses of Parliament, underpins the data matching exercise and requires that all persons and bodies involved in data matching exercises comply with the law, especially the provisions of the Data Protection Act 1998, and to promote good practice in data matching.

C.7 The data matches are hosted on a secure website, in an application that offers full fraud case management facilities for investigators.

C.8 Outcomes from the 2008/9 matches are already significant and, with participants still working on these matches, these outcomes should continue to rise over the coming months. In the autumn the Audit Commission will have a clearer picture of what the final outcome total is likely to be. Notable outcomes so far are:

- 520 cases, totalling £15.8m (including forward savings), where a pension had continued to be paid after the death of the pensioner;
- 1,722 housing benefit fraud overpayments totalling £2.5m. These relate in the main to 52 NHS employees, 432 local government employees, 782 local government pensioners and 280 students;
- Incorrectly awarded council tax single person discount totalling £18.1m, bringing the total for this match since its introduction in 2007 to £31m;
- Duplicate payments to suppliers totalling £1.6m;
- 18 local authority properties recovered from invalid tenants;
- 45 employees who have been dismissed or resigned as a result of an invalid visa or asylum application; and

- 4,073 blue badges cancelled following the death of the badge holder.

C.9 Planned developments include:

- Expansion of the work on council tax to identify other areas of abuse of incorrectly awarded discounts and exemptions;
- Inclusion of data from financial institutions to identify where financial products have been obtained inappropriately;
- Inclusion of registered social landlords' tenancy data to combat tenancy fraud across the social housing sector; and
- Extension of data matching to non-fraud related areas such as arrears recovery, child protection, absconders from justice, take up of benefits and general crime, subject to Parliamentary Orders.

C.10 If you would like more information or to arrange a workshop where you can learn more about the benefits of participating in NFI contact Peter Yetzes, Head of NFI via nfiqueries@audit-commission.gov.uk or voicemail 0844 798 2222 (local rate call).

Government fraud review update

National Fraud Authority

C.11 The National Fraud Authority (NFA) was established in October 2008. An Executive Agency of the Attorney General's Office, it is the Government's strategic lead on counter-fraud activity in the UK. It works with a range of stakeholders across the private, public and third sector. It aims to reduce the harm caused by fraud to the UK by building a more hostile environment for fraudsters at home and abroad (visit: www.attorneygeneral.gov.uk/nfa).

C.12 The NFA's key strategic priorities are:

- Building and sharing knowledge about fraud;
- Tackling the most serious and harmful fraud threats;
- Disrupting and punishing more fraudsters while improving support to their victims; and
- Improving the nation's long-term capability to prevent fraud.

C.13 During its first year of operation the NFA has made significant progress in delivering projects that are helping to achieve a more cohesive, strategic fight against fraud. Work has focused on such areas as improving data sharing both within and between public and private organisations, mortgage and ID fraud and improving victim support.

National Fraud Reporting Centre

C.14 The National Fraud Reporting Centre (NFRC) provides a clear location where individuals and businesses can both report fraud and access the most up-to-date advice and guidance on getting support. Reports coming into the centre will enrich the national intelligence fraud picture and help to better target operational activity, while advice provided will reduce repeat victimisation.

C.15 In August the NFA took over responsibility and management of the NFRC from the City of London Police. At the end of October the NFRC launched in the West Midlands beginning with the roll-out of its contact centre. This will be followed by a gradual expansion of the NFRC across the nation, including an online reporting tool that will be operating by early spring 2010.

National Lead Force

C.16 Following the National Fraud Review in 2008 the City of London Police was awarded the status of National Lead Force and given the objective of forming a centre of excellence for fraud investigation. Nineteen months later the National Lead Force has taken on 102 cases, of which 15 are now closed. Of these 15 investigations, 8 led to a conviction. The remaining 87 cases are live investigations, of which 23 have already resulted in convictions.

C.17 Since its inception all Lead Force cases account for a potential loss of more than £1.57 billion, with investigations and enquiries conducted across the UK and around the World. As part of this work City of London Police officers have assisted 22 UK police forces by investigating frauds committed in their area, and worked in partnership with 16 different agencies. Throughout this time they have also provided law enforcement agencies with fraud intelligence.

C.18 The National Lead Force has tackled cases of fraud from across the spectrum, with mass marketing fraud, organised mortgage fraud and insider fraud being particularly prevalent. Notable investigations include the ongoing case of a £40 million mortgage fraud from which the City of London Police is leading multi-agency operation spanning South East England. The resulting operation led to nine arrests. Also making the headlines has been an investigation into a £90 million investment fraud, which claimed 700 victims worldwide. Three men have been arrested and in a new initiative, special victim forums were held in London and Yorkshire.

C.19 Training opportunities are available at the City of London Police Centre of Excellence. For more information please contact Detective Inspector Andy Fyfe on 0207 6016849.

National Fraud Intelligence Bureau

C.20 As part of the delivery of the National Fraud Strategy, the City of London Police has begun the implementation of the National Fraud Intelligence Bureau (NFIB).

C.21 Housed within the City of London Police, the NFIB receives reports of confirmed fraud from the NFRC and other partner agencies in the public and private sectors. NFIB analyse the data for trends and matches. These matches could be related to repeat victims or criminal offence, offender or location. This information is then used to produce crime and intelligence packages and sent to relevant police forces and partner organisations.

C.22 The NFIB is being delivered in incremental phases. The first phase saw the successful completion of tests to legally and securely transfer bulk fraud data from project partners, and then cleanse and match the reports. The current phase is the build and testing of advanced analytical systems, conducted as a partnership between the City of London Police and SOCA. NFIB analysts are also studying confirmed fraud reports direct from the NFRC with a view to providing new operational opportunities for police forces nationwide.

C.23 For further information please contact Superintendent David Clarke, who is the NFIB Project Director, on 0207 6016802 or at: david.Clarke@cityoflondon.pnn.police.uk.

Fraud measurement

C.24 The NFA's Measurement and Analysis Unit (MAU) records fraud losses across the UK economy, pulling together estimates from both the public and private sector. The MAU also conducts targeted exercises to improve estimates in areas where there is limited or no information available. The MAU is finalising figures for its first annual fraud report which is due to be published in December 2009. This estimate will incorporate the findings of the HM Treasury Fraud Report. Additionally, the MAU plans to use information collated in the HM Treasury report to identify high-risk areas and trends regarding internal public sector fraud.

C.25 Other highlights of the NFA's work during the last year include:

- The National Fraud Strategy published in March 2009, provides for the first time, an overarching plan to fight fraud in the UK. The strategy clearly outlines when, why, how and who in the private, public and voluntary sectors, will set about creating a hostile environment for fraudsters that reduces the harm they cause to our economy over the next three years.
- The launch of the Identity Crime Task Force has brought together representatives from Government, law enforcement and the private sector to tackle key criminal ID fraud threats. Driven by the NFA, one of the Task Force's first goals is to strengthen engagement with the printing industry and encourage uptake of a voluntary code of conduct which makes it harder for criminals to access machinery to produce false ID documents.
- Improving information sharing between the private and public sectors the NFA has focused on research into why and how blockages occur between the two sectors. This research is currently being used by the recently formed Information Sharing Task Force to identify and develop solutions to these problems. Where necessary, the NFA will be asking the Attorney General and the Inter Ministerial Group on Fraud to assist in breaking down barriers to information sharing.
- Extensive research into the experiences of fraud victims has led to the NFA developing proposals to strengthen existing support for victims. The proposals will help simplify the reporting of fraud and ensure victims have access to definitive guidance on how to resolve their situation. The NFA is also working with enforcement agencies and local support services to improve standards of care for those most severely affected by fraud.
- The NFA has made progress fighting fraud in the mortgage process by working closely with the Land Registry. Concerns about falsification of information and fraudulent use of legitimate information on the Register are currently being addressed. The NFA is also focusing efforts on suppressing corrupt solicitors and negligent practice, which are factors in many mortgage fraud cases. Working with the Solicitors Registration Authority and The Law Society the NFA aims to enhance regulation and reduce unprofessional practice which contributes to mortgage fraud.

Home Office e-learning course to promote fraud awareness

C.26 In April, the Home Office's fraud awareness e-learning course went live. The course aims to raise everyone's fraud awareness, but is particularly useful if you have financial, commercial, procurement, audit or investigation responsibilities.

C.27 The purpose of the training is to minimise the risk of fraud and corruption within the Home Office and promote greater understanding of issues relating to fraud and corruption. It explains the pertinent issues in the wider context of the law, codes of conduct and best practice.

C.28 The course consists of eight modules, and at the end there is a series of questions so you can assess your understanding. The course takes approximately 1.5 hours to complete. The course will:

- Tell you what to do if you suspect fraud;
- Discuss prevention and detection of fraud; and
- Provide case studies of actual scenarios.

C.29 It also covers the law regarding fraud, Civil Service Code, Home Office anti-fraud and corruption policy, fraud indicators and sources of advice and information. When you've completed the course you should know what is expected of you, what to look for and what to do if you have concerns.

C.30 This initiative has been fully endorsed by the National Audit Office and HM Treasury, both of whom recognise that it is an effective way to address the risk of fraud, and to make staff alert to fraud indicators and the expected norms of conduct.

C.31 The course is being made available to other government departments who are interested in using it to promote anti fraud awareness. If you would like the Home Office to provide your department with a copy of the Fraud Awareness e-learning course for loading onto your department's learning management system please email:
E-LearningHelpdesk@homeoffice.gsi.gov.uk.

HM Treasury contacts

This document can be found in full on our website at:
hm-treasury.gov.uk

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ISBN 978-1-84532-661-6



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