the resilience to fraud of UK plc
comparing the private, public and voluntary sectors

Jim Gee, Mark Button and Ian R Cook

2010 Report
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This Report is the most comprehensive report ever undertaken into the resilience to fraud of UK organisations from across the public, private and voluntary sectors.

Fraud is a problem which undermines the stability and financial health of organisations from across the economy. It is not a victimless crime, but one which piles additional costs on us as consumers, denies us the quality of public services which we pay for as taxpayers, undermines our job security as employees, reduces the value of companies for us as shareholders and, even denies the beneficiaries of charities the full benefit of the donations which we make.

The Report covers organisations, budgets and turnover which represent in value more than a fifth of the UK’s Gross Domestic Product (GDP). Its’ scope embraces almost every sector of economic activity, and it provides an unprecedented insight into the strength of arrangements to protect UK Plc against fraud.

It is also comprehensive in that it considers all aspects of what it takes for an organisation to be resilient to fraud:

- understanding the nature and cost of fraud as a business problem;
- designing and implementing a strategy which is tailored to address this problem;
- maintaining a structure which can implement this strategy successfully;
- using the structure to take a range of pre-emptive and reactive action;
- and measuring, identifying and delivering results.

The authors of this Report support the development of work, over the last decade, to treat fraud as a business issue like any other – something to be quantified and assessed, with clear metrics showing the speed of progress in reducing its cost and impact. Historically, this has not been the case. Hoping that it won’t happen, or at best reacting when it inevitably does, simply does not constitute a viable approach in the 21st Century.

The development of the counter fraud profession (exemplified in the 13,000+ people who now hold Foundation, Advanced, Degree or Masters level Counter Fraud Specialist or Certified Fraud Examiner qualifications in the UK) and of proper professional standards, like any other area of professional life, have made it possible to do much better.

However, hitherto no-one has considered the relative progress that different economic sectors have made, how far they have to go or where the progress has been hardest to achieve. This Report remedies that deficiency.

The authors of this Report are committed to research such as this making a real difference. By expanding the extent of knowledge that organisations hold about their own arrangements, we can help to ensure better quality decisions are taken. The research has allowed the creation of Europe’s most comprehensive database of fraud resilience information. At Appendix 2 to the Report, we have highlighted a low cost ‘Fraud Resilience Check’ benchmarking service for organisations who want to know more.

PKF and the Centre for Counter Fraud Studies at the University of Portsmouth will repeat this research each year and report our findings. The vast honest majority of UK citizens have a right to know how well the organisations which they rely on are protected against the dishonest minority who would defraud them.

Jim Gee
Director of Counter Fraud Services, PKF (UK) LLP
and
Chair of the Centre for Counter Fraud Services,
University of Portsmouth
1 //

executive summary
1 // executive summary

1.1 This Report is the most extensive and most comprehensive Report yet undertaken into the resilience of UK organisations to fraud. Quantitative research has been undertaken previously but comparative, qualitative research has not.

1.2 376 organisations from across the public, private and voluntary sectors responded to a survey questionnaire which was widely distributed. Each organisation answered 29 questions about the effectiveness of their arrangements to counter fraud.

1.3 These questions covered every aspect of the work:
   - Adopting the right strategy
   - Accurately identifying the risks and costs
   - Creating and maintaining a strong structure
   - Taking action to tackle the problem
   - Defining success and delivering results

1.4 The Report finds that public sector organisations are significantly more resilient to fraud than those in the private and voluntary sectors. Public sector organisations are rated best in eight areas, private sector ones in four areas and voluntary sector organisations in none.

1.5 Its key findings also show that:
   - The majority (54%) of voluntary sector organisations don’t have a counter fraud strategy
   - A quarter of public sector bodies don’t include fraud and corruption on their risk registers
   - 65% of private sector companies and 80% of voluntary sector organisations don’t provide professional training for their counter fraud staff
   - Over half (51%) of voluntary sector organisations don’t have a programme of work to create an anti-fraud culture
   - 39% of public sector bodies and 68% of voluntary sector organisations don’t use data analysis to detect fraud
   - One third of voluntary sector organisations don’t have clear guidance in place about how investigations should be conducted
   - Over 30% of private sector companies and voluntary sector organisations don’t have a clear policy about applying sanctions where fraud is found

1.6 The areas of greatest resilience across all sectors are found to be:
   - Including fraud risks in risk registers
   - Ensuring Board-level reporting about fraud
   - Adopting a zero tolerance approach (although the reality of what happens belies this in many cases)
   - Attempting to create a strong deterrent (although the level of understanding about how this works in practice is limited)
   - Designing fraud weaknesses out of new and existing systems
   - Reporting incidents of fraud promptly

1.7 Key areas where progress is needed are shown to be:
   - Accurate measurement of the scale of fraud losses within individual organisations
   - Measurement of the real benefits of counter fraud work and the related return on the investment made
   - Provision of specialist professional training for counter fraud staff working outside the public sector
   - Implementation of propriety checks on new staff
   - Assessment of the extent and development of anti-fraud cultures
   - Application of analytical intelligence techniques

and most importantly
   - Performance management of counter fraud work like any other area of business activity

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1 See “The Financial Cost of Fraud Report” published in 2009 by the authors of this Report which is being updated for 2011.
2 //

background
2 // background

2.1 In 2009 the Centre for Counter Fraud Studies (CCFS) published its first report: *The Resilience to Fraud of UK Plc*. This highlighted inherent weaknesses in the strategies and structures in place in the public and private sector to counter fraud. The report was the first of its type and was based upon the latest professional standards for counter fraud work. The authors were able to assess the extent to which these standards were met from a prior survey of many organisations in the public and private sectors. The 2009 research had not been designed to fully encompass all of the relevant professional standards, so only a partial assessment was possible. It also did not cover the voluntary sector.

2.2 In 2010 the CCFS and PKF, the top ten accountancy and business services firm, decided to conduct a bespoke survey of the public, private and voluntary sectors fully reflecting relevant standards. The survey included 29 questions which assess the extent to which respondents meet all the standards relevant to effective resilience against fraud.

2.3 The results presented in this report represent the most accurate assessment which has ever been undertaken of how well UK Plc is developing strategies and structures to counter fraud. They depict the relative effectiveness of different types of organisations – the first landscape of counter fraud work in the UK.

2.4 The professional standards for counter fraud work set out what an organisation should do to counter fraud successfully under 5 sections:

- Adopting the right strategy
- Accurately identifying the risks and costs
- Creating and maintaining a strong structure
- Taking action to tackle the problem
- Defining success and delivering results

2.5 To conduct the research, invitations to participate were sent out which directed respondents to the survey website ‘Survey Monkey’, to fill in a questionnaire online. Additionally some sectors were targeted with paper questionnaires to complete.

2.6 The distribution of the survey included:
- FTSE250 private companies
- Government Departments and Agencies
- Non-Departmental Public Bodies
- NHS organisations
- Police forces
- Fire and rescue services
- Local authorities
- Higher education institutions
- Charities

2.7 In addition, organisations related to more than 500 registrants to the Centre for Counter Fraud Studies were contacted (where they had not already been surveyed by other means).

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2 The Chartered Institute of Public Finance and Accountancy (CIPFA) ‘Managing the Risk of Fraud’ guidance which one of the authors of this Report (Jim Gee) jointly wrote.
3 //

the nature of the data
3 // the nature of the data

3.1 The researchers received 376 usable questionnaires, divided between the public, private and charitable sectors. The private sector responses are all drawn from large FTSE 250 public limited companies. Small and medium sized enterprises (SMEs) are not covered by the survey and this must be remembered when the results in relation to the private sector are considered. Several organisations, including the UK National Fraud Authority, have tried to elicit information about the SME sector, but without success.

3.2 Those responding are necessarily self-selecting. It is likely that they represent those organisations who are more interested in this area of work and, consequently, may also have better arrangements in place than is the case across all the organisations in their sectors. Thus this Report probably presents a more optimistic picture of what is happening than is actually the case. This should be remembered where the answers to particular questions reveal that professional standards are substantially not being met.

3.3 The Report assesses the answers given to 29 questions. In respect of each one a graph and then a brief analysis of the response from public, private and voluntary sectors is set out. At the end of the question by question analysis an overall assessment is undertaken. An approach is used where each of the 29 answers has been weighted with a maximum 50 points possible. The allocation of points has been determined on the basis of the relative importance of each aspect of counter fraud work.

3.4 The total revenues the sample accounted for was around £297 billion. If one considers that the GDP of the UK in 2009 was in the order of £1,380 billion, the survey accounted for over 22 percent of GDP. This is a significant sum to be properly protected against fraud (or not in some cases, as the following pages show). The Table below shows the breakdown of the sample of organisations reviewed.

Table 1 - Respondents by sector and expenditure

<table>
<thead>
<tr>
<th>Sector</th>
<th>Responses</th>
<th>Percent</th>
<th>Total Value (£Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private</td>
<td>26</td>
<td>6.9</td>
<td>114.5</td>
</tr>
<tr>
<td>Public</td>
<td>267</td>
<td>71</td>
<td>179.1</td>
</tr>
<tr>
<td>Voluntary</td>
<td>83</td>
<td>22.1</td>
<td>3.1</td>
</tr>
<tr>
<td>Total</td>
<td>376</td>
<td>100</td>
<td>296.7</td>
</tr>
</tbody>
</table>

2 Derived from Office for National Statistics data for Q2 2009
4 //

detailed analysis
4 // detailed analysis

4.1 This section of the Report looks at each aspect of resilience to fraud and the nature of the response from the organisations which were surveyed. It looks at the answers to the 29 questions asked, broken down into five key areas:

- Adopting the right strategy
- Accurately identifying the risks and costs
- Creating and maintaining a strong structure
- Taking action to tackle the problem
- Defining success and delivering results

4.2 It then looks at the overall resilience of different economic sectors and compares the progress made in each sector.

Adopting the right strategy

4.3 Question 1 - Does the organisation have a written counter fraud and corruption strategy?

4.4 The starting point for any sound attempt to minimise the risk of fraud is to have a strategy to counter it. Amongst the public sector respondents this was very common with 93 percent having such a strategy. For the private sector 75 percent did. However, among voluntary sector organisations the majority did not, with 54 percent not having a counter fraud strategy. Given the likely future expansion of the private and voluntary sectors undertaking previously public sector functions, this does raise some potential concerns about the safety of public funds, something which some of the following questions will illustrate further.

4.5 Question 2 - Does the strategy have a clear objective of better outcomes (i.e. reduced losses to fraud) and not just activity (i.e. the number of investigations, prosecutions, etc.)?

4.6 In respect of those organisations which answered Yes to the Question 1, further questions sought to assess the quality of that strategy (those which answered No to the above are included in the No’s here). Having clear intended outcomes and not just seeking to generate activity is very important. For the public sector there were good results with over 83 per cent having clear outcomes linked to their strategy. In the private sector it was almost 70 per cent, but in the voluntary sector only 28 percent.
4.7 Question 3 - Has the strategy been directly agreed by those with executive authority for the organisation?

![Bar chart showing percentages for Private Sector, Public Sector, and Voluntary Sector.]

<table>
<thead>
<tr>
<th>Sector</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Sector</td>
<td>69%</td>
<td>31%</td>
</tr>
<tr>
<td>Public Sector</td>
<td>92%</td>
<td>8%</td>
</tr>
<tr>
<td>Voluntary Sector</td>
<td>43%</td>
<td>57%</td>
</tr>
</tbody>
</table>

4.8 It is very important for senior Directors with executive authority to have bought into the strategy. The public sector response was very good, with over 90 per cent of organisations answering Yes to this question, compared to 60 per cent in the private sector and only 43 per cent in the voluntary sector.

4.9 Question 4 - Are fraud and corruption risks included in the organisation’s Risk Register (or equivalent)?

![Bar chart showing percentages for Private Sector, Public Sector, and Voluntary Sector.]

<table>
<thead>
<tr>
<th>Sector</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Sector</td>
<td>88%</td>
<td>12%</td>
</tr>
<tr>
<td>Public Sector</td>
<td>75%</td>
<td>25%</td>
</tr>
<tr>
<td>Voluntary Sector</td>
<td>84%</td>
<td>16%</td>
</tr>
</tbody>
</table>

4.10 It is very important that fraud and corruption are treated as a risk by an organisation and that they are included in the Risk Register. Here the private sector came out best with 88 percent of organisations answering Yes, compared to 75 per cent in the public sector. The voluntary sector also performed well in respect of this question, beating the public sector with 84 percent recognising fraud as a risk on the Risk Register. This does raise questions about the voluntary sector, as they clearly recognise fraud as a risk, but don’t seem to be doing enough to deal with that risk.
4 // detailed analysis

4.11 Question 5 - Does the organisation seek to estimate the total economic cost of fraud to it?

![Bar chart showing responses to Question 5 across sectors.]

- **Private Sector:**
  - Yes: 31%
  - No: 69%

- **Public Sector:**
  - Yes: 29%
  - No: 71%

- **Voluntary Sector:**
  - Yes: 30%
  - No: 70%

4.12 Estimating the true cost of fraud is important in developing a proportionate, properly resourced strategy to counter it. Across all three sectors there were very similar responses with just under a third seeking to make such an estimate. There is therefore much more scope for all sectors to improve by seeking to accurately measure the cost of fraud. After all, if you don’t know the nature and scale of the problem, how can you implement the right solution?

4.13 There is much variation in the sophistication of these attempts and the authors would suspect that many organisations whose response was Yes, actually use very basic approaches. For example, adding up the cost of detected fraud is actually not very helpful – if it goes up does that mean that there is more fraud or less effective detection of fraud? If it goes down does that mean that there is less fraud or more effective detection of fraud?

4.14 There is clearly much progress to be made in this fundamental area of work.

4.15 Question 6 - Does the organisation use estimates of losses to make informed judgements about levels of budgetary investment in its work countering fraud and corruption?

![Bar chart showing responses to Question 6 across sectors.]

- **Private Sector:**
  - Yes: 46%
  - No: 54%

- **Public Sector:**
  - Yes: 30%
  - No: 70%

- **Voluntary Sector:**
  - Yes: 18%
  - No: 82%

4.16 If an organisation doesn’t understand the cost of its fraud problem then it cannot make a fully informed judgement about how much it should invest in the solution. Here there was more variance amongst the three main sectors. In the private sector just under half of organisations answered Yes to this question, in the public sector 29 percent and in the voluntary sector only 18 percent. This may reflect the stronger commercial imperative in the private sector.
Creating and maintaining a strong structure

4.17 Question 7 - Do those tasked with countering fraud and corruption have any special authority to pursue their remit effectively?

- Private Sector: 77% YES, 23% NO
- Public Sector: 88% YES, 12% NO
- Voluntary Sector: 60% YES, 40% NO

4.18 Fraud is a difficult issue and can sometimes involve those in positions of relative power within organisations. This means that, to effectively counter it, it can be important to have a degree of special authority. In the public sector nearly 90 percent of organisations answered Yes to this question, compared to 77 percent in the private sector and 60 percent in the voluntary sector.

4.19 Question 8 - Are reports about work to counter fraud and corruption discussed at Board level?

- Private Sector: 81% YES, 19% NO
- Public Sector: 79% YES, 21% NO
- Voluntary Sector: 73% YES, 27% NO

4.20 Board-level discussions about fraud can be an indicator of how seriously an organisation takes this problem. In all three sectors there were similar levels of interest with 81 percent of organisations in the private sector, 79 percent in the public sector and 73 percent in the voluntary sector, engaging in such discussions. Vis-à-vis the voluntary sector the data highlights that the problem is recognised, which it makes all the more concerning that answers to other questions reveal that less is done subsequently to address it.
4 // detailed analysis

4.21 Question 9 - Have all those working to counter fraud and corruption received the specialist professional training and accreditation for their role?

<table>
<thead>
<tr>
<th>Sector</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private</td>
<td>35%</td>
<td>65%</td>
</tr>
<tr>
<td>Public</td>
<td>68%</td>
<td>32%</td>
</tr>
<tr>
<td>Voluntary</td>
<td>20%</td>
<td>80%</td>
</tr>
</tbody>
</table>

4.22 There are a wide variety of professional training courses available to enhance the professionalism of counter fraud staff. In the authors view, the best is the Accredited Counter Fraud Specialist (ACFS) qualification, which is comprehensive, properly assessed and tested and linked to subsequent Diploma, Degree and Masters qualifications. This question, however, enabled a broader range of courses to be considered as professional training and accreditation. The public sector had the strongest commitment to this with almost 70 percent of organisations answering Yes. In the private sector it was 35 percent and in the voluntary sector 20 percent. A major gap in the private and voluntary sectors is apparent. Professional training provides greater assurance about the quality of the work undertaken.

4.23 Question 10 - Do those working in counter fraud and corruption regularly update and refresh their skills?

<table>
<thead>
<tr>
<th>Sector</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private</td>
<td>58%</td>
<td>42%</td>
</tr>
<tr>
<td>Public</td>
<td>79%</td>
<td>21%</td>
</tr>
<tr>
<td>Voluntary</td>
<td>38%</td>
<td>62%</td>
</tr>
</tbody>
</table>

4.24 An important objective is to have professionally trained staff to work in this area. The public sector came out best with 79 percent of organisations indicating Yes. In the private sector it was 58 percent and the voluntary sector 38 percent. The lower scores for the private and voluntary sectors suggest their professional development for counter fraud staff is probably more focused upon short training courses, rather than specialist professional training and education which is accredited. This comment reflects broader knowledge of the issue.
4 // detailed analysis

4.25 Question 11 - Are checks undertaken on the propriety of new staff (beyond simply reference checks)?

<table>
<thead>
<tr>
<th>Sector</th>
<th>Yes (%)</th>
<th>No (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Sector</td>
<td>58</td>
<td>42</td>
</tr>
<tr>
<td>Public Sector</td>
<td>71</td>
<td>29</td>
</tr>
<tr>
<td>Voluntary Sector</td>
<td>53</td>
<td>47</td>
</tr>
</tbody>
</table>

4.26 Screening prospective staff, to ensure that those with backgrounds which would make them represent a higher risk to commit fraud do not get into an organisation, is also very important. There are now professional standards for the ‘propriety checks’ process. The action taken includes assessing CVs for accuracy, checking references, and undertaking various financial and legal checks. In the public sector almost three-quarters of organisations implemented such a process, compared to the private and voluntary sectors where it was just over half.

4.27 Question 12 - Are there formal and informal relationships in place with relevant external agencies or organisations (e.g. the police, specialist legal firms who advise on civil litigation)?

<table>
<thead>
<tr>
<th>Sector</th>
<th>Formal Relationships</th>
<th>Informal Relationships</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Sector</td>
<td>88%</td>
<td>68%</td>
</tr>
<tr>
<td>Public Sector</td>
<td>88%</td>
<td>72%</td>
</tr>
<tr>
<td>Voluntary Sector</td>
<td>66%</td>
<td>40%</td>
</tr>
</tbody>
</table>

4.28 Fraud is potentially both a crime and a civil legal issue where it is very important to develop relations with bodies which can enhance the effectiveness of those countering fraud. These include organisations like the Police and Serious Fraud Office, relevant Government Departments and agencies, as well as specialist legal and forensic firms. It is important to have relationships which enable organisations to react effectively if examples of potential fraud arise. Ideally these should be on a formal basis, but could also be informal. In the private sector just over two thirds of respondents had a formal relationship and nearly 90 percent informal relationships. In the public sector the figures were also very similar. However, in the voluntary sector only 40 percent had formal relationships and two thirds informal relationships. This is clearly an area where the voluntary sector could improve.
Taking action to tackle the problem

4.29 Question 13 - Does the organisation have a clear programme of work attempting to create a real antifraud and corruption culture?

- **Private Sector**: 88% Yes, 12% No
- **Public Sector**: 78% Yes, 22% No
- **Voluntary Sector**: 49% Yes, 51% No

4.30 Pre-empting fraud is very important and developing an anti-fraud culture (growing the size of and mobilising the honest majority) is central to achieving this. Nearly 90 percent of the private sector organisations engaged in this activity. In the public sector it was almost 80 percent. In the voluntary sector, however, only half did. This illustrates, again, the weaker approach generally in this sector.

4.31 Question 14 - Has the organisation made clear that it has a zero tolerance approach to fraud and corruption?

- **Private Sector**: 87% Yes, 13% No
- **Public Sector**: 94% Yes, 6% No
- **Voluntary Sector**: 82% Yes, 18% No

4.32 Making clear to staff, contractors, customers and the public that fraud is not tolerated is also important. In the voluntary and private sectors over 80 percent indicated that they had adopted such a stance, but in the public sector it was over 90 percent.
4.33 Question 15 - Are there arrangements in place to evaluate the extent to which a real antifraud and corruption culture exists or is developing throughout the organisation?

<table>
<thead>
<tr>
<th>Sector</th>
<th>Yes (%)</th>
<th>No (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Sector</td>
<td>58%</td>
<td>42%</td>
</tr>
<tr>
<td>Public Sector</td>
<td>52%</td>
<td>48%</td>
</tr>
<tr>
<td>Voluntary Sector</td>
<td>20%</td>
<td>80%</td>
</tr>
</tbody>
</table>

4.34 It is important to evaluate the development of the antifraud culture to determine if work to achieve this effect is being successful. In the private sector, despite nearly 90 percent of organisations seeking to create such a culture, only 58 percent sought to measure if they were making any difference. In the public sector 52 percent undertook such evaluations, but in the voluntary sector only 20 percent did.

4.35 Question 16 - Does the organisation attempt to create a strong deterrent effect?

<table>
<thead>
<tr>
<th>Sector</th>
<th>Yes (%)</th>
<th>No (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Sector</td>
<td>81%</td>
<td>19%</td>
</tr>
<tr>
<td>Public Sector</td>
<td>93%</td>
<td>7%</td>
</tr>
<tr>
<td>Voluntary Sector</td>
<td>76%</td>
<td>24%</td>
</tr>
</tbody>
</table>

4.36 If fraud can be deterred then it doesn’t need to be detected or investigated. All sectors sought to develop such an effect. In the private sector 81 percent of organisations did, in the public sector 93 percent and in the voluntary sector 76 percent.
4.37 **Question 17 - Does the organisation seek to publicise...**

4.38 Deterrence has been shown to arise from potential fraudsters’ perceptions about the risks they face. This is not just the risk of a potential heavy sanction (if the chance of detection and effective investigation is minimal then this is unlikely to be a consideration). In fact, there are several different issues which affect these perceptions. This question evaluates the extent to which different sectors understand and seek to highlight these issues.

4.39 Breaking down some of the strategies to develop an anti-fraud culture revealed some differences between the sectors. For example, in terms of seeking to promote the hostility of the honest majority to fraud - in the private and voluntary sectors most organisations did not do this, where as in the public sector 60 percent of organisations did.

4.40 Regarding the effectiveness of preventative arrangements the private and voluntary sectors had similar levels with 58 percent and 56 percent publicising this, but again the level in the public sector the figure was higher at 72 percent.

4.41 The promotion of the effectiveness of arrangements to detect fraud and corruption illustrated weaknesses in the voluntary sector with only 30 percent of organisations doing this, compared to 46 percent in the private sector and 54 percent in the public.

4.42 The lowest scores overall were in terms of promoting the professionalism of staff investigating fraud with only about a third of the private and voluntary sector organisations doing this, compared to 60 percent in the public sector.

4.43 Publicising the sanctions which can be applied was pursued by three-quarters of public sector bodies, compared to 46 percent in the private sector and 57 percent in the voluntary sectors.

4.44 Finally, clearly stating that losses will be recovered was pursued by almost three quarters of the public sector organisations, compared to 39 percent in the private sector and 40 percent in the voluntary sector. Overall these questions illustrate the greater sophistication in the public sector’s attempts to create an anti-fraud culture. The private sector matches the public sector in some areas, while the voluntary sector is weaker on most of these issues.
4 // detailed analysis

4.45 Question 18 - Does the organisation seek to design fraud and corruption out of new policies and systems and to revise existing ones to remove apparent weaknesses?

- Private Sector: 19%
- Public Sector: 10%
- Voluntary Sector: 11%

4.46 Another aspect of pre-empting fraud is work to design weaknesses out of processes and systems which might otherwise have allowed fraud to take place. In the private sector 81 percent or organisations undertook such work, where as in the public and voluntary sectors it was around 90 percent.

4.47 Question 19 - Where an investigation into fraud takes place do reports cover identified policy and systems weaknesses?

- Private Sector: 85%
- Public Sector: 95%
- Voluntary Sector: 87%

- Private Sector: 15%
- Public Sector: 5%
- Voluntary Sector: 13%

4.48 Learning from failure is an important element of any strategy. Formally building this into fraud investigations is therefore essential. 85 percent of private sector organisations linked such work and 87 percent in the voluntary sector. However, almost 96 percent of public sector organisations did this.
4.49 **Question 20 - Does the organisation have a formal or informal policy setting out how it tries to detect possible fraud?**

<table>
<thead>
<tr>
<th></th>
<th>Private Sector</th>
<th>Public Sector</th>
<th>Voluntary Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>YES</td>
<td>58%</td>
<td>81%</td>
<td>55%</td>
</tr>
<tr>
<td>NO</td>
<td>42%</td>
<td>19%</td>
<td>45%</td>
</tr>
</tbody>
</table>

4.50 Proactive detection of fraud is also important – not waiting for it to happen and then reacting but undertaking a programme of work to find it and thereby shortening the length of time it continues and reducing the related losses. Again the public sector was far ahead of the other two sectors with 81 percent of organisations taking this approach. In the private sector only 58 percent did and in the voluntary sector 55 percent.

4.51 **Question 21 - Are analytical intelligence techniques used to examine data and identify potential fraud and corruption?**

<table>
<thead>
<tr>
<th></th>
<th>Private Sector</th>
<th>Public Sector</th>
<th>Voluntary Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>YES</td>
<td>69%</td>
<td>61%</td>
<td>32%</td>
</tr>
<tr>
<td>NO</td>
<td>31%</td>
<td>39%</td>
<td>68%</td>
</tr>
</tbody>
</table>

4.52 There is an increasing array of products on the market to undertake sophisticated and predictive data analysis. Nearly 70 percent of private sector organisations invested in such products, which compared to 61 percent in the public sector and only 32 percent in the voluntary sector.
4.53 Question 22 - Are there arrangements in place to ensure that suspected cases of fraud or corruption are reported promptly to the appropriate person for further investigation?

<table>
<thead>
<tr>
<th>Sector</th>
<th>YES (%)</th>
<th>NO (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Sector</td>
<td>92%</td>
<td>8%</td>
</tr>
<tr>
<td>Public Sector</td>
<td>98%</td>
<td>2%</td>
</tr>
<tr>
<td>Voluntary Sector</td>
<td>90%</td>
<td>10%</td>
</tr>
</tbody>
</table>

4.54 Once a fraud is discovered it is vital it is quickly investigated. All three sectors had over 90 percent of respondent organisations doing this, and in the public sector it was 98 percent.

4.55 Question 23 - Is the organisation’s investigation work carried out in accordance with clear guidance?

<table>
<thead>
<tr>
<th>Sector</th>
<th>YES (%)</th>
<th>NO (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Sector</td>
<td>81%</td>
<td>19%</td>
</tr>
<tr>
<td>Public Sector</td>
<td>98%</td>
<td>2%</td>
</tr>
<tr>
<td>Voluntary Sector</td>
<td>67%</td>
<td>33%</td>
</tr>
</tbody>
</table>

4.56 Investigating fraud can be complex and it is necessary to comply with various legal requirements. Some risks are posed which can lead to the potential failure of the investigation. Having clear guidance on how an investigation should be undertaken is essential. In the public sector there was a very high proportion of organisations with such guidance in place, with 98 percent answering Yes to this question. In the private sector it was 81 percent and in the voluntary sector 67 percent.
4.57 Question 24 - Do those undertaking investigations have the necessary powers, both in law, where necessary, and within the organisation?

<table>
<thead>
<tr>
<th>Sector</th>
<th>Yes (%)</th>
<th>No (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Sector</td>
<td>85%</td>
<td>15%</td>
</tr>
<tr>
<td>Public Sector</td>
<td>95%</td>
<td>5%</td>
</tr>
<tr>
<td>Voluntary Sector</td>
<td>75%</td>
<td>25%</td>
</tr>
</tbody>
</table>

4.59 Question 25 - Does the organisation have a clear and consistent policy on the application of sanctions where fraud or corruption is proven to be present?

<table>
<thead>
<tr>
<th>Sector</th>
<th>Yes (%)</th>
<th>No (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Sector</td>
<td>68%</td>
<td>32%</td>
</tr>
<tr>
<td>Public Sector</td>
<td>94%</td>
<td>6%</td>
</tr>
<tr>
<td>Voluntary Sector</td>
<td>69%</td>
<td>31%</td>
</tr>
</tbody>
</table>

4.58 Investigators in the private sector can sometimes draw on a variety of ‘powers’ (beyond those attributable to every citizen) to undertake their work. Some bodies in the public sector have special powers in law. Whichever sector, it is important that investigators have the appropriate powers to do their job. In the public sector 95 percent of organisations answered Yes, compared to 85 percent in the private sector and 75 percent in the voluntary sector.

4.60 Applying proportionate sanctions consistently and effectively to those who are found to have undertaken fraud, is another important element of a resilient approach. The public sector had almost 95 percent of respondent organisations stating they have a clear and consistent policy for doing this, compared to 68 percent in the private sector and 69 percent in the voluntary sector.
4 // detailed analysis

### Question 26 - Are all possible sanctions – disciplinary/regulatory, civil and criminal – considered?

100% of private sector organisations, 98% in the public sector and 88% in the voluntary sector answered Yes to this question. However, if we had asked ‘regularly used’ rather than ‘considered’ we suspect the results would have been very different, based upon experience of working with organisations from all three sectors. It is very easy to ‘consider’ applying sanctions, but actually seeking to do so is a different matter.

### Question 27 - Does the organisation have a clear policy on the recovery of losses incurred to fraud and corruption?

In addition to applying sanctions, recovering losses is also very important. After all, the most pernicious aspect of fraud is that it diverts resources from where they are intended. Over 81% of the public sector organisations answered Yes to this question, compared to just under two thirds in the private sector and 42% in the voluntary sector.
4 // detailed analysis

4.65 Question 28 - Does the organisation use the criminal and civil law to the full in recovering losses?

- Private Sector: 38%
- Public Sector: 16%
- Voluntary Sector: 37%

100%
80%
60%
40%
20%
0%

YES
NO

4.66 In terms of using the civil and criminal law to the full extent, 85 percent of public sector organisations said they did so, compared to 62 percent in the private sector and 63 percent in the voluntary sector.

Defining success and delivering results

4.67 Question 29 - Does the organisation regularly review the effectiveness of its counter fraud work against agreed performance indicators?

- Private Sector: 50%
- Public Sector: 57%
- Voluntary Sector: 24%

100%
80%
60%
40%
20%
0%

YES
NO

4.68 Reviewing and measuring the effectiveness of counter fraud work is also important. Therefore developing performance indicators and considering if they have been met is important. Many organisations across all sectors were not good at this. Only 57 percent of public sector organisations performance managed this work, only 50 percent in the private sector, but only a quarter of voluntary sector organisations did so.
overall analysis
5 // overall analysis

5.1 The answers to the questions which have been reviewed above were weighted by the authors of this Report to allow comparisons across the different sectors. This was done by applying professional judgement derived from many years specialist experience of both undertaking and studying such work.

5.2 The process is inevitably, to some extent, subjective but the alternative of not weighting answers is worse and would have ignored the different relative importance of individual aspects of work to counter fraud. The weightings are listed in Appendix 1.

The most resilient sectors

5.3 Overall, the most resilient sector was found to be the public sector with a mean score of 34.4 and median score of 36. The range of scores for those responding ranged from 10 to 45.

5.4 The private sector was next best with a mean score of 30.6 and median score of 32.5. The range was from a low of 6 to a maximum of 45.

5.5 Worst performing was the voluntary sector with a mean of 24.2 and median of 25. The range was from 4 to 41.

5.6 The standard deviation also demonstrates the greater variance in results in the private and voluntary sectors, with a greater mix of the good, the bad and the mediocre.

Table 2 - Mean and median points by sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>N</th>
<th>Mean</th>
<th>Median</th>
<th>Minimum</th>
<th>Maximum</th>
<th>St Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private</td>
<td>26</td>
<td>30.6</td>
<td>32.5</td>
<td>6</td>
<td>45</td>
<td>10.8</td>
</tr>
<tr>
<td>Public</td>
<td>267</td>
<td>34.4</td>
<td>36</td>
<td>10</td>
<td>45</td>
<td>7.4</td>
</tr>
<tr>
<td>Voluntary</td>
<td>83</td>
<td>24.2</td>
<td>25</td>
<td>4</td>
<td>41</td>
<td>9.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>376</strong></td>
<td><strong>31.9</strong></td>
<td><strong>34</strong></td>
<td><strong>4</strong></td>
<td><strong>45</strong></td>
<td><strong>9</strong></td>
</tr>
</tbody>
</table>
5 // overall analysis

In which areas did each sector perform best?

5.7 Public sector organisations rated best in the eight areas of
- having a clear strategy and objectives for the work
- ensuring staff have the required professional training
- checking on the propriety of new staff
- adopting a zero tolerance approach to fraud
- creating a strong deterrent effect
- using investigations to identify policy and systems weaknesses and providing clear guidance
- applying sanctions
- recovering losses

5.8 Private sector organisations rated best in the four areas of
- including fraud risks on a risk register
- using estimates of the cost of fraud to inform decisions about investment in reducing it
- having a clear programme of work to develop a real anti-fraud culture
- using analytical intelligence techniques

5.9 Voluntary sector organisations did not rate best in any area.

The biggest areas of difference between the sectors

5.10 The biggest differences between the different sectors concerned strategy, specialist training, investigation procedures, sanctions and the recovery of losses.

5.11 Between two and three times as many public sector organisations had a clear counter fraud strategy and objectives agreed by those with executive authority than did voluntary sector organisations; and the margin over private sector organisations (many of them large FTSE 250 companies) was also significant.

5.12 Equally, more than three and a half times the number of public sector organisations had counter fraud staff who had received specialist and professional training than had voluntary sector organisations – twice the number of private sector companies.

5.13 In the area of investigative work, 98% of public sector organisations had clear guidance in place for the conduct of investigations, significantly more than in the private sector (80%) or the voluntary sector (67%).

5.14 In the area of applying sanctions, 94% of public sector organisations had a clear and consistent policy in place compared with a third fewer in the private and voluntary sectors.

5.15 Finally, there is a stark difference between the public and voluntary sectors in respect of recovering losses incurred to fraud. Almost twice as many public sector organisations had a clear policy to achieve this. This is disappointing given the direct negative effect of fraud losses in the voluntary sector.

Areas of greatest and least progress

5.16 The areas of greatest resilience across all sectors to date (with variations) are:
- including fraud risks in risk registers
- ensuring Board-level reporting about fraud
- adopting a zero tolerance approach (although the reality of what happens belies this in many cases)
- attempting to create a strong deterrent (although the level of understanding
- about how this works in practice is limited)
- designing fraud weaknesses out of new and existing systems
- reporting incidents of fraud promptly

5.17 The area of least resilience across all sectors to date (with variations) is accurately estimating the cost of fraud and making a fact-based judgement about investment in counter fraud work (with around 30% of organisations saying that they did this. This probably reflects the relative newness of accurate fraud loss measurement as a methodology over the last 10 years.

5.18 Within each sector there are also significant differences and further Reports will highlight the position within different areas.
6 //

conclusion
6 // conclusion

6.1 This Report provides new information about where protection against fraud is strongest and weakest. No individual organisations are identified but the analysis does provide a ‘map’ of the counter fraud landscape and should inform the work of responsible organisations such as the National Fraud Authority.

6.2 It shows that there is still much progress to be made as we seek to make UK Plc the hardest target for fraudsters of any country in the world. Key areas for progress are shown to be:

- accurately measuring the scale of fraud losses within individual organisations
- measuring the real benefits of counter fraud work and the related return on its costs
- providing specialist professional training for counter fraud staff working outside the public sector
- undertaking propriety checks on new staff
- assessing the extent and development of anti-fraud cultures
- applying analytical intelligence techniques and most importantly
- performance managing counter fraud work like any other area of business activity.

6.3 In the view of the authors of this Report, this should contribute to an Agenda for further progress during the second decade of the 21st century.
appendix 1
weightings
### Appendix 1 // Weightings

The following weightings were applied, as described above:

<table>
<thead>
<tr>
<th>Question number</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
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<td>2</td>
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<td>4</td>
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<tr>
<td>9</td>
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<td>10</td>
<td>1</td>
</tr>
<tr>
<td>11</td>
<td>1</td>
</tr>
<tr>
<td>12 (a)</td>
<td>3</td>
</tr>
<tr>
<td>12 (b)</td>
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<tr>
<td>13</td>
<td>2</td>
</tr>
<tr>
<td>14</td>
<td>1</td>
</tr>
<tr>
<td>15</td>
<td>1</td>
</tr>
<tr>
<td>16</td>
<td>2</td>
</tr>
<tr>
<td>17</td>
<td>0.5 each up to a maximum of 3</td>
</tr>
<tr>
<td>18</td>
<td>2</td>
</tr>
<tr>
<td>19</td>
<td>1</td>
</tr>
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<td>20</td>
<td>2</td>
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<tr>
<td>27</td>
<td>2</td>
</tr>
<tr>
<td>28</td>
<td>1</td>
</tr>
<tr>
<td>29</td>
<td>3</td>
</tr>
</tbody>
</table>
Fraud is a problem which undermines the stability and financial health of organisations from across the economy. It is not a victimless crime, but one which piles additional costs on us as consumers, denies us the quality of public services which we pay for as taxpayers, undermines our job security as employees, reduces the value of companies for us as shareholders and, even denies the beneficiaries of charities the full benefit of the donations which we make.

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- the extent to which it has an effective strategy in place which is tailored to address this problem;
- the extent to which organisations maintain a counter fraud structure which can implement this strategy successfully;
- the extent to which the structure efficiently undertakes a range of pre-emptive and reactive action; and
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Jim Gee is Director of Counter Fraud Services at PKF (UK) LLP, the top ten accountancy and business services firm and Chair of the Centre for Counter Fraud Studies at University of Portsmouth.

During more than 25 years as a counter fraud specialist, he led the team which cleaned up one of the most corrupt local authorities in the UK - London Borough of Lambeth - in the late 1990s; he advised the House of Commons Social Security Select Committee on fraud and Rt. Hon. Frank Field M.P. during his time as Minister of State for Welfare Reform; between 1998 and 2006 he was Director of Counter Fraud Services for the Department of Health and CEO of the NHS Counter Fraud Service, achieving reductions in losses of up to 60% and financial benefits equivalent to a 12 : 1 return on the costs of the work.

Between 2004 and 2006 he was the founding Director-General of the European Healthcare Fraud and Corruption Network; and he has since worked as a senior advisor to the UK Attorney-General on the UK Government's Fraud Review as well as delivering counter fraud and regulatory services to public bodies and private companies both in this country and internationally. He has worked with organisations from more than 30 countries to counter fraud and is currently working with the EU – China Social Security Reform Cooperation Project to advise the Chinese Government about how to measure, pre-empt and reduce the financial cost of fraud.

Dr Mark Button is a Reader at University of Portsmouth and Director of the Centre for Counter Fraud Studies.

Mark Button is a Reader in Criminology and Associate Head Curriculum at the Institute of Criminal Justice Studies, University of Portsmouth. He has also recently founded the Centre for Counter Fraud Studies of which he is Director.

He has written extensively on counter fraud and private policing issues, publishing many articles, chapters and completing four books with one forthcoming: Private Security (published by Perpetuity Press and co-authored with the Rt. Hon. Bruce George MP), Private Policing (published by Willan), Security Officers and Policing (Published by Ashgate), Doing Security (Published by Palgrave), and Understanding Fraud: Issues in White Collar Crime (to be published by Palgrave in early 2010 and co-authored). He is also a Director of the Security Institute, and Chairs its Academic Board, and a member of the editorial advisory board of ‘Security Journal’.

Mark founded the BSc (Hons) in Risk and Security Management, the BSc (Hons) in Counter Fraud and Criminal Justice Studies and the MSc in Counter Fraud and Counter Corruption Studies at Portsmouth University and is Head of Secretariat of the Counter Fraud Professional Accreditation Board (CFPAB). Before joining the University of Portsmouth he worked as a Research Assistant to the Rt. Hon. Bruce George MP specialising in policing, security and home affairs issues.

He completed his undergraduate studies at the University of Exeter, his Masters at the University of Warwick and his Doctorate at the London School of Economics. Mark has recently been working on a research project funded by the National Fraud Authority and ACPO looking at victims of fraud.

Dr Ian R. Cook is a University Teacher at the School of Environmental Sciences, University of Liverpool

Ian Cook has an interest in crime, governance and urban development. He was awarded a PhD at the University of Manchester in 2008. His PhD research critically considered the emergence and development of Business Improvement Districts in the UK. Ian also worked as a Research Associate at the Centre for Counter Fraud Studies between 2009 and 2010.
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