the resilience to fraud of the local government sector

research into how well local authorities protect themselves

Jim Gee, Dr. Mark Button and Dr. Graham Brooks
# CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>preface</td>
<td>1</td>
</tr>
<tr>
<td>introduction</td>
<td>2</td>
</tr>
<tr>
<td>executive summary</td>
<td>3</td>
</tr>
<tr>
<td>the background to the research and the nature of the data</td>
<td>5</td>
</tr>
<tr>
<td>detailed analysis</td>
<td>7</td>
</tr>
<tr>
<td>overall analysis</td>
<td>23</td>
</tr>
<tr>
<td>conclusion</td>
<td>25</td>
</tr>
<tr>
<td>appendix 1 - weightings</td>
<td>27</td>
</tr>
<tr>
<td>appendix 2 - fraud resilience checks</td>
<td>29</td>
</tr>
<tr>
<td>about the authors</td>
<td>31</td>
</tr>
<tr>
<td>about the publishing companies</td>
<td>32</td>
</tr>
</tbody>
</table>
PREFACE

Text to come from the NAFN
This Report considers how well the UK local government sector protects itself against fraud. It is the first report of its type ever undertaken. Fraud undermines the capacity of local authorities to deliver the sort of quality public services which people rely on and which they pay their taxes to get.

More generally it also piles additional costs on us as consumers, reduces the value of companies for us as shareholders, undermines our job security as employees, and even denies the beneficiaries of charities the full benefit of the donations which we make.

The Government’s National Fraud Authority estimates that £73 billion is lost each year with £2.2 billion of the losses relating to the local government sector. This reflects a change over the last decade or so, where it has become possible to measure the financial cost of fraud in a statistically valid and highly accurate manner. The latest global research, conducted by the Centre for Counter Fraud Studies at University of Portsmouth in association with PKF (UK) LLP (across a £5 trillion dataset) indicates that average losses to fraud (and error) currently run at 5.7%.

The Government's National Fraud Authority estimates that £73 billion is lost each year with £2.2 billion of the losses relating to the local government sector. This reflects a change over the last decade or so, where it has become possible to measure the financial cost of fraud in a statistically valid and highly accurate manner. The latest global research, conducted by the Centre for Counter Fraud Studies at University of Portsmouth in association with PKF (UK) LLP (across a £5 trillion dataset) indicates that average losses to fraud (and error) currently run at 5.7%.

If this figure is applied to local government expenditure in England alone, it equates to losses of over £6 billion.

The key issue to be addressed in minimising the cost of fraud to local government is how to improve levels of fraud resilience.

PKF and the Centre for Counter Fraud Studies at University of Portsmouth already have data concerning the fraud resilience of over 700 organisations across the UK economy. This includes data derived from local authorities using the Self-Assessment Fraud Resilience (SAFR) tool which was made available free by PKF in December 2011. By focussing in on the local government sector, the Report provides an unprecedented insight into the strength of arrangements to protect them against fraud.

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 fraud will not 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.

As this research shows, we can now consider where the weaknesses are which allow fraud to take place, and take pre-emptive action to minimise losses. This Report provides a view of the fraud landscape, which every UK local authority should take note of. Being serious about providing quality local services surely must include ensuring that this unnecessary cost is minimised.

The authors of this Report are committed to research such as this making a real difference. By expanding the extent of knowledge that local authorities hold about their own arrangements, we can help to ensure better quality decisions are taken. The research has allowed the creation of an important database of fraud resilience information concerning local authorities. At Appendix 2 to the Report, we have highlighted a low cost ‘Fraud Resilience Review’ benchmarking service for local authorities who want to know more - several local authorities have already taken this up.

PKF and the Centre for Counter Fraud Studies at the University of Portsmouth will repeat this research regularly and report our findings.
executive summary
executive summary

1.1 This Report is the most extensive and most comprehensive Report yet undertaken into the resilience of the UK local government sector to fraud.

1.2 72 local authorities with a collective turnover of more than £20 billion completed the Self-Assessment Fraud Resilience (SAFR) tool as requested by the National Fraud Authority.

1.3 Each organisation answered 29 questions about the effectiveness of their arrangements to counter fraud. 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’s key findings show that, overall, the UK local government sector achieved a mean score of 35.1 out of a possible score of 50. This compares with a mean score among public sector agencies generally of 34.4, private sector companies generally of 30.6 and charities of 24.2.

1.5 This is a significant decline on the sector’s rating of 38.1 in 2010.

1.6 This is also reflected in a decline in the ratings for all but three of the 29 factors which have been reviewed. The three ratings which have improved, concern:

- the extent to which fraud and corruption risks are included on the local authorities risk register
- the extent to which local authorities seek to estimate the total economic cost of fraud to them and
- the extent to which analytical intelligence techniques are used to identify potential fraud and corruption.

1.7 The steepest declines in the rating are in the following areas:

- work to evaluate the strength of anti-fraud cultures
- having an objective of better outcomes (rather than just activity) for counter fraud work
- seeking to create a strong deterrent effect

1.8 Local authorities performed best in the following areas:

- 94.4% of local authorities have a written counter fraud and corruption strategy in place
- 94.4% also have arrangements in place to ensure that suspected cases of fraud or corruption are reported promptly to the appropriate person for further investigation
- 93.1% ensure that the local authority’s investigation work carried out in accordance with clear guidance
- 91.7% of local authorities have ensured that their counter fraud strategy has been directly agreed by those with executive authority and
- 91.7% ensure that all possible sanctions - disciplinary/regulatory, civil and criminal - are considered

1.9 Local authorities performed worst in the following areas

- Only 13.9% of local authorities use estimates of losses to make informed judgements about levels of budgetary investment in its work countering fraud and corruption
- Only 22.2% have arrangements in place to evaluate the extent to which a real anti-fraud and corruption culture exists or is developing throughout the organisation
- Only 25% seek to estimate the total economic cost of fraud to the local authority
- 44.4% of local authorities have formal relationships in place with other external agencies or organisations who can assist
- Only half of local authorities (50%) undertake thorough checks on the propriety of new staff and
- Only just over half (51.4%) of local authorities regularly review the effectiveness of their counter fraud work against agreed performance indicators.

the background to the research and the nature of the data
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 work². This research was renewed in 2010 covering 29 different factors which assess the extent to which respondents meet all the standards relevant to effective resilience against fraud.

2.2 The overall results represent the most accurate assessment which has ever been undertaken of how well UK Plc is developing strategies and structures to counter fraud and were published in ‘The Resilience to fraud of UK Plc’ in February 2011.

2.3 This Report goes further and provides up to date information for 2011 / 2012. It focusses in on the UK local government sector with the latest sector-specific data. The research is based on information provided by local authorities using the free Self-Assessment Fraud Resilience (SAFR) tool which PKF (UK) LLP and the CCFS made available from December 2011.

2.4 There were 90 entries from local authorities. After removing duplicate entries this left valid data sets covering 72 local authorities. Where a local authority has made a duplicate entry, the entry attracting the highest rating has been included.

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

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

² CIPFA - ‘Managing the Risk of Fraud’ guidance which one of the authors of this Report (Jim Gee) jointly wrote.
3 //
detailed analysis
3.1 This section of the Report looks at each aspect of resilience to fraud and the nature of the response from the local authorities which were surveyed. It looks at the answers to the 29 questions in the survey, 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

3.2 It then looks at the overall picture and considers what this means.

Adopting the right strategy

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

3.4 The starting point for any sound attempt to minimise the risk of fraud is to have a strategy to counter it. 94% of local authorities answered Yes to this question. This is the same rating as the sector achieved in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 75% and 46% in respect of this question.

3.5 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.)?

3.6 67% of local authorities indicated that they pursued a strategic approach to achieve better outcomes. This compares with 87% in 2010. This would imply that budget reductions, which have impacted on local authority counter fraud teams, as elsewhere, have reduced the confidence of the sector that it can deliver real financial benefits from countering fraud.

3.7 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 70% and 28% in respect of this question.

3.8 Having clear intended outcomes and not just seeking to generate activity is very important. Mere activity represents a cost which a local authority has to bear, while activity directed to achieve beneficial outcomes (for example, a reduction in fraud losses and the consequent financial benefits) can represent an investment in a much greater return.

3.9 However, taking the answer to this question in conjunction with the answer to Question 1, it does mean that a third of local authorities who have adopted a written counter fraud strategy, have not ensured that it is focussed on beneficial outcomes.
3.10 **Question 3 - Has the strategy been directly agreed by those with executive authority for the organisation?**

92% of local authorities indicated that their counter fraud strategy had been agreed at the most senior executive levels. This compares with a similar figure of 93% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 69% and 43% in respect of this question.

3.11 It is very important for senior Directors with executive authority to have bought into the strategy and to understand the real difference that effective counter fraud work can make.

3.12 **Accurately identifying the risks and costs**

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

76% of local authorities indicated that they included fraud and corruption risks in their risk register. This compares with a figure of 71% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 88% and 84% in respect of this question.

3.14 It is very important for senior Directors with executive authority to have bought into the strategy and to understand the real difference that effective counter fraud work can make.

3.15 It is important that local authorities understand the financial and reputational risk that fraud and corruption represent, and that they record this systematically and thus can consider how to mitigate such risks.
3.16 **Question 5 - Does the organisation seek to estimate the total economic cost of fraud to it?**

Despite 75% of local authorities recording fraud as a risk, only 25% of respondent companies indicated that they then sought to estimate the true cost of fraud to them. This compares with a figure of 21% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 31% and 30% in respect of this question.

3.17 This is despite clear messages from the National Fraud Authority, Cabinet Office Fraud, Error and Debt team and the Department for Communities and Local Government. Estimating the cost of fraud is important in developing a proportionate, properly resourced strategy to counter it. National figures from the National Fraud Authority are welcome, however, if you do not know the nature and scale of the problem within your own organisation, then how can you implement the right solution?

3.19 **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?**

A mere 14% of local authorities used loss estimates to make an informed judgement about how much to spend on countering fraud. This compares with a figure of 21% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 46% and 18% in respect of this question.

3.20 This implies that, despite the budgetary pressures of the recession, the driver to do something to counter fraud is still currently, mostly reputational rather than financial. It is important to understand that real financial benefits can be delivered in this area. Cutting the cost of fraud is one of the least painful ways of making budgetary reductions.
Creating and maintaining a strong structure

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

85% of local authorities indicated that their staff working in this area did have some special authority to do so. This compares with a figure of 93% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 77% and 60% in respect of this question.

Fraud is a difficult issue and can sometimes involve those in positions of relative power within companies. This means that, to counter it effectively, it is essential to have a degree of special authority.

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

72% of local authorities indicated that they did discuss these issues at Board-level. This compares with a figure of 77% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 81% and 73% in respect of this question.

Board-level discussions about fraud can be an indicator of how seriously an organisation takes this problem. Fraud is present (hidden or apparent) in any organisation of a reasonable size. It is also clearly preferable for such discussions to anticipate (and thus seek to pre-empt) such problems than for them to occur in reaction once a significant fraud has happened.
3.28 Question 9 - Have all those working to counter fraud and corruption received the specialist professional training and accreditation for their role?

71% of local authorities indicated that they had professionally trained staff to counter fraud. This compares with a similar figure of 73% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 35% and 20% in respect of this question. However, it does mean that almost 30% of local authorities’ counter fraud staff are not professionally trained and accredited.

3.30 This question enabled a broad range of courses to be considered as professional training and accreditation, so the figure is particularly disappointing. 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. Professional training provides greater assurance about the quality of the work undertaken and there is clearly much to be done in this respect.

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

84% of local authorities had staff who refresh their skills in this area. This compares with a figure of 89% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 58% and 38% in respect of this question.
// detailed analysis

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

Only 50% of local authorities indicated that they checked the propriety of new staff (beyond reference checks). This compares with a figure of 59% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 58% and 53% in respect of this question.

It is important to screen prospective staff, to ensure that they meet high standards of propriety and that those with a history of dishonesty or deception are not employed in positions where this would make them a risk. 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.

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

The research showed that 44% of local authorities had formal relationships in place with relevant agencies and organisations and 83% informal ones. 2012 data has not yet been analysed, but in 2010 figures of 68% and 88% were recorded in the private sector and 40% and 66% in the charitable sector.

Fraud is potentially both a crime and a civil legal issue and it is important to develop relations with bodies which can enhance the effectiveness of those countering fraud. Ideally these should be on a formal basis, but could also be informal.
Taking action to tackle the problem

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

65% of local authorities indicated that they had a clear programme of work to create an anti-fraud culture. This compares with a figure of 74% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 88% and 49% in respect of this question.

3.40 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 that. It is therefore disappointing that 35% of local authorities do not appear to recognise this.

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

81% of local authorities indicated that they had made it clear that their organisations had a ‘zero tolerance’ approach to fraud and corruption. This compares with a figure of 92% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 87% and 82% in respect of this question.

81% YES
19% NO

3.43 81% of local authorities indicated that they had made it clear that their organisations had a ‘zero tolerance’ approach to fraud and corruption. This compares with a figure of 92% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 87% and 82% in respect of this question.

3.44 Making it clear that fraud is not tolerated is important, as long as this does not accompany a view that fraud can be reduced to ‘zero’. Given the nature of the problem, this is unrealistic – it can be reduced to an absolute minimum (at present found to be just under 1%).
3.45  **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?

3.47  It is important to evaluate the development of the anti-fraud culture to determine if work to achieve this effect is being successful.

3.46  Despite 81% of local authorities implementing a clear programme of work to develop an anti-fraud culture less than a quarter (22%) indicated, in response to this question, that they evaluated the growth of that culture in their organisation. This figure has halved from the 2010 percentage of 44% which is worrying. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 58% and 20% in respect of this question.

3.48  **Questions 16** - Does the organisation attempt to create a strong deterrent effect?

3.49  72% of local authorities indicated that they did seek to create a strong deterrent effect. This compares with a figure of 90% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 81% and 76% in respect of this question.

3.50  Of course, if fraud can be deterred then it does not need to be detected or investigated. However, Question 17 addressed the question of what is actually done.
3.51 Question 17 - Does the organisation seek to publicise...

3.52 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). 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. The answers to Question 17 were as follows (with 2010 figures in brackets):

- 53% (59%) of local authorities indicated that they sought to publicise the hostility of the honest majority to fraud and corruption
- 50% (69%) sought to publicise the effectiveness of preventative arrangements
- 40% (49%) sought to publicise the sophistication of arrangements to detect fraud (possibly because the arrangements were not that sophisticated – see later questions)
- 53% (57%) sought to publicise the effectiveness of those who would investigate fraud (this probably reflects the answers to Question 9 about professional training and accreditation)
- 67% (74%) sought to publicise the likelihood of sanctions being applied which was the highest percentage answer
- 57% (66%) sought to publicise the likelihood of losses being recovered

3.53 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?

3.54 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. 79% of local authorities indicated that they did this. This compares with a figure of 88% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 81% and 89% in respect of this question.
3.55 Question 19 - Where an investigation into fraud takes place do reports cover identified policy and systems weaknesses?

90% YES | 10% NO

3.56 Learning from failure is an important element of any strategy. Formally building this into fraud investigations is therefore essential. 90% of local authorities indicated that they did this. This compares with a figure of 93% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 85% and 87% in respect of this question.

3.57 Question 20 - Does the organisation have a formal or informal policy setting out how it tries to detect possible fraud?

78% YES | 22% NO

3.58 78% of respondent local authorities indicated that they proactively sought to detect fraud – rather than waiting for it to happen and then reacting to it. This compares with the figure of 87% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 58% and 55% in respect of this question.

3.59 This approach helps to shorten the length of time that a fraud continues and to reduce the related losses. The rating is better than the private sector generally.
3.60  Question 21 - Are analytical intelligence techniques used to examine data and identify potential fraud and corruption?

64% of local authorities indicated that they used analytical intelligence techniques to find possible fraud. This compares with a figure of 59% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 69% and 32% in respect of this question.

3.62  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?

94% of local authorities answered Yes to this important question. This compares with a figure of 98% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 92% and 90% in respect of this question.
3.64 Question 23 - Is the organisation’s investigation work carried out in accordance with clear guidance?

3.65 Once reported, then a prompt investigation conforming to professional standards and legal requirements should proceed. 93% of local authorities indicated that they had clear guidance about how this should happen. This compares with a figure of 97% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 81% and 67% in respect of this question.

3.66 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 in place on how an investigation should be undertaken is essential.

3.67 Question 24 - Do those undertaking investigations have the necessary powers, both in law, where necessary, and within the organisation?

3.68 This is a difficult job and it is important to have the necessary powers to be effective. 85% of local authorities indicated that their investigators had the necessary powers. This compares with a figure of 98% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 85% and 75% in respect of this question.
// detailed analysis

3.69  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?

3.70  Applying proportionate sanctions consistently and effectively to those who are found to have undertaken fraud, is another important element of a resilient approach. 86% of local authorities indicated that they had such a policy in place. This compares with a figure of 94% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 68% and 69% in respect of this question.

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

3.72  92% in the local government sector answered Yes to this question. This compares with a figure of 97% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 100% and 88% in respect of this question.

3.73  However, if we had asked ‘regularly used’ rather than ‘considered’ we suspect the results may have been very different. It is very easy to ‘consider’ applying sanctions, but actually seeking to do so is a different matter.
3.74 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. In the local government sector 67% had such policies in place. This compares with a figure of 77% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 65% and 42% in respect of this question.

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

The criminal law concerning fraud is primarily intended to be used to punish individual fraudsters while the civil law is used to recover losses. The most effective companies benefit from combining both in parallel. 68% of local authorities answered Yes to this question. This compares with a figure of 83% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 62% and 63% in respect of this question.

3.77 The criminal law concerning fraud is primarily intended to be used to punish individual fraudsters while the civil law is used to recover losses. The most effective companies benefit from combining both in parallel. 68% of local authorities answered Yes to this question. This compares with a figure of 83% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 62% and 63% in respect of this question.
Defining success and delivering results

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

Reviewing and measuring the effectiveness of counter fraud work is also important. It is necessary to develop relevant performance indicators and consider if they have been met. In the local government sector 51% indicated that they performance managed counter fraud work. This compares with a figure of 56% in 2010. 2012 data for the private and charitable sectors has not yet been analysed, but in 2010 these sectors rated 50% and 24% in respect of this question.
overall analysis
4.1 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.

4.2 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.

4.3 Overall, the local government sector achieved a mean score of 35.1 out of a possible score of 50. 80% of the responses from the local authorities who responded were between 23 and 44.5.

**How does the rating compare with the position in 2010?**

4.4 This is a significant decline on the sector’s rating of 38.1 in 2010.

4.5 This is also reflected in a decline in the ratings for all but three of the 29 factors which have been reviewed. The three ratings which have improved concern

- the extent to which fraud and corruption risks are included on the local authorities risk register
- the extent to which local authorities seek to estimate the total economic cost of fraud to them and
- the extent to which analytical intelligence techniques are used to identify potential fraud and corruption.

4.6 The steepest declines in the rating are in the following areas:

- 94% of local authorities had a written counter fraud and corruption strategy
- 94% indicated that they had arrangements in place to ensure that suspected frauds were promptly reported
- 93% had clear guidance in place for investigation work
- 92% had their counter fraud strategy agreed by those with executive authority for the local authority
- 92% considered seeking to apply all possible sanctions where fraud was found to be present

4.8 Local authorities performed worst in the following areas:

- Only 14% used estimates of losses to make informed judgements about levels of budgetary investment in its work countering fraud and corruption
- Only 22% sought to evaluate the strength of anti-fraud cultures
- Only 25% sought to estimate the total economic cost of fraud to the local authority
- Only 50% undertook propriety checks on new staff
- Only 51% sought to evaluate the effectiveness (performance manage) counter fraud work
conclusion
// conclusion

5.1 This Report provides new information which was not previously available about where local authorities are well or badly protected against fraud. No individual authorities are identified, but the analysis does provide a ‘map’ of the local government fraud landscape and should inform the work of responsible companies.

5.2 It has also been possible to analyse the changes which have taken place between 2010 and 2012. Despite, the drivers to counter fraud being stronger in a period of budgetary reductions - cutting the cost of fraud before making reductions in the quality of public services and employment levels - it appears that local authorities are less well protected against fraud than they were in 2010.

5.3 Undoubtedly, the National Fraud Authority’s ‘Fighting Fraud Locally’ initiative will, over time, have a positive impact. However, at a local level, where decisions are taken, this impact does not yet seem to have been felt.

5.4 There is still much progress to be made as we seek to help the UK’s local government sector to be properly protected against fraud and to avoid the unnecessary cost of fraud.

5.5 In the view of the authors of this Report, this should contribute to an Agenda for further progress in the years to come.
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>
</tr>
<tr>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>9</td>
<td>3</td>
</tr>
<tr>
<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>
<td>1</td>
</tr>
<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>
<tr>
<td>20</td>
<td>2</td>
</tr>
<tr>
<td>21</td>
<td>1</td>
</tr>
<tr>
<td>22</td>
<td>1</td>
</tr>
<tr>
<td>23</td>
<td>1</td>
</tr>
<tr>
<td>24</td>
<td>1</td>
</tr>
<tr>
<td>25</td>
<td>2</td>
</tr>
<tr>
<td>26</td>
<td>1</td>
</tr>
<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>
appendix 2
fraud resilience checks
how resilient is your local authority to fraud?

Fraud is a problem which undermines the stability and financial health of local authorities. It is not a victimless crime, but one which undermines the quality of local government and denies us the quality of public services that we pay our taxes to get.

The most extensive global research shows that fraud costs companies an average of 5.7% of expenditure but also that this figure varies considerably according to how resilient to fraud they are.

PKF (UK) LLP and the Centre for Counter Fraud Studies (CCFS) at University of Portsmouth have jointly undertaken the most extensive and most comprehensive research yet in this area and now have the world's most comprehensive fraud resilience database with information from over 700 organisations, including many local authorities.

by combining specialist experience and academic rigour...

PKF and the CCFS represent a unique combination of specialist hands on experience and academic knowledge and rigour. Together we can offer a confidential Fraud Resilience Review service which can benchmark client companies against both best practice and their peers. This is a low cost service which reviews counter fraud arrangements against 29 measures of resilience derived from the best professional standards. It results in the provision of a clear and concise Report detailing our findings.

The review covers:

- the extent to which an organisation understands the nature and cost of fraud to it as a business problem;
- the extent to which it has an effective strategy in place which is tailored to address this problem;
- the extent to which companies 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
- the extent to which results are properly measured, identified and delivered.

…we can provide the answers

We let the data speak for itself to identify weaknesses in counter fraud arrangements and then make recommendations for improvements, based on years of experience in the UK local government sector and a wealth of experience drawn from more that 30 countries around the world.

find out more

We provide a comprehensive Report covering 29 measures of fraud resilience with clear recommendations for improvement.

To find out more please ring 020 7065 0557 or email jim.gee@uk.pkf.com
Jim Gee is Director of Counter Fraud Services at PKF (UK) LLP, the leading 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 MP 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. He has also worked with a range of local authorities, companies and charities as well as delivering counter fraud and regulatory services to companies both in this country and internationally. His work has taken him to more than 30 countries to counter fraud and he has recently been advising the Chinese Government about how to measure, pre-empt and reduce the financial cost of fraud.

Dr Graham Brooks is Course Leader for the Counter Fraud and Corruption MSc. at the University of Portsmouth. He was previously the Course Leader for the Counter Fraud and Criminal Justice Studies BA from June 2007 to March 2009, and Head of Secretariat for the Counter Fraud Professional Accreditation Board from September 2007 to March 2009. He is also a member of the Centre for Counter Fraud Studies at the University of Portsmouth. Graham has published papers on many aspects of fraud and corruption. However, he has a special interest in fraud and corruption in sport and the effect gambling has on the integrity of all sports. A book on Fraud and Corruption in Sport, (published by Palgrave in 2012) is forthcoming which addresses these issues. Dr Brooks completed his undergraduate degree at Leeds Metropolitan University in Social Policy, has a MPhil in Criminology from Cambridge University and a PhD in Fraud and Corruption: Measurement, Strategies and Policing.

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.
about the publishing organisations

PKF Forensic Services
PKF (UK) LLP is one of the leading firms of accountants and business advisers in the UK offering counter fraud, forensic accounting, expert witness and litigation support services on a national and international basis including:

- fraud resilience checks
- fraud loss measurement and reduction
- asset tracing and confiscations
- forensic IT, including data mining, data imaging and recovery
- fraud and financial investigations

www.pkf.co.uk

The Centre for Counter Fraud Studies at University of Portsmouth
The University of Portsmouth's Centre for Counter Fraud Studies (CCFS) was founded in June 2009 and is one of the specialist research centres in the University's Institute of Criminal Justice Studies. It was founded to establish better understanding of fraud and how to combat it through rigorous research. The Institute of Criminal Justice Studies is home to researchers from a wide cross-section of disciplines and provides a clear focus for research, knowledge transfer and educational provision to the counter fraud community. The Centre for Counter Fraud Studies makes its independent research findings available to support those working in counter fraud by providing the latest and best information on the effectiveness of counter fraud strategies.

www.port.ac.uk/departments/academic/icjs/CentreforCounterFraudStudies
about PKF

PKF (UK) LLP is one of the UK’s leading firms of accountants and business advisers and specialises in advising the management of developing private and public businesses. We pride ourselves on creating and sustaining supportive relationships where objective and timely advice enables our clients to thrive and develop.

Our clients benefit from an integrated approach based on understanding the key issues facing small and medium-sized businesses. This enables us to meet their needs at each stage of development and allows them to focus on building the value of their businesses.

The principal services we provide include assurance and advisory; consultancy; corporate finance; corporate recovery and insolvency; forensic and taxation. We also offer financial services through our FSA authorised company, PKF Financial Planning Limited.

PKF (UK) LLP is one of the UK’s leading firms of accountants and business advisers and specialises in advising the management of developing private and public businesses. We pride ourselves on creating and sustaining supportive relationships where objective and timely advice enables our clients to thrive and develop.

Our clients benefit from an integrated approach based on understanding the key issues facing small and medium-sized businesses. This enables us to meet their needs at each stage of development and allows them to focus on building the value of their businesses.

The principal services we provide include assurance and advisory; consultancy; corporate finance; corporate recovery and insolvency; forensic and taxation. We also offer financial services through our FSA authorised company, PKF Financial Planning Limited.

We have particular expertise in the following sectors:

- Hotel consultancy
- Healthcare
- Mining & resource
- Not-for-profit

The principal services we provide include assurance and advisory; consultancy; corporate finance; corporate recovery and insolvency; forensic and taxation. We also offer financial services through our FSA authorised company, PKF Financial Planning Limited.

We have particular expertise in the following sectors:

- Hotel consultancy
- Healthcare
- Mining & resource
- Not-for-profit

We have more than 1,300 partners and staff operating from offices around the country. Wherever you do business, we can offer you local expertise backed up by the resources of a national firm.

PKF (UK) LLP is a member firm of the PKF International Limited network of legally independent firms. Our membership means that we can, through collaboration with other member firms, offer sound advice on a range of international issues. Worldwide, the member firms have around 21,000 people working out of 440 offices in 125 countries, and an overall turnover of approximately US$2.6 billion.

contacts

PKF (UK) LLP

Alton
Tel: 01420 566800

Birmingham
Tel: 0121 212 2222

Bristol
Tel: 0117 910 0700

Cardiff
Tel: 029 2064 6200

Edinburgh
Tel: 0131 347 0347

Glasgow
Tel: 0141 429 5900

Great Yarmouth
Tel: 01493 382 500

Guildford
Tel: 01483 564 646

Ipswich
Tel: 01473 320 700

Leeds
Tel: 0113 228 0000

Leicester
Tel: 0116 250 4400

Lincoln
Tel: 01522 531 441

Liverpool
Tel: 0151 237 4500

London
Tel: 020 7065 0000

Manchester
Tel: 0161 832 5481

Norwich
Tel: 01603 615 914

Nottingham
Tel: 0115 860 8171

Sheffield
Tel: 0114 276 7991

St Asaph
Tel: 01745 585 345

Dublin
PKF O’Connor, Leddy & Holmes
Tel: 00353 1 496 1444

Channel Islands
PKF (Channel Islands) Limited
Tel: 01481 727 927

Isle of Man
PKF (Isle of Man) LLC
Tel: 01624 652 000

This document has been prepared as a general guide. It is not a substitute for professional advice. Neither PKF (UK) LLP nor its partners or employees accept any responsibility for loss or damage incurred as a result of acting or refraining from acting upon anything contained in or omitted from this document.

PKF (UK) LLP is a limited liability partnership registered in England and Wales with registered number OC310487. A list of members is available for inspection at Farringdon Place, 20 Farringdon Road, London, EC1M 3AP; the registered office. Certain of the services described in this document may be provided through PKF Financial Planning Limited. Both PKF (UK) LLP and PKF Financial Planning Limited are authorised and regulated by the Financial Services Authority for investment business and insurance mediation activities.

PKF (UK) LLP is a member firm of the PKF International Limited network of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

PKF (UK) LLP operates a code of conduct to ensure that all types of data are managed in a way which complies with the Data Protection Act 1998. If you do not wish to be informed about the services we offer and forthcoming events, please contact your local office. © PKF (UK) LLP 2012. All rights reserved.