AUDIT AND ACCOUNTS COMMITTEE
2 APRIL 2009

ITEM XX

Report of the Head of Audit and Risk
Management

DERBY CITY COUNCIL

Cost of Fraud

RECOMMENDATION

1.1   To note the report.

1.2   To request regular updates on initiatives being used to raise fraud awareness
throughout the Council.

SUPPORTING INFORMATION

2.1   At its meeting on 4 February 2009, the Committee requested that the Head of Audit
and Risk Management produce a report outlining how much fraud and the
associated investigations were costing the Council.

2.2   Levels of detected fraud and corruption within local government have been
increasing for several years. Since the inception of its National Fraud Initiative in
1996, the Audit Commission has identified around £450 million in fraud and
overpayments. This has been achieved at a cost of £10m.

2.3   There are a variety of methods used to calculate the cost of fraud to an organisation.
The simplest method is to review all recent fraud investigations to identify the
amount fraudulently taken, together with the costs associated with investigating each
case. Although we can calculate part of the cost of the investigation through the time
recording system used by Internal Audit, the costs incurred by other services are
more difficult to ascertain, for example, the staff time taken in correcting entries
entered fraudulently or management time taken in internal disciplinary investigations.
Even where the sums are recovered, there is a delay in the money reaching the
Council impacting on cash flow. The costs to the Council of three recent cases of
fraud investigated by Internal Audit are shown below:

	Amount of Fraud	Cost of Audit Investigation	Other Known Costs
	£	£	£
Case 1	87,226	48,064	23,296
Case 2	5,656	7,280	n/a
Case 3	1,696	3,640	n/a

However, the risk of such losses can be reduced by further strengthening the control awareness culture within the Council.

2.4   Other calculation methods are more complex. Much work has been done by both the NHS and HMRC but the techniques are not transferable, being tailored to specialised areas such as prescription frauds, dentists recharges etc. However, these tailored measures have proved their worth; the NHS has reported that for every £1 spent on anti-fraud measures, £12 has been saved. Other bodies report savings of between 40% and 60%.

2.5   Comparison costs are very scarce. The Association of Chief Police Officers noted in their report "The Nature, Extent and Economic Impact of Fraud in the UK" that "*But while it is clear that local authorities experience fraud, details of the extent, nature and cost of any such fraud are not routinely published: anti-fraud units only investigate individual cases and do not make overall estimates of resource costs to the authority. Some of these losses are accounted for in central government statistics, but there also appear to be significant omissions. There are also no details of the costs incurred in fraud detection and prevention.*"

2.6   Forecasts expect fraud to increase as the economic downturn continues. Fraudsters are also becoming more inventive in the ways they find to defraud their employers. As reported in the media recently, Blackpool Council suffered losses due to a finance officer siphoning £617,000 out of Council accounts by setting up a fictitious children's home.

2.7   The advice from leading Forensic experts is that organisations should have an "anti-fraud culture" in the workplace, with financial matters being signed off by a number of people. Whistle-blowing hotlines should be well-publicised and computer analysis should highlight any possible fraudulent patterns, such as invoices being submitted out of hours.

2.8   It is the view of the Audit Commission that "with the national level of fraud increasing against a background of finite audit resources and with more devolved financial management, greater emphasis is being placed by audit on internal controls. This in turn requires greater reliance to be placed on the work of managers. Managers need to fully understand and accept their personal responsibilities within a clear framework of corporate governance and a sound internal control environment."

2.9   As shown in paragraph 2.3, this Council has not been immune from financial loss through fraudulent or corrupt activities. To assist in reducing the risk of fraud within the Council, the Head of Audit and Risk Management is seeking to introduce initiatives to further promote the anti-fraud culture. One initiative under consideration is a fraud awareness survey and a workshop for senior officers to:
- gain a clearer understanding of the Council's stance on fraud;
- assess the impact of initiatives already introduced by the Council to promote an anti-fraud culture; and
- increase awareness of fraud and corruption risks and identify areas for improvement.

A further initiative being considered is the establishment of a corporate anti-fraud team.

2.10 The Head of Audit and Risk Management will also seek to:
- ensure key corporate counter-fraud messages are being communicated to all staff in all departments and sections;
- ensure all staff are aware of key ethical governance and counter fraud arrangements, such as whistleblowing.

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Background papers:	
List of appendices:	Appendix 1 – Implications

IMPLICATIONS

Financial

1.   None directly arising

Legal

2.   None directly arising

Personnel

3.   None directly arising

Equalities impact

4.   None directly arising.

Corporate objectives and priorities for change

5.   None directly arising.