

Tackling fraud in the public sector - a local government perspective

Report for CIPFA

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Section 1. Executive Summary

Overview

The focus of this report was to better understand how local authorities tackled fraud. This was carried out through consultation with senior officers who were able to share their knowledge and observations about what works well in their organisations, and what does not. We were particularly interested in how local authorities balance reactive, detective and investigatory fraud work with more preventive activities, an area that has previously been neglected in research. This report is based on feedback from 303 survey respondents from UK local authorities and 14 attendees at roundtable discussion events held in London and Chester.

In summary, the report highlights that senior officers of local authorities generally perceived fraud to be a problem in their organisations, but they were generally positive about their own ability to tackle it. However, it was apparent from the findings that there was room for improvement in their approaches. The majority of respondents felt that strong anti-fraud messages were sent out by their leadership teams, and that these have successfully created cultures where individuals are aware of fraud risks and know what to do should they come across suspected fraudulent activity. When considering how to tackle fraud in the future, it was suggested that a different emphasis regarding priorities (rather than the need for new priorities) would be beneficial, and a shift towards more preventive, rather than reactive methods of countering fraud was favoured. However, when some of these methods were explored further, a number of barriers were identified, and these need to be addressed before these can be successfully implemented.

Quantitative Findings

Perceptions of fraud

- 64% of survey respondents felt that fraud is a major problem for local authorities and 52% believed that fraud is increasing.
- 34% of respondents considered fraud loss in UK local authorities to be high, but less attributed high losses to their organisation (10%), or their departments (3%).
- 45% of respondents felt that fraud levels were under-reported in their organisations.

Incidence and causes of fraud

- When asked to choose up to three of the most likely groups of people who would commit fraud, respondents highlighted service users (69%); opportunists (55%) and members of staff (54%).
- When asked to choose up to three reasons why staff commit internal fraud, respondents picked poor internal controls (79%); personal problems (62%); and greed (57%).
- The top two reasons chosen for why people are able to commit external fraud against local authorities, were poor organisational controls (69%) and lack of staff training to identify fraudulent activity (49%).

Fraud risk perception

- 47% of respondents agreed that local authorities were an easy target for fraudsters.
- 70% believed that their local authority had a good awareness of their fraud risks.
- 71% of respondents believed that recent austerity had increased the risk of frauds in local authorities and 46% believed that putting more services online for users had increased exposure to fraud.
- 61% disagreed that their organisation was reluctant to report fraud externally.

Counter fraud arrangements

- 43% of respondents indicated that their counter fraud arrangements were delivered via a dedicated fraud team and 35% said that internal audit was responsible for the function.
- 15% stated that counter fraud services were delivered through a shared service; 1% outsourced the function and 3% had 'other' arrangements.
- 49% believed that counter fraud and IT officers worked well together to pursue fraud.
- 62% stated that they have strong relationships with external organisation (such as DWP, HMRC, police, Action Fraud and CPS etc).

Creating an anti-fraud environment

- 60% of respondents agreed that they have a committed leadership team, who send out a strong anti-fraud message, with only 12% who felt this to be untrue.
- 50% of respondents believe that adequate control environments to counter fraud exist in local authorities, with only 22% suggesting they were inadequate.
- 82% of respondents believed that most of their colleagues would report a fraud against their organisation if they identified one, and only 5% believed they would not.
- 65% of respondents felt that employees would know what to do should they discover a suspected fraud, with 12% believing they would not know what to do.
- 59% of respondents agreed that their organisation's current fraud response was a deterrent to fraud, with 17% disagreeing it was.

Fighting fraud in the future

- When asked to highlight up to two priorities that their authority currently had towards tackling fraud, survey respondents most commonly chose '*preventing fraud from happening in the first place*' (70%) and '*raising fraud awareness*' (46%).
- These two priorities were also the most commonly chosen as future priorities, but the level of support increased from 70% to 87% and 46%-60% for each, suggesting that preventive methods of tackling fraud may be more important in the future.

- When asked to highlight up to three approaches respondents thought would be the most important in tackling fraud in the future, '*use of technology*' (70%) came top of the list; followed by '*staff being trained in fraud awareness*' (56%); and joint third place '*good fraud leadership*' and '*partnership working*' (both 40%).

Qualitative Findings

Facing future risks in local authorities

Survey respondents - in response to some open-ended questions - highlighted a number of key risks for local authorities they felt were important to consider for the future. These included:

- While respondents noted that some frauds, which are not new are likely to continue into the future (such as housing, Blue Badge, procurement and staff frauds), relatively new fraud areas (such as cybercrime and organised crime) at least as experienced by some local authorities, were emerging.
- Changes in service delivery, such as outsourcing more functions and putting more services online, were thought to have increased local authorities' exposure to fraudulent attacks.
- Stretched resources were highlighted by a number of respondents, specifically where this resulted in less investment in counter fraud staff.
- Respondents felt that systems might not be regularly maintained and updated to keep pace with and counter new and evolving fraud risks.
- Respondents commented that future risks are compounded by government policy, including the impact post-Brexit.

Response to future risks and key barriers to progress

Roundtable attendees suggested a number of solutions to future risks, but also highlighted key barriers that stood in the way of their implementation. These included:

- Although partnership working was seen as key by many to successfully tackling fraud in the future, discussions highlighted disjointed working arrangements within local authorities, between separate local authorities and across the wider public sector, made more difficult by ineffective data sharing regulations.
- Local authorities can do more to take an organisation-wide, holistic approach to fraud.
- Fraud hubs to some extent have aided joint-working and relationships, but these are not UK-wide or compulsory and more needs to be done to explain and promote their value.
- Roundtable attendees felt that fraud was not always seen as a priority by senior officers in local government.
- Local authorities need to be encouraged to do more to direct appropriate resources towards tackling fraud.

- Respondents highlighted that the motivation to protect a local authority's reputation can sometimes get in the way of publicising counter fraud work externally.
- Roundtable attendees outlined that some local authorities were not adequately resourced to counter fraud, and lacked either numbers of staff, or specialised staff, or both. For some, this situation seems to have worsened since the Single Fraud Investigatory Service was introduced by government.
- Local authorities are currently not focusing on or investing more money in areas where they would make the greatest savings. Some roundtable attendees said they had struggled to put forward successful business cases for additional funding in such areas, because of difficulties quantifying costs and benefits of such investments.
- While roundtable attendees felt that fraud prevention would be a beneficial approach for their organisation, there was little agreement on what constituted prevention and concern that the concept was difficult to sell.
- Sharing data was seen as key by many to countering fraud in the future. However, discussants reported that this was difficult because of the various rules, regulations and powers operating in different public sector organisations. The recent Data Protection Act (2018) has also made some fearful of sharing data.
- The use of data to counter fraud work was restricted by the existence, completeness and quality of that data. Roundtable attendees were critical of current National Fraud Initiative (NFI) data and favoured a real-time system.

Recommendations

Consideration should be given to the following:

- Local authorities and relevant stakeholders should consider how to make counter fraud a higher profile activity within local authorities and seek support from government to encourage greater activity.
- The Cabinet Office should review and reduce the impediments to counter fraud work caused by ineffective national and local data sharing arrangements.
- Counter Fraud as a profession should be promoted across local government, including the introduction of recognised qualifications and membership of professional bodies.
- Local authorities and relevant stakeholders should work with MHCLG and the Cabinet Office to review the adequacy of NFI arrangements to maximise the benefits of the data and improve the service delivered.
- Local authorities and relevant stakeholders should consider how best to promote and support shared delivery models, including local and regional teams and counter fraud hubs, to ensure that there are sufficient skills available, particularly for specialist fraud areas

- All public sector bodies should work closely together in their pursuance of fraud, and any barriers identified need to be responded to.
- Local authorities and relevant stakeholders should develop a standard means of calculating the benefits and costs of fraud work to promote business cases for investment.
- Fraud prevention activities should be used by local authorities and other stakeholders (including external audit) as a measure of longer-term financial resilience and sustainability.
- Local authorities need to highlight legislative barriers that may be hampering counter fraud activities (in particular, the sharing of data and intelligence, and amend if necessary) and seek remedies. The government should consider a statutory duty for public agencies to share data to counter fraud.
- Local authority chief executives and s.151 officers (CFOs) should review their current arrangements for countering fraud in their organisations, to ensure that all teams work together and that all areas of the organisation are subjected to counter fraud reviews and fraud awareness training.
- Local authority CFOs should ensure that the best use is made of the data they hold for tackling fraud, fully participate in data sharing with other relevant organisations and draw up sharing agreements where necessary.
- Local authority CFOs should review their fraud awareness training for all staff, especially those dealing with frontline services.
- Local authority CFOs should ensure that anyone involved in contracting with external providers is adequately trained in the potential for fraudulent activity in this area and be mindful of preventive options.
- Local authority CFOs should review the fraud risks associated with delegating service provision to external providers and be aware of the options for mitigating these risks.
- Local authorities should ensure that fraud prevention is built into the front end of their benefits, claims and payment systems, to identify anomalies, in addition to relying on standalone data analysis operations at the end of a processes and after a fraud has been committed. Where good practice is already in place these prevention initiatives should be shared across the sector.

Section 2. Introduction

Aims and objectives

- 2.1 Professionals working in local government have a good record of countering fraud,¹ although this has tended to concentrate on investigatory work and recovery, typically focusing on low-level fraud and fraudsters. As such, any research has largely been limited to these more reactive areas and researchers have paid less attention to proactive attempts to prevent and reduce public sector fraud.
- 2.2 The overall aim of this project was to generate insights into this area that has hitherto received scant attention and create a knowledge base upon which future studies can be shaped and developed. Perpetuity Research was commissioned by CIPFA to address this gap in knowledge and better inform future approaches for tackling fraud in local authorities.
- 2.3 The primary objective was to engage with key professionals working in local authorities to understand current approaches to tackling fraud, the strengths and limitations of these, and to help identify possible strategies for prevention. The research was framed around six main themes:
- Perceptions of fraud
 - Incidence and causes of fraud
 - Fraud risk perception
 - Creating an anti-fraud environment
 - Counter fraud arrangements
 - Fighting fraud in the future
- 2.4 By inviting a range of senior officers from local authorities in England, Wales, Scotland and Northern Ireland to express their views and experiences, we were able to understand their insights on potential opportunities for and barriers to tackling fraud. The results provide for a much greater awareness of the nature of fraud, its impact on local authorities (and the wider public sector) and potential approaches to help reduce and prevent it. The results of this research present a new window through which to view the fraud landscape in local authorities.

Structure of the report

- 2.5 Following the Executive Summary and Introduction, Section 3 highlights the context for interpreting the findings by providing a brief review of key themes

¹ Ministry of Housing, Communities & Local Government (2016). Fighting fraud and corruption locally: The local government counter fraud and corruption strategy 2016-2019. London: CIPFA. Available at: <https://www.gov.uk/government/publications/fighting-fraud-and-corruption-locally-2016-to-2019> [Accessed 19/11/19]

that have emerged from prior studies. This draws on more general reports of counter fraud practices both in the public and private sectors.

- 2.6 Section 4 details the Quantitative Findings. The qualitative data from the survey and roundtable discussions are analysed and presented in Section 5. Finally, Section 6 incorporates a discussion of the key findings. An overview of the research methodology, which also includes limitations of the research and the generalisability of the findings, are found in Appendix 1. Further data is provided in the other appendices.

Section 3. Literature review

- 3.1 Reported levels of fraud remain high and relatively unchanged,² this is despite increasing concern about public sector fraud in the UK and the implementation of various initiatives designed to provide remedial action.³ The latest Annual Fraud Indicator (published in 2017) details the annual cost of fraud to the public sector as at least £40.3 billion, of which £7.8 billion relates specifically to the cost to local authorities.⁴ CIPFA estimated that the total value of fraud detected or prevented by UK local authorities in 2018/19 was approximately £253 million, with an average value per fraud case of £3,600.⁵ Local authorities reported over 70,000 instances of fraud detected or prevented, with the main high-value areas detailed as council tax, disabled parking (Blue Badge⁶), housing and business rates.⁷
- 3.2 There is a range of guidance available for organisations in both the private and public sectors to follow in order to counter fraud.⁸ The Local Government Association (LGA), National Audit Office (NAO), Home Office and CIPFA have all posited solutions to the challenges that the public sector faces. *The local government counter fraud and corruption strategy 2016-2019, Fighting Fraud & Corruption Locally (FFCL)*⁹ is currently under review, but provides fundamental guidance to those senior officers dealing with fraud in local authorities.
- 3.3 Recent research, however, suggests that the push on developing counter fraud initiatives in the last decade or so has made only partial progress towards translating strategic objectives into on-the-ground practice.¹⁰ This is in part because there have been significant changes to the fraud landscape in the last few years, with for example, more serious and organised crime groups committing fraud and fraudsters increasingly using more sophisticated and complex methods to commit offences.¹¹ However, CIPFA reported 56

² Tickner, P. (2017). *Fraud and Corruption in Public Services*. Routledge.

³ Starting with Cabinet Office & National Fraud Authority. (2011). *Eliminating Public Sector Fraud*. London. Cabinet Office.

⁴ *Annual Fraud Indicator 2017 Identifying the cost of fraud to the UK economy*. Available at: <https://www.crowe.com/uk/croweuk/-/media/Crowe/Firms/Europe/uk/CroweUK/PDF-publications/Annual-Fraud-Indicator-report-2017.ashx?la=en-GB&hash=46DD55B92DABDB33CABD62A76FB0B1EE2E1791D1>

⁵ CIPFA (2019). *Fraud and Corruption Tracker (CFaCT) Summary Report*. London: CIPFA Counter Fraud Centre. Available at: <https://www.cipfa.org/services/counter-fraud-centre/fraud-and-corruption-tracker> [Accessed: 19/11/19]

⁶ The council's Blue Badge scheme allows those with disabilities (visible or hidden) to apply for parking permits to be nearer to their destinations

⁷ CIPFA (2019). *op cit*.

⁸ For example, see CIMA (2009). *Fraud risk management: A guide to good practice*. London: CIMA. Available at: https://www.cimaglobal.com/Documents/ImportedDocuments/cid_techguide_fraud_risk_management_feb09.pdf.pdf [Accessed 19/11/19]

⁹ Ministry of Housing, Communities & Local Government (2016). *op cit*.

¹⁰ Doig, A. (2018). *Fraud: from national strategies to practice on the ground—a regional case study*, Public Money & Management, 38:2, 147-156.

¹¹ See for example, Crocker et al (2018). *The impact of organised crime in local communities*.

Available at: http://www.police-foundation.org.uk/2017/wp-content/uploads/2017/10/oc_in_local_communities_final.pdf [Accessed 19/11/19]; see also, May, T

recorded cases of serious and organised crime in local authorities in 2017/18 and a fall to 24 cases in 2018/19. Notably, there was a slightly higher incidence rate observed in unitary authorities.¹²

- 3.4 One of the biggest changes local authorities have recently faced in relation to tackling fraud, is the introduction of the Government's Single Integrated Fraud Investigation Service (SFIS), rolled out in local authorities from 2013. The idea behind SFIS was to create a more efficient service, which would look holistically at fraud committed against different agencies (specifically the DWP, HMRC and local authorities), to ensure consistency in both treatment and sanctioning and increase the number of investigations and sanctions.¹³ For local authorities, housing benefit fraud investigations were passed to the DWP (though local authorities still administered them until Universal Credit was rolled out) and therefore, many local authority fraud staff were transferred to the DWP under TUPE¹⁴ arrangements.
- 3.5 Advances in technology have also altered the public sector fraud landscape. Local authorities have recently undergone a huge digital transformation with many of their services. This has changed how organisations conduct their business and has created new risks, some of which may not have been fully identified, assessed and countered.¹⁵ This digital transformation has, therefore, potentially left local authorities with gaps in their systems and has increased their exposure to fraudulent attacks. Research from CIPFA supports this with a recent finding that 27% of respondents to the annual CFaCT survey reported that their organisation had been a victim of a hacking/DDoS attack in the last month.¹⁶
- 3.6 While the advancing use of technology presents more opportunities for fraud to be committed, it also creates more ways to counter fraud via detection and prevention methods. Technology can be harnessed to manipulate data to help disrupt and prevent fraud in a number of ways, including via various monitoring programmes, transaction testing, anomaly detection, and even artificial intelligence (AI). There is evidence that organisations are beginning to see benefits from counter fraud applications of technology.¹⁷
- 3.7 Local authorities have established some (albeit a limited number of) partnerships within the public sector to share methods and data^{18,19} in order to

and Bhardwa, B. (2018) *Organised Crime Groups involved in Fraud: It's all about the money, money, money*. Basingstoke: Palgrave.

¹² CIPFA (2019) op cit.

¹³ See <https://www.gov.uk/government/publications/single-fraud-investigation-service>

¹⁴ TUPE refers to Transfer of Undertakings (Protection of Employment) Regulations 2006, which protect employees whose business transfers to another business.

¹⁵ EY (2018). Integrity in the spotlight: *The future of compliance 15th Global Fraud Survey*. Available at: [https://www.ey.com/Publication/vwLUAssets/ey-global-fids-fraud-survey-2018/\\$FILE/ey-global-fids-fraud-survey-2018.pdf](https://www.ey.com/Publication/vwLUAssets/ey-global-fids-fraud-survey-2018/$FILE/ey-global-fids-fraud-survey-2018.pdf) [Accessed 12/11/19]

¹⁶ CIPFA (2019) op cit.

¹⁷ PwC (2018). *Pulling fraud out of the shadows Global Economic Crime and Fraud Survey 2018*. Available at: <https://www.pwc.com/gx/en/forensics/global-economic-crime-and-fraud-survey-2018.pdf> [Accessed 12/11/19]

¹⁸ These include but are not limited to Cabinet Office; DWP; CPS; HMRC; Action Fraud and the police.

tackle fraud.²⁰ Yet there are numerous challenges with this. Working across jurisdictions, for example, where different rules and regulations operate can, at times, make data access, sharing and integration challenging.

- 3.8 In 2017, the Digital Economy Act received royal assent, extending powers of public services to share data in order to combat fraud. This is supported by the Cabinet Office through the provision of fraud data analytics services.²¹ The National Fraud Initiative (NFI) is also run by the Cabinet Office and undertakes data matching from mandatory datasets provided by individual public sector bodies every two years. Data from local authorities is collected under powers set out in the Local Accountability and Audit Act (2014) in an attempt to detect and prevent fraud in the UK.
- 3.9 But a recent report by the Association of Certified Fraud Examiners (ACFE) considering both the public and private sectors suggested that 58% of organisations currently have inadequate staffing and resources for countering fraud.²² PwC, on the other hand, found that 42% of respondents to their Global Economic Crime Survey had increased spending on combatting fraud over the past two years and 44% said that they planned to boost spending in the coming two years.²³
- 3.10 In terms of staffing in local authorities and considering the counter fraud function in a local authority is not a statutory requirement, the recent CFaCT survey detailed that local authorities expect counter fraud specialist staff to grow by approximately 9% in the next year, with a further small increase in 2021. It also showed that in the last year there have been changes in how counter fraud services are delivered, with a reduction to 40% (from 51% in the previous year) of local authorities having their own dedicated counter fraud team.²⁴
- 3.11 Conventional wisdom suggests that fighting fraud does not just rest with specialist fraud staff – it is everyone’s responsibility. Good fraud governance and control procedures are dependent on strong leadership that promotes ethical behaviour and embodies a clear message of zero tolerance towards fraud. Compliance procedures are seen by some at least as the first line of defence and they need to be embedded throughout the whole organisation, promoting a culture of integrity.²⁵ Research has shown that organisations falling victim to fraud that have such procedures, generally suffer lower fraud losses than those organisations without such controls.²⁶

¹⁹ See Tiffin, R. (2017) Fighting fraud through collaboration. The MJco.uk 11 April 2017.

²⁰ The 2018/19 CFaCT Survey reported that 96% of local authorities share data externally.

²¹ Cabinet Office (2018) Cross-government fraud landscape annual report 2018. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/764832/Cross-GovernmentFraudLandscapeAnnualReport2018.pdf [Accessed 21/11/19]

²² ACFE (2019). In-House Fraud Investigation Teams: 2019 Benchmarking Report. Available at: <https://www.acfe.com/benchmarking-report-2019.aspx> [Accessed 19/11/19]

²³ PwC (2018) op cit.

²⁴ CIPFA (2019) op cit.

²⁵ EY (2018) op cit.

²⁶ ACFE (2019) op cit.

- 3.12 Implementing an anti-fraud culture also means creating the right environment and conditions where staff feel confident about raising any issues of concern of suspected fraudulent behaviour. Although most local authorities follow the recommendations as laid down in BS PAS 1998:2008 Whistleblowing Arrangements Code of Practice,²⁷ less is known about the willingness of individuals to report a newly discovered fraud and of the adequacy of arrangements for doing this. Local authorities are also required to publish certain information about fraud (and error), as required by the Local Government Transparency Code.²⁸ This includes details of resources dedicated to counter fraud activities, as well as the number of fraud cases investigated. This is particularly important given the high demand for accountability in all organisations in the last few years, especially those responsible for public resources.²⁹ A local authority may, for instance, experience a considerable negative reputational impact if they report significantly high levels of fraud.³⁰
- 3.13 In summary, recent changes to the fraud landscape have moved the fraud agenda to a more central position³¹ including in the public sector. This brief review has indicated that at least two factors will be key to tackling fraud in the future – data and partnerships.

²⁷ CIPFA (2019) op cit.

²⁸ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/408386/150227_PUBLICATION_Final_LGTC_2015.pdf [Accessed 26/11/19]

²⁹ Institute for Government (2018). Accountability in modern government: what are the issues?

Available at:

<https://www.instituteforgovernment.org.uk/sites/default/files/publications/IfG%20accountability%20discussion%20paper%20april%202018.pdf> [Accessed 5/2/2020]

³⁰ For example, see <https://www.fraud-magazine.com/article.aspx?id=4294988395>

³¹ PwC (2018) op cit.

Section 4. Quantitative findings

Background

- 4.1 The survey gathered perceptions regarding local authority fraud and experiences of tackling fraud from 303 senior officers in UK local authorities and was mainly composed of statements wherein respondents indicated their level of agreement or disagreement. Some questions invited participants to rank the importance of particular functions and towards the end of the survey there were two open text questions, the responses to which are considered in the qualitative findings in Section 5.
- 4.2 The main quantitative findings presented below are organised by the main six themes of the research:
1. Perceptions of fraud
 2. Incidence and causes of fraud
 3. Fraud risk perception
 4. Creating an anti-fraud environment
 5. Counter fraud arrangements
 6. Fighting fraud in the future
- 4.3 In addition to the frequency of responses to questions, analysis was also undertaken to compare whether views differed by specific characteristics/sub-groups of respondents. These include:
- By authority type
 - By geographical area
 - By level of role
 - By area of work
- 4.4 Only issues that were statistically significant ($p < 0.05$), evidencing a relationship between the variables (i.e. not occurring by chance) are included. These findings have been integrated into the main findings. Because there was only one potential response from Northern Ireland, and there was uncertainty about the accuracy of this (see Appendix 2), any references to geographical areas exclude consideration of this response.

Respondent characteristics

- 4.5 Respondents were asked about their professional level, area of work, the type of local authority they worked in and its geographical location. Full details can be found in Appendix 2.
- 4.6 When respondents were asked to indicate which professional level best described their current role in their local authority, just under a quarter (22%) identified as director level or above (including s.151 officers, chief financial officers (CFO) and chief executives (CEs)); 38% as senior managers or heads

of department/section; and the remaining 40% selected 'other' managers. In terms of the area they worked in, respondents were asked to choose from one of two lists which best fitted their current area of work. These lists broadly consisted of roles relating to service delivery (List 1) and roles relating to corporate functions (List 2). The majority of respondents (83%) identified with List 2.

- 4.7 To assess how representative the survey respondents were, in terms of organisations they represented and geographical location, data were compared to local authority ONS data.³² It was identified that English unitary authorities, were overrepresented; county and metropolitan districts and London authorities all slightly overrepresented; and non-metropolitan districts were under-represented. The geographical spread of responses was more consistent, however. These limitations need to be borne in mind when interpreting the results. Full details can be seen in Appendix 2.

Perceptions of fraud

- 4.8 This part of the survey considered the perceptions of survey respondents to fraud, as well as examining their thoughts about the amount and treatment of fraud in their own organisations.
- 4.9 Reflecting on their overall perceptions of fraud in society, only 15% (n=47) agreed that fraud was more prevalent in the private sector than in the public sector, while 29% (n=89) disagreed that was the case. Not surprisingly then, 64% (n=195) agreed that fraud is a major problem for local authorities, with only 14% (n=41) disagreeing with this. Chief executives were less likely than other professional levels to agree that fraud is a major problem for local authorities³³ and were much more likely to perceive fraud loss in their organisation as low compared to others.³⁴ Respondents with corporate roles (identified in List 2) were much more likely to agree that fraud is a major problem for local authorities than those involved in service delivery (identified in List 1), possibly a reflection of the fact that that most roles directly dealing with fraud would be located in List 2.³⁵
- 4.10 Just over half of respondents (52%, n=156) agreed that fraud is increasing in local authorities, and only 9% (n=28) disagreed. Respondents with corporate roles (List 2) more commonly agreed that fraud is increasing than those

³² <https://geoportal.statistics.gov.uk/datasets/ward-to-local-authority-district-to-county-to-region-to-country-december-2019-lookup-in-united-kingdom>

³³ 38%, n=3 of Chief executives agreed or strongly agreed that fraud is a major problem for local authorities, compared with: 50%, n=20 of DoF/CFO/s.151 officers; 53%, n=10 of Other directors; 66%, n=76 of Senior manager/Head of department/section; and 72%, n=86 of Other managers.

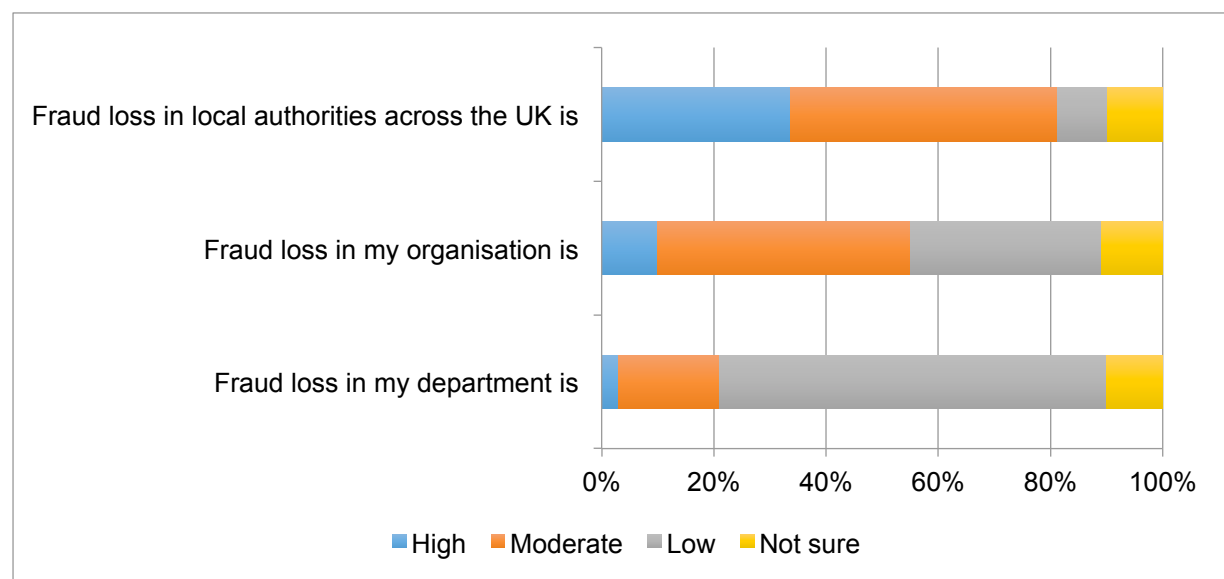
³⁴ 88%, n=7 of Chief executives indicated fraud loss is low, compared with: 53%, n=21 of DoF/CFO/s.151 officers; 26%, n=5 of Other directors; 35%, n=41 of Senior Manager/Head of Department/Section; and 24%, n=29 of Other managers.

³⁵ 70%, n=176 of List 2 respondents agreed or strongly agreed that fraud is a major problem for local authorities, compared with 35%, n=12 of List 1 respondents and 37%, n=7 of other respondents.

involved in service delivery (List 1).³⁶ There was relatively little variation among respondents from different regions about whether they thought fraud was increasing (the level of agreement ranged from only 43% in the Midlands and South West, to 56% in the North East/Yorkshire and the Humber and Scotland). This would seem to suggest that rising fraud levels in local authorities is a UK-wide issue, rather than a regional one.

- 4.11 Respondents were asked whether they considered that fraud losses were 'high' 'moderate' or 'low' in their own departments, their own local authority, and UK local authorities generally. Responses are shown in Figure1.

Figure 1 Perceptions of fraud losses % (n=303)



- 4.12 Although over a third of respondents (34%, n=102) believed that fraud losses in local authorities were high (four fifths - 81%, n=246 when high and moderate categories are combined), only 10% (n=29) felt that fraud losses in their own organisations were high (55%, n=166 when high and moderate categories are combined), and just 3% (n=8) believed high fraud losses were evident in their own departments (21%, n=62 246 when high and moderate categories are combined). They findings suggest that while more respondents recognised that fraud was high, it was clear that this was much more the case when discussing the national picture. Closer to home, in the organisation and department, it was markedly less. While respondents with both service delivery and corporate roles were aligned in that a similar proportion from each type of role indicated fraud loss in local authorities across the UK is moderate; it was notable that a much higher proportion of corporate role respondents viewed the loss as high.³⁷ Respondents from corporate roles (List 2) also more commonly viewed fraud loss in their organisation to be

³⁶ 57%, n=143 of List 2 respondents agreed or strongly agreed that fraud is a major problem for local authorities, compared with 21%, n=7 of List 1 respondents and 32%, n=6 of other respondents.

³⁷ 50%, n=17 of List 1 respondents indicated fraud loss in local authorities across the UK is moderate, but only 6%, n=2 indicated they were high. Whereas 46%, n=115 of List 2 respondents indicated fraud loss in local authorities across the UK is moderate, but 40%, n=99 indicated they were high.

moderate, whereas those employed in service delivery (List 1) and other respondents, viewed this as low.³⁸

- 4.13 Responses to a question about whether individuals felt that fraud levels were under-reported in their organisation demonstrated that 45% (n=135) agreed that they were, with less than a quarter (23%, n=72) disagreeing with this statement. It was also noted that those respondents who worked in corporate roles (List 2) more commonly agreed that fraud levels are under-reported in their organisation, than those working in service delivery roles (List 1).³⁹ The more pessimistic view of those working in corporate roles for both perception of fraud losses and the under-reporting of fraud levels, possibly reflects that those charged with responsibility for fraud management would be located in this category (i.e. those working in counter fraud and internal audit roles).
- 4.14 Most respondents felt that their colleagues are aware of the risks of fraud (55%, n=167 agreed) and much less, just a quarter (25%, n=76), disagreed with this. In terms of whether the response to fraud in their organisations was adequate, over half (56%, n=167) agreed that it was, while around a fifth (21%, n=65) believed it to be lacking. Among those that agreed that most of their colleagues are aware of the fraud risks affecting their organisation, more than two thirds (71%, n=118) agreed that the response to fraud in their organisation is adequate. Chief executives and DoF/CFO/s.151 officers were more likely to consider the response to fraud in their organisation to be adequate, than those working at other professional levels.⁴⁰
- 4.15 When asked if their organisations should spend more money on trying to prevent fraud, over a half (54%, n=164) felt they should, while less than a fifth (18%, n=53) disagreed. Chief executives and DoF/CFO/s.151 officers were less likely to agree that their organisation should spend more money on trying to prevent fraud than those at other professional levels,⁴¹ but respondents working in corporate roles (List 2), more commonly agreed that their organisations should do so than those working in service delivery roles (List 1).⁴² Figure 2 displays the full results.

³⁸ 50%, n=124 of List 2 respondents viewed fraud loss in their organisation as moderate, compared with 27%, n=9 of List 1 respondents and 21%, n=4 of other respondents

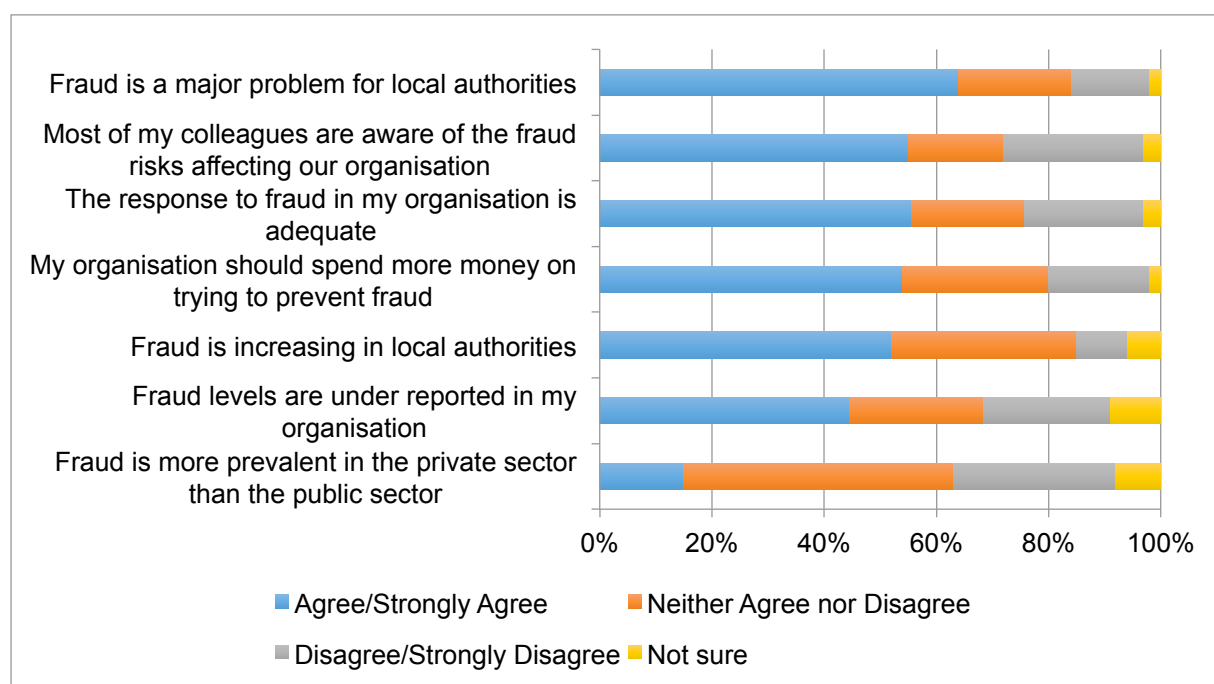
³⁹ 48%, n=121 of List 2 respondents agreed or strongly agreed that fraud levels are under reported in their organisation, compared with 24%, n=8 of List 1 respondents and 32%, n=6 of other respondents.

⁴⁰ 75%, n=6 of Chief executives and 85%, n=34 of DoF/CFO/s.151 agreed or strongly agreed that the response to fraud in their organisation was adequate, compared with: 63%, n=12 of Other directors; 53%, n=61 of Senior manager/Head of Department/Section; and 45%, n=54 of Other managers.

⁴¹ 25%, n=2 of Chief executives and 25%, n=10 of DoF/CFO/s.151 officers agreed or strongly agreed that their organisation should spend more money on trying to prevent fraud, compared with: 47%, n=9 of Other Directors; 61%, n=71 of Senior Manager/Head of Department/Section; and 60%, n=72 of Other managers.

⁴² 58%, n=146 of List 2 respondents agreed or strongly agreed that their organisations should spend more money on trying to prevent fraud, compared with 41%, n=714 of List 1 respondents and 21%, n=4 of other respondents.

Figure 2 Perceptions of fraud in local authorities % (n=303)

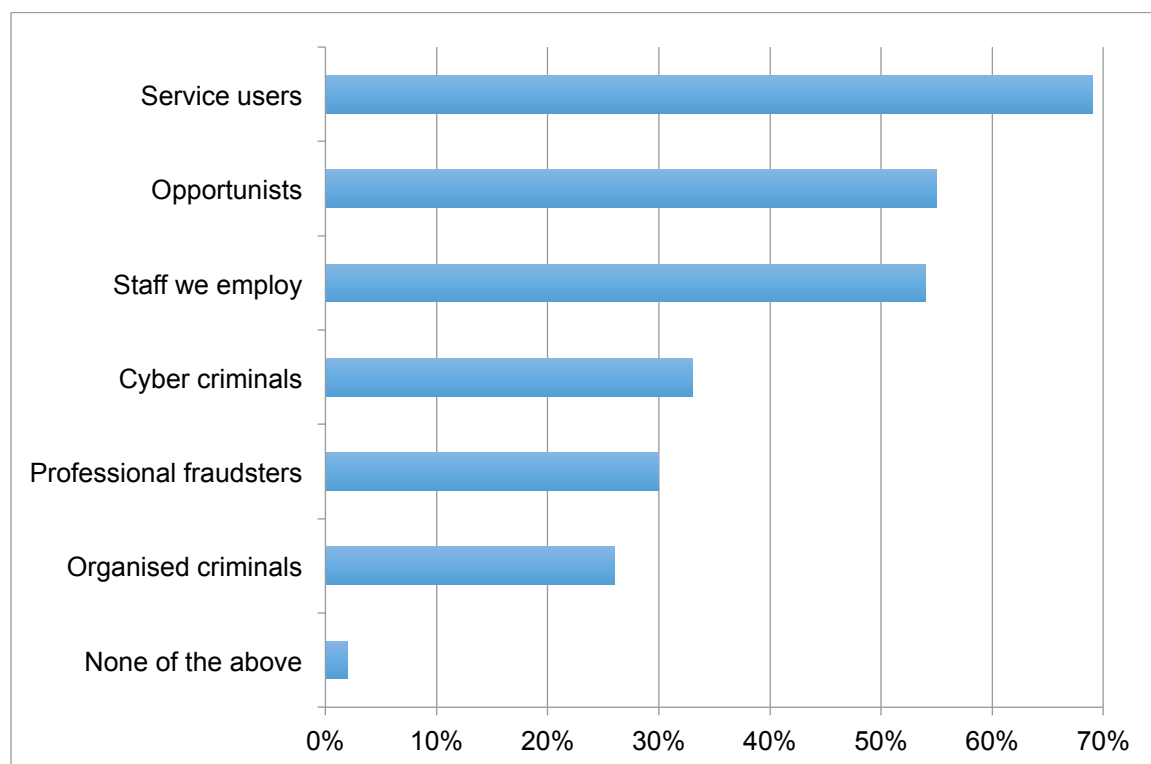


4.16 In short, respondents felt that the public sector faced at least as big a problem as the private sector in tackling fraud and that fraud levels are increasing. They felt that fraud was a major problem for local authorities, even if they were less likely to think it was in their organisations or departments. Unsurprisingly, those more likely to deal with fraud on a day-to-day basis perceived fraud levels to be higher than reported. Most felt colleagues were aware of fraud risks, and were responding adequately, although that more money was needed to improve matters, albeit chief executives were less inclined to agree.

Incidence and causes of fraud

4.17 This section of the survey attempted to identify who respondents thought were the main perpetrators of fraudulent activities against local authorities and what organisational factors enabled them to commit these offences. To ascertain this, survey respondents were asked to choose up to three options from a selection of six groups of people. Full results can be seen in Figure 3.

Figure 3 Views on the type of people most likely to commit internal fraud within local authorities % (n=303)



- 4.18 Although the incidence of fraud by *professional*, *organised* and *cyber criminals* is known to be increasing,⁴³ respondents felt that service users, staff and opportunists, remain the most likely offenders. However, more generally, some acknowledged the changing scope of fraud, for example:

'The types of frauds being committed against local government have not significantly changed in the last three years. However, what is changing is the proportion of those frauds. So, for example increased cyber-attacks, bank mandate fraud, contract fraud (e.g. over billing, not providing services). The sophistication of the fraud attempts has increased, particularly around bank mandate fraud where the attempts look more genuine.'

(Survey Respondent)

- 4.19 Some differences in response were observed relating to what roles individuals held in their local authority. A higher percentage of those employed in service delivery roles (List 1) highlighted that '*cyber criminals*' would be most likely to be involved in fraudulent activity,⁴⁴ whereas a far higher percentage of those working in corporate roles (List 2) selected that the '*staff they employ*' and

⁴³ See http://www.police-foundation.org.uk/2017/wp-content/uploads/2010/10/more_than_just_a_number_exec_summary.pdf [Accessed 5/2/20]

⁴⁴ 44%, n=15 of List 1 respondents and 53%, n=10 of other respondents, compared with 30%, n=74 for List 2 respondents

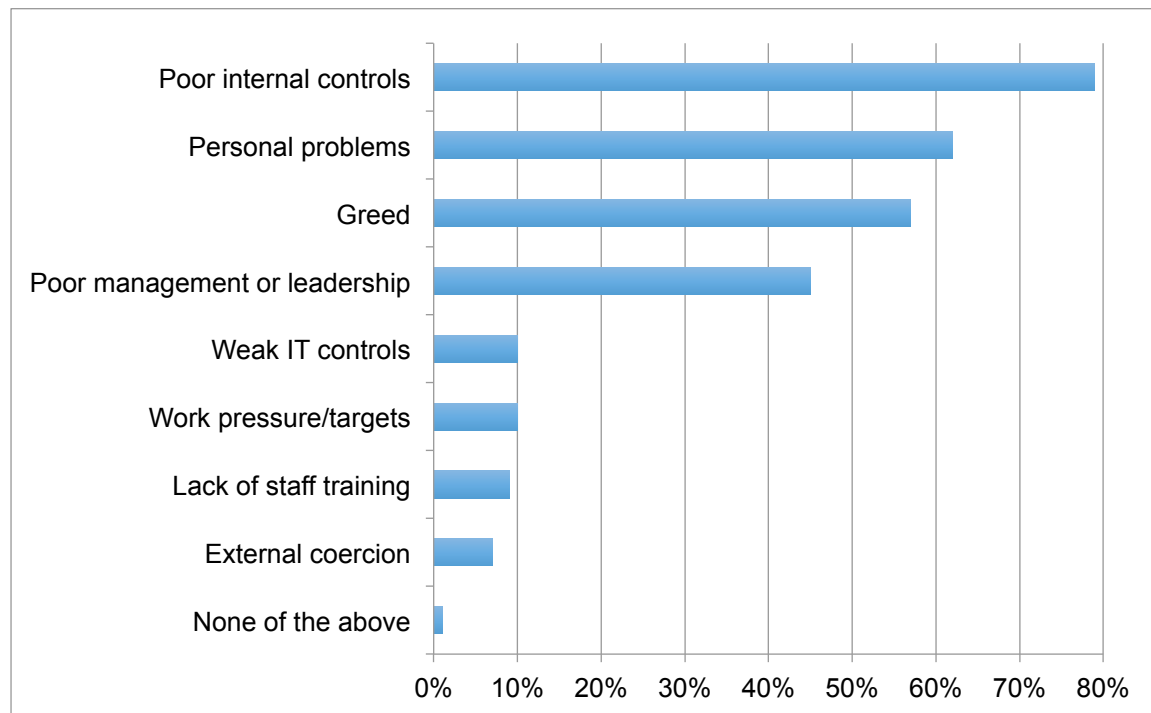
'service users' were the most likely to be involved.⁴⁵ There was also a wide variation in responses by region for those who indicated *'staff they employ'* as one of the types of person most likely to commit fraud against their organisation. Comparing all regions, respondents from Wales were most likely to select the *'staff they employ'* and respondents from the East of England were least likely to do so.⁴⁶

- 4.20 *'Staff employed by local authorities'* was chosen as one of the top three groups most likely to commit fraud against local authorities and, therefore, it is interesting to consider what survey respondents felt were the main reasons for the incidence of internal fraud. Over three-quarters (79%, n=232) chose *'poor internal controls'* as one of their options, firmly placing the responsibility on local authorities to maintain good and up-to-date systems and processes. The two next most popular options were *'personal problems'* and *'greed'*, which clearly more directly relate to the personal circumstances and characteristics of members of staff. Further research is needed to determine whether such characteristics may have been identified prior to a fraud taking place or whether, for example, general awareness raising programs could reduce the likelihood and impact of offences from these groups. Under a half (45%, n=131) chose *'poor management or leadership'* as one of their options, with the remaining four options being respectively chosen by 10% or less of respondents. Figure 4 highlights these findings.

⁴⁵ 58%, n=146 of List 2 respondents selected the staff they employ, compared with 35%, n=12 of List 1 respondents; and 75%, n=187 of List 2 respondents selected service users, compared with 44%, n=15 of List 1 respondents.

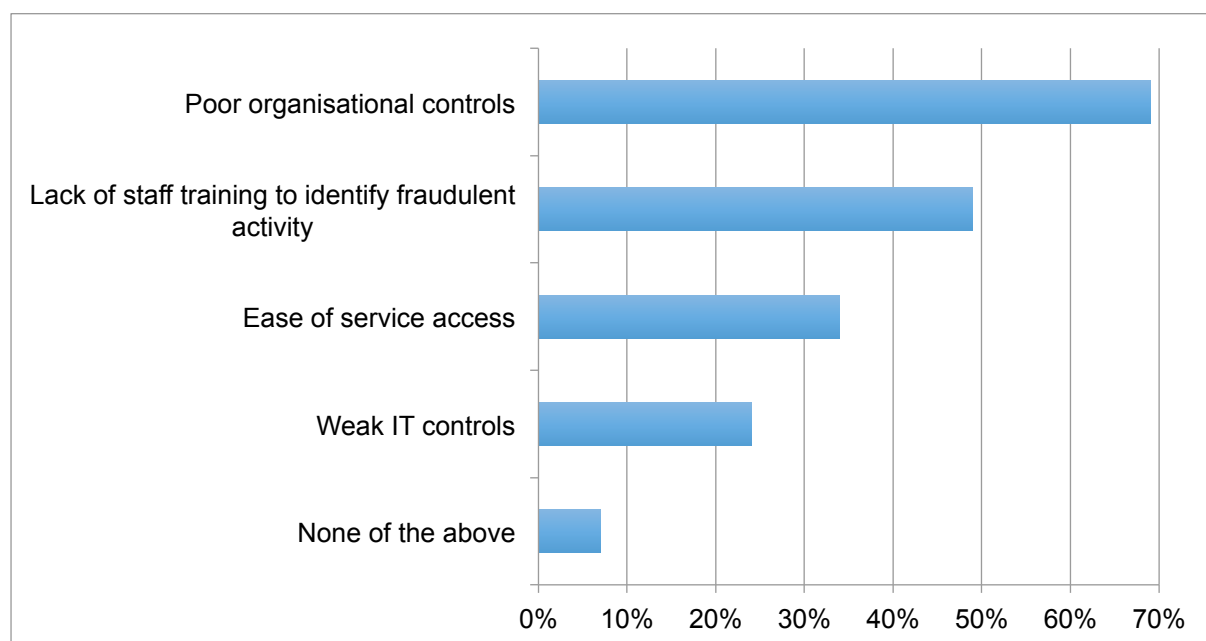
⁴⁶ 81%, n=17 of Wales respondents; 67%, n=18 of Scotland respondents; 66%, n=19 of North East/Yorkshire and the Humber respondents; 55%, n=26 of Midlands respondents; 53%, n=20 of North West respondents; 50%, n=43 of London/South East respondents; 48%, n=10 of South West respondents; and 30%, n=10 of East England respondents.

Figure 4 Views on the main reasons why people commit internal fraud within local authorities % (n=294)



4.21 In relation to external fraud, and as Figure 5 shows, *'poor organisational controls'* was the most common response option (chosen by 69%, n=202), while approximately half (49%, n=145) chose, *'lack of staff training to identify fraudulent activity'*. *'Ease of service access'* was the third most popular option, with about a third of respondents (34%, n=99) identifying this, possibly reflecting recent changes to service delivery online, potentially making fraud easier to commit by users.

Figure 5 Views on the main reasons people are able to commit external fraud against local authorities % (n=294)



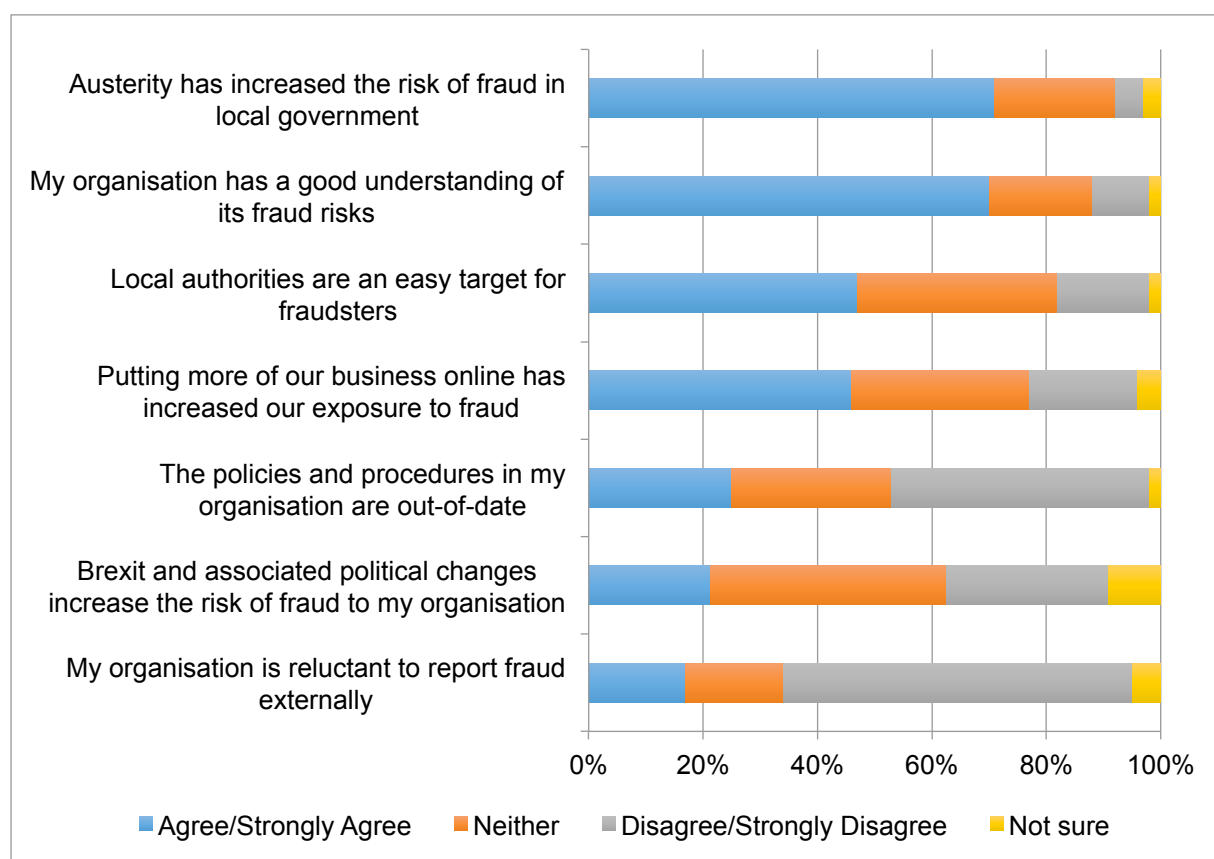
4.22 In summary, survey respondents felt that the majority of fraud against their organisations was caused through weaknesses in systems and controls, identified either by their own staff, or service users. For internal fraud, other causes were due to individuals seeking out fraudulent opportunities because of personal problems, or greed. For external fraud, weak organisational controls were amplified by frontline staff not being sufficiently trained to identify fraudulent behaviour.

Fraud risk perception

4.23 It is important that local authorities treat their fraud risks like any other general operational risks and to assess each area of the organisation to identify, quantify and make provision to respond to these.⁴⁷ This part of the survey sought to find out whether respondents believed that their organisations had identified such risks and what factors may influence them. Figure 6 displays the results.

⁴⁷ CIMA (2009). *Fraud risk management: A guide to good practice*. London: CIMA. Available at: https://www.cimaglobal.com/Documents/ImportedDocuments/cid_techguide_fraud_risk_management_feb09.pdf.pdf [Accessed 19/11/19]

Figure 6 Views of fraud risk perception of respondents in local authorities % (n=294)



- 4.24 When asked about the fraud risk factor of local authorities generally, approaching a half (47%, n=139) of the survey respondents agreed that local authorities are an easy target for fraudsters, with just 16% (n=47) disagreeing. Chief executives were more likely than other professional levels to disagree that local authorities are easy targets for fraudsters.⁴⁸
- 4.25 When presented with the statement '*my organisation has a good understanding of its fraud risks*', 70% (n=206) of respondents agreed, with just 10% (n=29) disagreeing. However, a quarter (25%, n=73) of survey respondents agreed with the statement '*the policies and procedures in my organisation are out-of-date*' with 45% (n=132) disagreeing.
- 4.26 Almost half of the respondents (46%, n=135) felt that the move to put services online had been a contributing factor to the increased exposure to fraud, with less than a fifth (19%, n=55) disagreeing with this. This finding is reflected in research that shows that fraud risks to local authorities, especially in the past few years, is due to the move to put more services online.⁴⁹

⁴⁸ Chief executives were more likely than all other role types to disagree that LAs are an easy target for fraudsters. 43%, n=3 of chief executives disagreed that local authorities are an easy target for fraudsters, compared with: 24%, n=9 of DoF/CFO/s.151 officers; 11%, n=2 of Other directors; 13%, n=15 of Senior manager/Head of Department/Section; and 16%, n=18 of Other managers.

⁴⁹ For example, see House of Commons (2019). *Briefing Paper No. 05950 Local government: alternative models of service delivery*. <https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN05950#fullreport> [Accessed: 26/1/2020]

- 4.27 When asked if recent austerity has increased the risk of fraud in local authorities, nearly three-quarters (71%, n=209) of respondents agreed, with only 5% (n=15) disagreeing. A greater proportion of respondents employed in corporate roles (List 2) agreed, compared to those who were employed in service delivery roles (List 1).⁵⁰
- 4.28 The literature review highlighted that other external influences could affect a local authority's susceptibility to fraud risk; therefore, survey participants were asked whether they thought '*Brexit and associated political changes*', would increase the risk of fraud to their organisations. Just over a fifth (21%, n=62) felt it would, whereas, over a quarter (28%, n=84) felt it would not, with the majority (41%, n=122) neither agreeing nor disagreeing.
- 4.29 After a fraud incident, one risk that an organisation still faces is the potential damage to its reputation from adverse publicity.⁵¹ In recent years more transparency has been demanded from organisations,⁵² especially in the public sector, about any fraudulent attacks. When survey participants were faced with the statement that '*my organisation is reluctant to report fraud externally*', 61% (n=178) disagreed and only 17% (n=52) agreed. There was variation in how this question was answered however, depending on the professional level of the respondent, with those with financial reporting/responsibility more frequently disagreeing with the statement.⁵³
- 4.30 The survey results suggest that respondents felt that local authorities were particular targets for fraudsters, however, they believed that their organisations had a good understanding of their fraud risks. At a more operational level, the recent move to online service use was perceived by nearly half of the respondents to have increased their exposure to fraud. Similarly, they felt that the lack of resources due to austerity had increased the risks of fraud. In terms of other political influences, such as Brexit, respondents were less clear about what future impacts this might have.

Counter fraud arrangements

- 4.31 This part of the survey sought to identify the incidence of various arrangements for the counter fraud function in respondents' individual local authorities and to ascertain how they viewed counter fraud staff relationships with others. Figure 7 illustrates the counter fraud arrangements in detail.

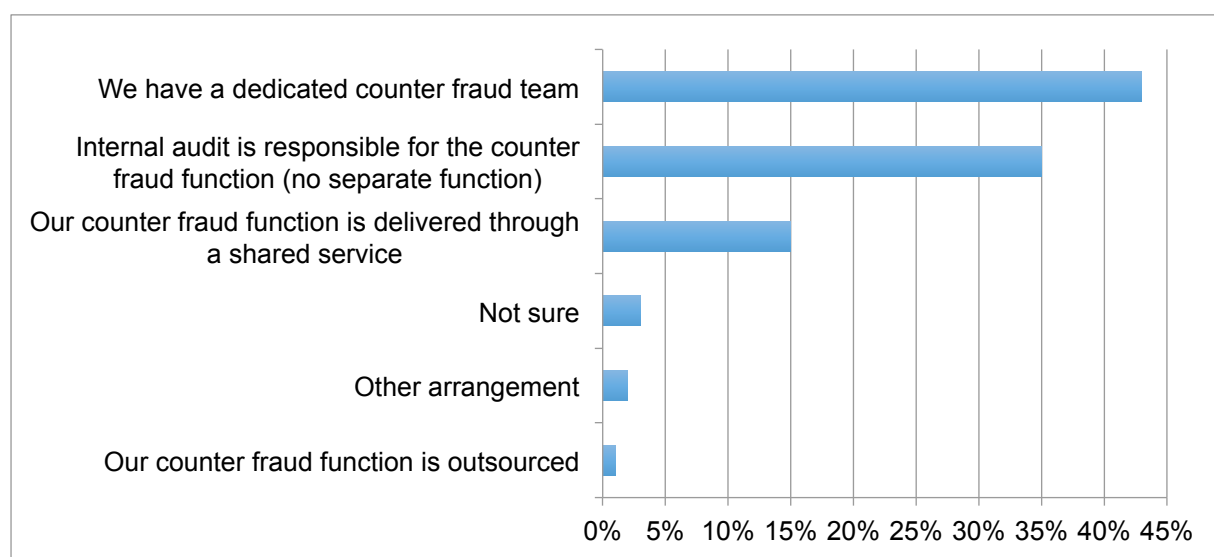
⁵⁰ 76%, n=185 of List 2 respondents, compared with 43%, n=14 of List 1 respondents.

⁵¹ For example, see <https://www.fraud-magazine.com/article.aspx?id=4294988395>

⁵² https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/408386/150227_PUBLICATION_Final_LGTC_2015.pdf [Accessed 26/11/19]

⁵³ DoF/CFO/s.151 officers more commonly disagreed that their organisation is reluctant to report fraud externally than any other professional levels. 82%, n=31 of DoF/CFO/s.151 officers disagreed or strongly disagreed that their organisation is reluctant to report fraud externally, compared with: 69%, n=13 of Other directors; 67%, n=76 of Senior manager/Head of Department/Section; 57%, n=4 of chief executives; and 47%, n=54 of Other managers

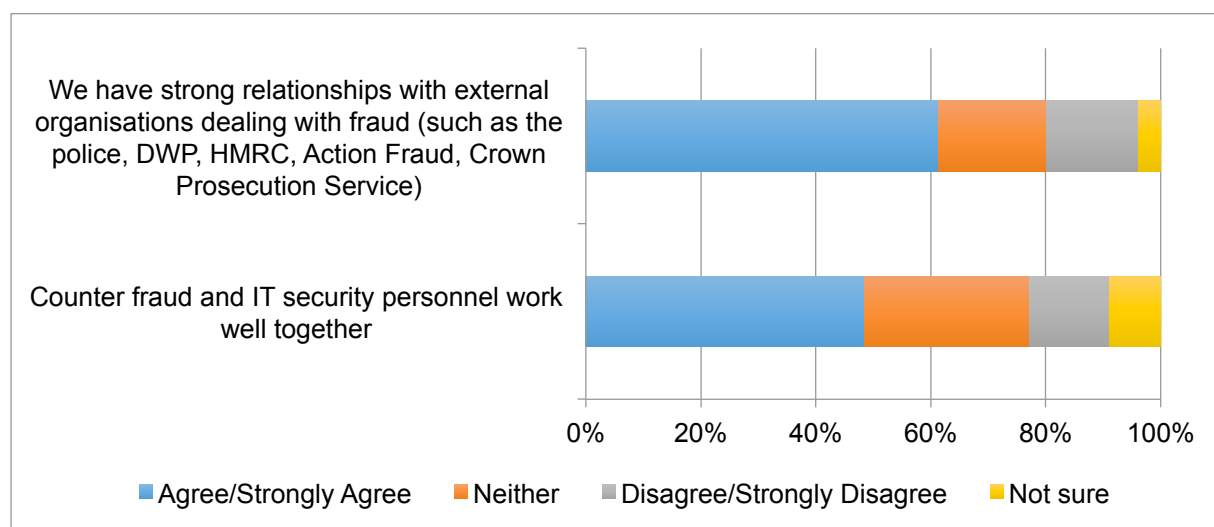
Figure 7 Counter fraud arrangements in respondents' local authorities % (n=289)



4.32 More than four in ten respondents (43%, n=124) identified that their counter fraud function was delivered via a dedicated counter fraud team in their organisation. Just over a third (35% n=102) reported that their internal audit function was responsible for delivering counter fraud activities. A further 15% (n=44) of respondents stated that their counter fraud function was delivered through a shared service arrangement and far fewer (1%, n=4) outsourced the function. Other arrangements were rare (3%, n=7) and included delivery by service heads; through directorate functions; and a mixture of arrangements from those listed. One response provided under '*other arrangement*' indicated a very limited provision and no longer had a fraud team. Eight respondents were not sure of their authority's counter fraud arrangements, which is of concern as the survey was meant to be completed only by senior members of staff in local authorities.

4.33 In terms of working relationships, nearly half (49%, n=141) believed that their counter fraud and IT officers worked well together in the pursuance of fraud, with only 14% (n=40) disagreeing. For relationships between counter fraud staff and external organisations (such as the police, Department for Work and Pensions (DWP), HM Revenue and Customs (HMRC), Action Fraud, Crown Prosecution Service), 62% (n=178) perceived these as strong, with only 16% (n=46) disagreeing. These results are shown in Figure 8.

Figure 8 Views of working relationships for fraud by respondents in their own organisation (n=289)



4.34 In summary, the way in which counter fraud is delivered in local authorities varies immensely, but over three-quarters (78%, n=226) identified that their teams were in-house, either through a dedicated fraud team, or led by internal audit. Although there are a number of potential barriers to joint-working as mentioned in the literature review, around half or more of respondents saw relationships with IT staff and other external bodies working well.

Creating an anti-fraud environment

4.35 Every organisation has its own culture, including local authorities.⁵⁴ Culture is always a combination of the stance taken by the senior management team and the ways in which this is interpreted and followed by front line staff. Figure 9 displays the findings of questions asked about this area in the survey.

⁵⁴ PwC (2018) op cit.

Figure 9 Views of the anti-fraud environment in respondents own organisation % (n=289)



- 4.36 In order to assess the strength of anti-fraud environments in local authorities, respondents were asked whether they believed their organisation had a *'committed leadership team, who sent out a strong anti-fraud message.'* Three fifths (60%, n=176) of respondents agreed that they did, with just 12% (n=37) disagreeing. When challenged with the statement that *'internal processes and controls in place to prevent fraud are not adequate'* only 22% (n=63) agreed and a half (50%, n=144) disagreed. This suggests that some local authorities had created adequate control environments to counter fraud, but there was still room for improvement.
- 4.37 To provide some indication as to whether these values had translated into staff behaviour, respondents were asked whether they thought that most of their colleagues would report a fraud against their organisation if they identified one. Over three-quarters (82%, n=239) agreed they would, and only 5% (n=15) disagreed. A greater proportion of the respondents from authorities in English regions agreed that most of their colleagues would report a fraud against the organisation if they saw it, compared to those from Wales and Scotland.⁵⁵
- 4.38 In terms of staff being clear about what to do if they discovered a suspected fraud, 65% of respondents (n=188) believed that employees would know how to react, with only 12% (n=36) feeling they would not. In addition, over half (59%, n=172) of the respondents agreed that their organisation's current fraud response was a deterrent to fraud, with only 17% (n=48) disagreeing.

⁵⁵ For respondents in English regions this varied from 95% - 77% compared with 63%, n=17 of respondents from Scotland and 62%, n=13 of respondents from Wales.

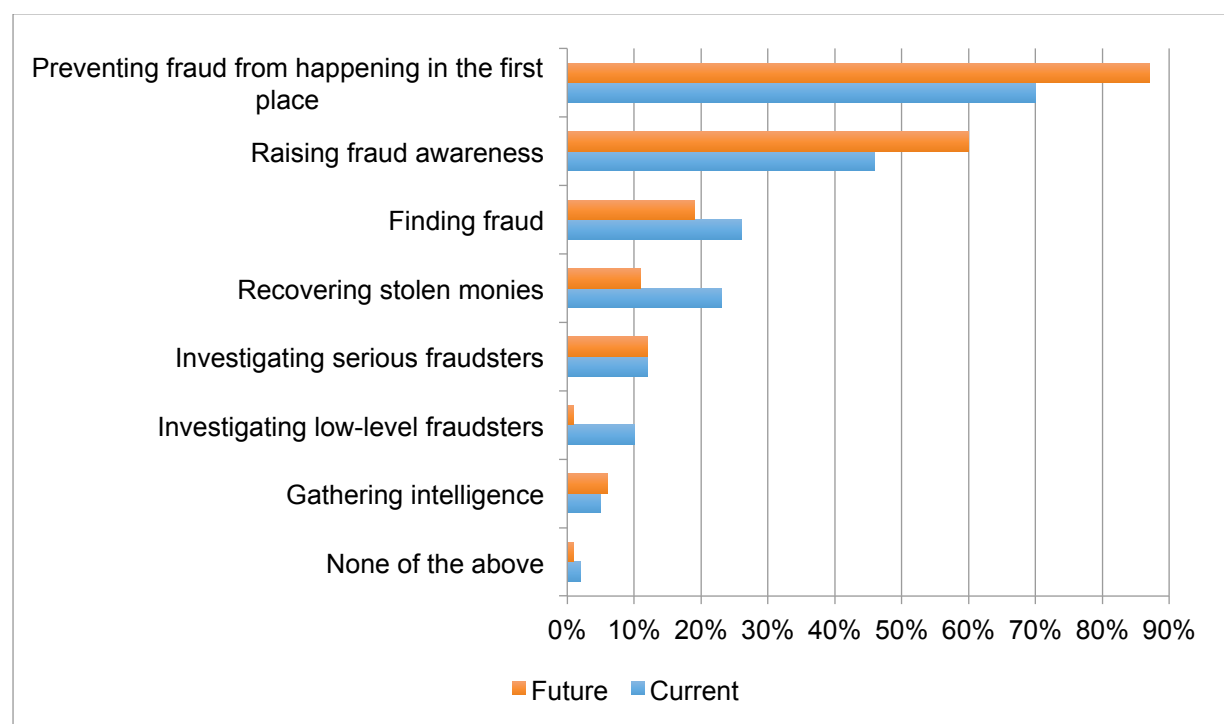
4.39 In conclusion, the respondents answers showed that the majority believed that their local authority had developed adequate anti-fraud environments, and this had been accomplished by leaders sending out clear and strong messages about ethical behaviour. The respondents believed that this anti-fraud culture, and messaging had filtered down to staff, who respondents felt would act upon and know what to do should they come across a fraud.

Fighting fraud in the future

4.40 As new frauds evolve and fraudsters employ increasingly sophisticated methods to commit their offences, it is important that methods for fighting fraud evolve to take account of these. The fraud priorities of a local authority today may not be the priorities of the future.

4.41 To establish how prepared local authorities were for these changes, we asked survey respondents to highlight up to two attitudes they perceived their authority has towards tackling fraud now and what they thought they should be in the future. Responses are displayed in Figure 10.

Figure 10 Views about the current and future priorities for tackling fraud in respondent's own organisation % (n=284)

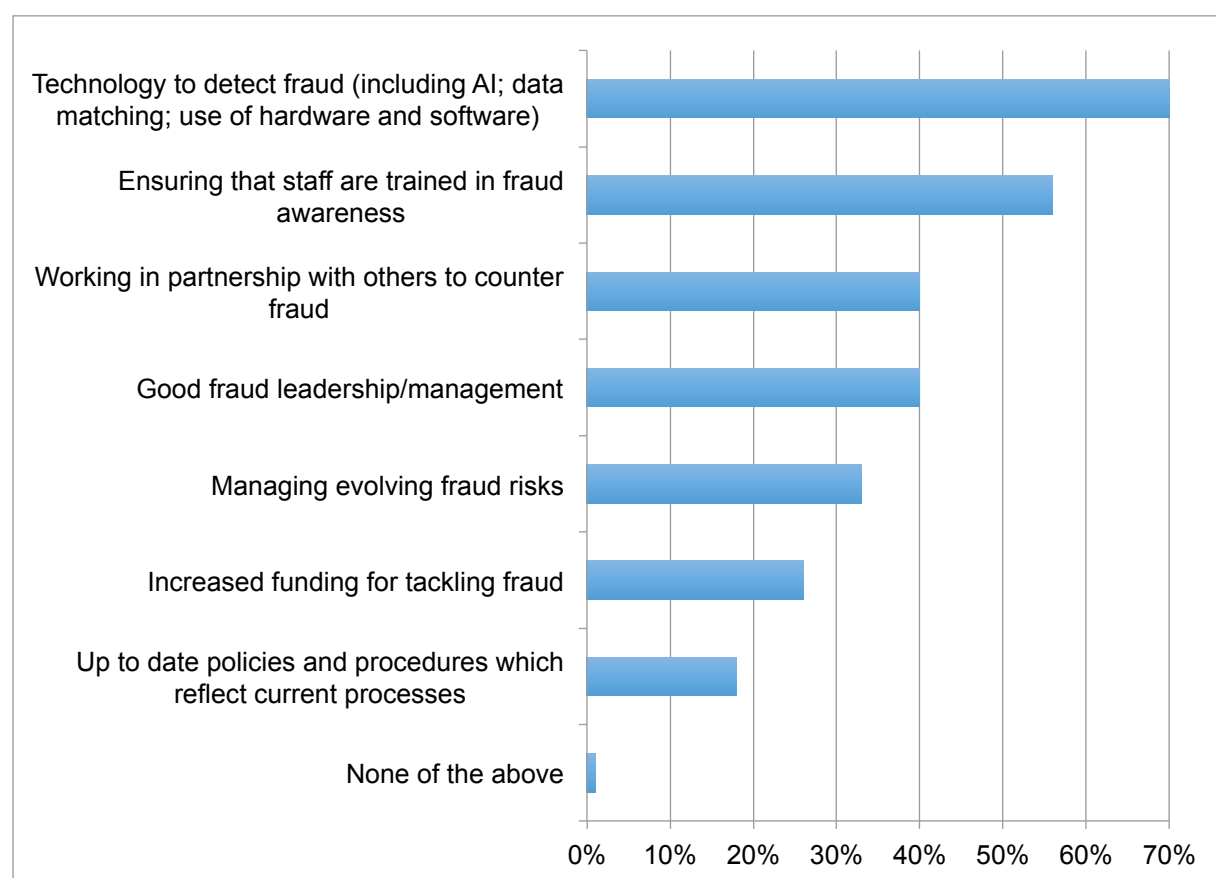


4.42 *'Preventing fraud from happening in the first place'* was the most popular priority, both now and for the future, and it was anticipated that this would be more important for the future (from 70%, n=198 to 87%, n=248). Likewise, *'raising fraud awareness'* was viewed as an increasing priority for the future (46% (n=131) to 60% (n=170)). All other attitudes towards tackling fraud either stayed the same or dropped in perceived importance for the future.

Particularly notable was the priority of ‘finding fraud’, which dropped in importance from 26% (n=73) now to 19% (n=54) in the future, along with recovering stolen monies (from 23%, n=65 to 11%, n=30) and investigating low-level fraudsters (10%, n=27 to 1%, n=3). Investigating serious fraudsters remained the same at 12% (n=34) and gathering intelligence only slightly increased changed from 5 to 6% (n=13-16).

- 4.43 These figures would suggest that fraud prevention will be increasingly favoured by local authorities in the future, certainly compared to more reactive methods employed after the event like detection and recovery. Given the pressure on resources local authorities have, and are likely to face in the future, prevention may present as the more cost-effective approach, but this would need more research to confirm.
- 4.44 Moreover, identifying and responding to fraud risks before they translate into fraudulent acts, will in many cases require a shift in how local authorities currently perceive their fraud problem. The final section in the survey considered this issue and asked respondents to choose up to three approaches that they thought would be the most important for countering fraud in the future. Figure 11 shows these findings.

Figure 11 Respondents suggested approaches for tackling fraud in local authorities in the future % (n=284)



- 4.45 The ‘*use of technology*’ was the most frequently chosen approach for the future, with 70% (n=200) of respondents selecting it as one of their options. In

particular, this may include more advanced data matching procedures and the possibility of using AI to identify outliers and anomalies.

- 4.46 The second most popular approach, chosen by just over half (56%, n=159) of the respondents, was to ensure that *'staff are trained in fraud awareness'*. This would enable those in customer services to be in a position to disrupt frauds before they are committed. About a third (33%, n=94) of respondents saw *'managing risks'* as key in the future for fraud management, and interestingly fewer chose *'increased funding'* (26%, n=75) and having up-to-date policies and procedures (18%, n=50), suggesting that having the right technology and staff knowledge is more important.
- 4.47 The findings in this section certainly suggest that according to the results of the survey, fraud prevention should be a bigger priority in tackling fraud in local authorities in the future, moving away from reactive detection and recovery methods, to more proactive approaches. Harnessing new technology and the use of good data, in addition to staff being well trained in fraud awareness, were felt to be crucial to the success of this approach.

Summary of quantitative findings

- 4.48 The results are illuminating. Although respondents felt that fraud was more prevalent in the public sector than in the private, and indeed increasing in local authorities, the majority did not view fraud as a major problem in their own organisations and this was especially so in their departments. Generally, respondents felt that their colleagues understood the risks that they faced and that their organisations adequately responded to them, having created effective anti-fraud environments. That aside, they felt that staff would benefit from further training to identify fraudulent activities, especially front-line staff dealing with service users.
- 4.49 Also, of interest the respondents acknowledged that an effective future response to fraud would be accomplished by developing a preventive, proactive response to the risk of fraud. This includes using technology and data to identify fraudulent claims before payments are made.
- 4.50 The following section discusses the findings from the qualitative research approaches, adding more depth and providing additional insights.

Section 5. Qualitative Findings

Background

- 5.1 This section presents the qualitative findings of the research gathered via two routes. First, responses to the following open-ended questions from the survey:
- What do you think are the main fraud risks that local authorities will face in the future? (n=138)
 - In terms of responding to these future risks, from your point of view, what should local authorities be focusing on? (n=127)
- 5.2 Second, findings from three roundtable events held in London (2) and Chester (1), consisting of 14 respondents who had indicated a desire to take part in these events in their survey response. These roundtable events were held in order to further explore the issues raised in the survey and to identify any barriers to implementation. All attendees were from either finance, audit or counter fraud backgrounds.
- 5.3 The information gathered via both of these routes is presented here in two main sections – ‘Facing future risks in local authorities’ and ‘Response to future risks and key barriers to progress’; each of which are further broken down into key themes.

Facing future risks in local authorities

- 5.4 Survey respondents identified five main current and future risks (full details of individual risks can be seen in Appendix 3:
1. on-going and new types of frauds
 2. changes in service delivery
 3. the scarcity of resources
 4. the management of fraud
 5. the impact of social and political issues

The rest of this section considers these risks in more detail.

- 5.5 Many respondents noted that most of the frauds currently experienced by local authorities were not new and were likely to be present in the future, at least to some degree:

‘The majority of frauds tend to be low level and rather opportunistic. We have not seen this change in the time we have been investigating fraud and currently I do not think that will change.’

(Survey respondent)

- 5.6 Offence types mentioned specifically included: housing, council tax, procurement, benefit and Blue Badge frauds, as well as lower-level opportunistic fraud. Staff fraud was also considered likely to continue, for example:

‘Staff fraud (albeit relatively low level) will continue and workloads, pressure and personal stress are likely to continue to be factors.’

(Survey respondent)

- 5.7 Another area of particular concern (raised both by survey respondents and roundtable attendees) was that of social care. This area was felt to be particularly susceptible to abuse by service users due to the lack of reassessment of care packages, once awarded. This may result in individuals continuing to receive funds they are no longer eligible for, nor entitled to. However, whereas local authorities are endowed with specific powers to investigate and to obtain intelligence for some types of fraud (such as council tax and social housing),⁵⁶ respondents commented there are no similar powers relating to social care. Therefore, they are forced to follow other routes (like relying on Data Protection Act (2018) provisions), but participants reported that where organisations or third parties are not compelled to provide information, the process can be protracted. Unsurprisingly there were calls for a changing emphasis here:

‘We need powers for social care, it’s huge, it’s massive. It’s the amount of money we’re paying out on social care packages and it’s not being policed, but we have no powers to police it.’

(Roundtable attendee)

‘It’s just not on their radar. We have massive problems with social care, but [they are] just not connecting the dots.’

(Roundtable attendee)

- 5.8 Respondents noted that new frauds were emerging because of changes in rules for services and in delivery of these services. For example, participants noted that the recently expanded eligibility and simplified application process for Blue Badges has improved access to more service users but as a side effect has the potential to increase the incidence of related fraud. In addition, many felt that fraud is becoming more complex and sophisticated and may involve organised crime groups. Individuals fear that some of these groups may specifically target local authorities.

- 5.9 In recent years many public sector bodies, including local authorities, have been forced to change arrangements for service delivery, including putting more services online, participating in shared services arrangements and contracting services out to the private sector.⁵⁷ Discussions about these

⁵⁶ See <http://www.legislation.gov.uk/ukdsi/2013/9780111533154/contents>

⁵⁷ For example, see House of Commons (2019). *Briefing Paper No. 05950 Local government: alternative models of service delivery.* <https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN05950#fullreport> [Accessed: 26/1/2020]

recent and future changes in the delivery of local authority services generated two specific concerns.

- 5.10 First, there was concern that using new technology can increase the risk of fraud. Respondents were mainly concerned about the complexity of IT systems which they felt could easily be abused by offenders who may be more informed than the staff charged with working and maintaining the systems. Some noted that the lack of human verification removed a potential barrier for those accustomed to circumventing systems.
- 5.11 Second, the increasing devolvement to private companies for the provision of local authority services has created new opportunities for fraud through the commissioning and procurement processes. A number of people pointed out that public sector employees have limited expertise in dealing with the commercial sector and are, therefore, ill-equipped in drawing up and monitoring such contracts. As a result, both local authority employees and contractors may find themselves in positions to commit fraud (through bribery and kickbacks, overcharging, creating fictitious companies, contract splitting etc.). It was also noted that local authorities need to better understand and manage the risks associated with powers that are devolved out to external contractors.

‘... rather than helping us combat fraud, they’re the ones we suspect of perpetrating it.’

(Roundtable attendee)

‘Increased commercial activities to cover shortfalls in grants will likely lead to exposure to fraud where we are not fully equipped or trained to deal with.’

(Survey respondent)

- 5.12 In an era of austerity, perhaps predictably, the scarcity of resources was mentioned by a number of respondents and in different ways. Many comments related to the lack of investment in staff with specific responsibility for tackling fraud, for example:

‘Post SFIS [Single Integrated Fraud Investigation Service] local authorities are underfunded and have insufficient staff to counter fraud. Housing benefit fraud is not being dealt with in the correct way by DWP. This encourages fraud against local authority services, as it appears to the public that nothing is being done any more to counter the problem. Local authority resources are spread too thinly. Council tax fraud and tenancy fraud are both a major issue.’

(Survey respondent)

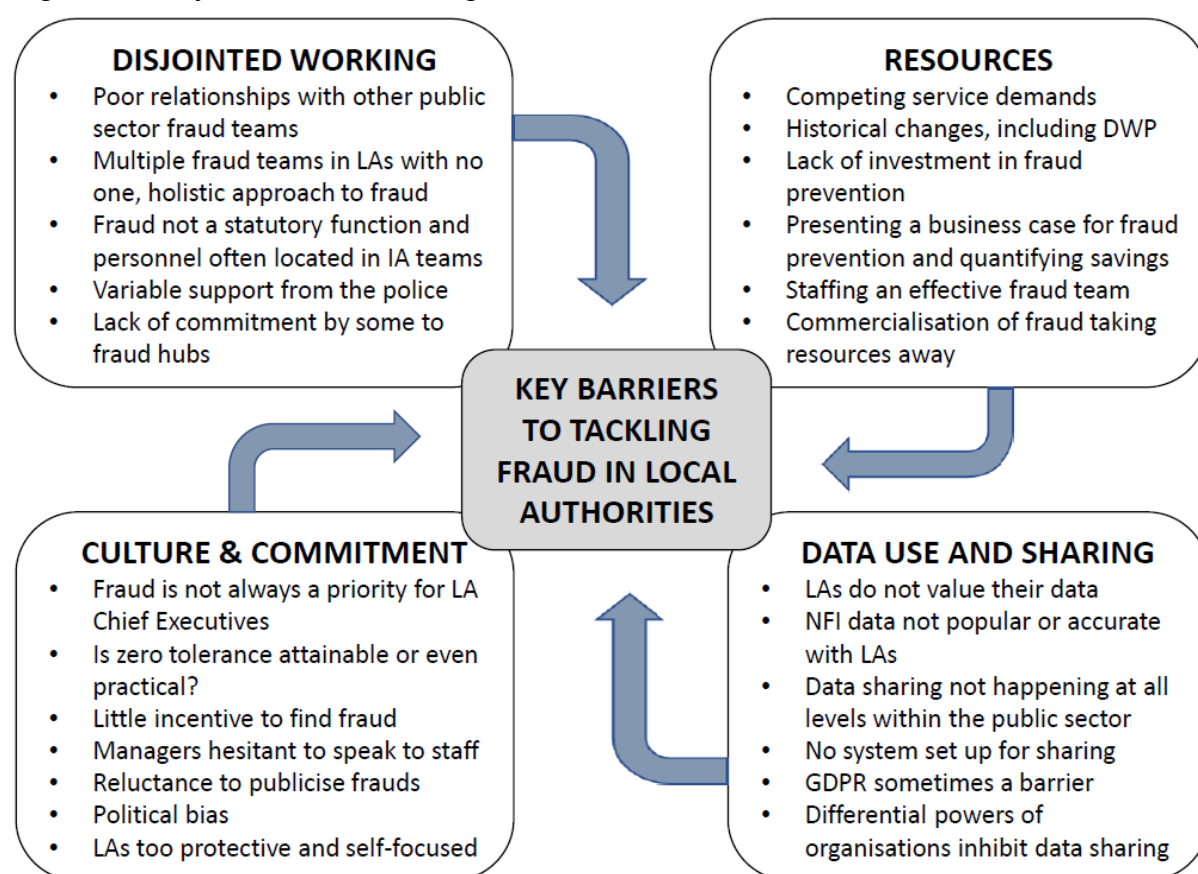
- 5.13 Respondents suggested this can result in responses to fraud that are on an ‘as-it-happens basis’ and requiring staff to respond to fraud to the neglect of their regular duties. Respondents also perceived that there was an associated risk that potential offenders notice this lack of preventive action and seek to exploit this weakness.

- 5.14 In terms of the management of fraud, concerns were raised that organisations often will not be able to implement up-to-date systems to counter evolving risks. In addition, some respondents feared a lack of interest and understanding of fraud by management might lead to such incidents being seen as the norm in organisations, creating a culture of '*acceptability*'. Respondents felt that it would appear to the public that nothing is being done about fraud and serve as a de facto crime incentive.
- 5.15 Changing political circumstances were seen as influential, from on the one hand more austere conditions increasing poverty and thereby incentives to commit fraud, to changing legislation and policies creating more opportunities principally through a lack of attention to inherent fraud risks. Several respondents also felt that fraud risks would raise once Brexit had taken place.

Response to future risks and key barriers to progress

- 5.16 Respondents were also asked about what they thought local authorities should focus on given the future risks identified. A full list of these can be seen in Appendix 4
- 5.17 Within the roundtable events, we sought to clarify the extent to which these issues were problematic to address. From those discussions, it was apparent that there were four main areas of concern (see Figure 12) and therefore, these are considered now in further detail.

Figure 12 Key barriers to tackling fraud in local authorities



Disjointed working

5.18 One of the main barriers to tackling fraud in local authorities (raised by both survey respondents and roundtable attendees) was disjointed working arrangements and a lack of effective partnerships. Many felt that better collaborative and joint-working arrangements, at all levels, would enable more joined-up thinking and better sharing and use of data evolving more good practices to better facilitate effective responses to fraud. However, five key structural issues were identified that could stop authorities achieving this.

5.19 The first of these is the existence of different fraud teams in different agencies (such as central government, local government, DWP, HMRC, NHS) which generally were not seen as working well together and sometimes not collaborating at all. They were identified as often operating with different values, working cultures and leadership priorities. One roundtable participant summed it up as a system that was, *‘ideal for fraudsters to abuse.’* The government was also seen as at fault:

‘Fraud needs to be taken more seriously by central government, additional funding should be provided to make sure all government agencies work closely [together] and have resources to tackle fraud in [a] joined approach, rather than [in] isolation.’

(Survey respondent)

- 5.20 Another roundtable attendee recalled how recent changes in working arrangements since the introduction of SFIS had particularly disadvantaged local authorities, cutting the number of fraud investigators and making fraud relationships more difficult:

'We went back 20 years overnight by TUPEing all the staff over and stopping joint-working. That was genuinely a step back 20 years and it happened overnight.'

(Roundtable attendee)

- 5.21 The second point is that, historically, within local authorities fraud work has often evolved alongside individual services (like council tax, housing, NNDR etc.) and, as a result, local authorities often have several fraud teams, each responsible for a specific service area. In addition, heads of departments and Human Resources are sometimes designated specific fraud roles. These approaches, it was argued, foster disjointed working practices with teams having overlapping or competing priorities. In response, some argued the case for having one dedicated and accountable team taking a more overarching, holistic approach to fraud management:

'We need to bring an end to departmental silo working and encourage a unified approach to tackling fraud.'

(Survey respondent)

- 5.22 Third, unlike internal audit, counter fraud is not a statutory function in local government. The problem is that fraud roles are often located within internal audit departments where they can rarely be a priority. Not surprisingly, some fraud specialists highlighted the case for fraud work to be organised separately albeit with varying degrees of success. Additionally, counter fraud, as a role, has not been professionalised in the same way as roles related to internal audit have during the previous decades. To address this, a year ago, the government set up the Government Counter Fraud Profession (GCFP)⁵⁸ for central government departments, but local authorities were included quite late and take-up has been low. Moreover, it was noted that it is not clear how Fighting Fraud and Corruption Locally (FFCL) fits into this.
- 5.23 A fourth point impacting on partnership working pertains to the relations local authority fraud teams have – or in some cases do not have – with the local police force. Some had less contact with the police because their authorities generally prosecuted their own fraud cases, except for very large scale or national ones. Some noted that the key was to build up a rapport with a specific officer. Others had more contact and were able to recount positive experiences. It was acknowledged, however, that police resources are stretched too, and fraud was rarely a priority for them. Examples of the differing perspectives respondents held in relation to working with the police included:

⁵⁸ See

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/730050/Annex_B_-_GCFP_Brochure.pdf

'[We have] a bad relationship and [it's] getting worse. They [the police] only take on cases if we give them packages, we do all the work for them.'

(Roundtable attendee)

'We have a good relationship and they have done some training for us. Also allowed us to use their police station for some interviews to ramp up the importance.'

(Roundtable attendee)

'My experience is that, due to limited resources, there can be too much focus on responding to investigation work. It would also be helpful if the police could reduce some of the burden by helping in the gathering of evidence. My impression is that there is an over-reliance on local authority fraud investigators having to do all the leg work for the police.'

(Survey respondent)

- 5.24 In certain areas, to try to overcome some of the disjointed efforts to fight fraud, a number of fraud hubs have been established, either independently, which mainly have a regional focus, or there are those run by the LGA or CIPFA, which have national coverage. The hubs allow those investigating fraud to work more closely together, particularly when common issues are shared, and were generally popular with roundtable attendees.
- 5.25 That said, the hubs were perceived as providing only a partial remedy to the issues associated with joint-working. Respondents highlighted that not all local authorities supported these hubs, some claimed to be prohibited from doing so due to costs, and others due to time pressures. In particular, a number of roundtable attendees felt that the CIPFA hub in particular was too expensive. One round table attendee pointed out that only two out of the 22 Welsh authorities use it. The hubs can also actually increase the workload for local authorities by way of data requests.

Culture and commitment

- 5.26 Survey respondents felt that fraud could only be tackled effectively, now and in the future, if their organisations had a strong anti-fraud culture. They suggested this culture must be set by senior management and promote a zero tolerance of fraud, while encouraging staff to raise issues without fear of recourse. They felt that more fraud awareness training for staff was important so they were more informed of the potential threats and risks and knew what to do should they encounter them. Importantly, such training should focus on how potential fraudulent activity would be identified in different roles, especially for frontline staff. As one respondent summarised:

'Councils should be ensuring they have dedicated trained staff, which in return could be proactive in highlighting fraud weaknesses to staff and what to look out for and what to report. Then subsequently if appropriate fraud staff investigating allegations where appropriate.'

(Survey respondent)

- 5.27 Moreover, it was thought this awareness should be supported by publicising real fraud cases. This highlights both to staff, as well as stakeholders and the public that fraud is not tolerated. Survey respondents also highlighted raising fraud awareness as the second most important area for tackling fraud in the future.

Fraud awareness by publicising real fraud case studies and from the top promoting a real zero tolerance approach to fraud.'

(Survey respondent)

- 5.28 When roundtable attendees were asked about the commitment of management towards tackling fraud, responses were mixed. Some said that sometimes chief executives say the right thing about zero tolerance towards fraud, but don't live that, whereas others are totally focused. Overall thought, most had positive things to say about their senior management teams, for example:

'My hierarchy are willing to tackle fraud because obviously it's a loss of income revenue to the authority, so that money can be better used elsewhere. They're keen to tackle fraud at source to recoup as much money as possible – budgets are tight these days – it's either generate additional income streams... or stop money going out of the door through fraud.'

(Roundtable attendee)

- 5.29 Besides the chief executive, roundtable attendees felt that other key staff who were able to influence the direction of anti-fraud efforts included the leader of the council, s.151 officer, monitoring officer, the chair of the audit committee, and other members of the senior management team. They also recognised that while chief executives are likely to say they have 'zero tolerance' to fraud, putting this into practice is difficult; there are numerous objectives reliant on finite resources and more pressing ones than tackling fraud. As one roundtable attendee stated: *'chief executives have other fires to fight.'*

- 5.30 Roundtable attendees pointed out that some local authorities simply do not prioritise fraud. They suggested this may be due to a combination of factors including the background of the chief executive; a requirement to meet a range of priorities; organisations being too target and output driven by other (statutory) priorities; or because of the belief that their organisation does not have any or little fraud:

'Doing the job properly and accurately [tackling fraud], not just trying to hit perverse KPI's that very often have exactly the opposite outcome to that originally desired.'

(Survey respondent)

'Counter fraud is not a priority according to my Director of Finance, because we don't have any fraud.'

(Roundtable attendee)

- 5.31 Other reasons for the lack of interest in fraud-related work related to the types of frauds experienced, geography and management styles. For example, Blue Badge fraud was seen to be more pertinent to the London and the South-East

areas, where the intrinsic value of a badge is probably greater than is the case in less populated and rural areas.

- 5.32 At a more local level, it was suggested by roundtable attendees that some managers are reluctant to interview staff when irregularities are first identified because they do not want to face these difficult conversations and/or do not feel supported within the organisation to undertake these.
- 5.33 Respondents made it clear that there is little incentivising chief executives to direct their resources towards acting on fraud. This is due to the lack of a national steer; the lack of a statutory requirement to counter fraud in local authorities; and the absence of targets, either for recovering monies, or for the number of prosecutions made. As one respondent pointed out, this needs to change:

'Back to someone in the Cabinet Office mandating a firmer approach to demonstrate councils have applied sufficient resources, skills and capabilities to the prevention detection and investigation of fraud.'

(Roundtable attendee)

- 5.34 One roundtable attendee highlighted that there used to be incentives, whereby local authorities could claim a subsidy payment for successful fraud outcomes (sanctions, cautions and prosecutions) from the DWP to reinvest in training and administration costs. Some lamented that this was no longer the case, while others felt such an approach would risk local authorities *'going hunting'* for easy targets in an attempt to make money, rather than focus on what is most damaging and/or the more difficult offenders.
- 5.35 Some respondents pressed the case for chief executives to be held more accountable for levels of frauds in their authority requiring them to publish more data and detailing a response. It was noted that not all councils want to find fraud in part at least because of the negative publicity that results and the need to then have to find money to provide solutions. As one respondent, keen to invest in pursuing fraud locally commented:

'It's good to speculate to accumulate, but then it comes down to the culture, do we want to expose the council [as having] a fraud problem?'

(Roundtable attendee)

- 5.36 Respondents highlighted that an organisation needs to be at least seen to be taking action against offenders, both for deterrent purposes and to instil good principles as part of a fighting fraud culture. That said, some pointed to double standards where external frauds are pursued and prosecuted, whereas, for some internal frauds, staff are often allowed to resign and are sent off with a reference. This is not always the case: one roundtable attendee pointed to an authority that dismissed all staff involved in the abuse of the Blue Badge system.
- 5.37 Sometimes fraud priorities were influenced by local politics. Some contributors to the discussions cited that they had experienced situations where for

example, some local councillors, had questioned a focus on benefit fraudsters at the expense of other types of fraud. Similarly, it was noted, some politicians might not want to see headlines about benefit fraudsters in their local press around election times.

- 5.38 In addition, at a time when the consolidation of local authority services is a key issue and jobs under threat, comments were made suggesting that some organisations (in particular district and borough councils) are currently very protective of their services and therefore, less willing to enter into partnerships or share data to tackle fraud.

Resources

- 5.39 In terms of resources survey respondents, predictably, championed the case for appropriate resources being devoted to tackling fraud in a context where austerity had featured prominently. They lamented that counter fraud activities had not been immune from cutbacks. As one roundtable contributor commented: *'We're in crisis – we have no money.'*
- 5.40 As a result, a theme running through the discussions was that some local authorities were not appropriately staffed to tackle the fraud risks associated with the changing and evolving nature of local authority services and structures. As a consequence, tackling fraud tended to focus on the same easy targets or *'low-hanging fruit'*. Roundtable attendees mentioned that vacancies for fraud staff were not being filled. Further, although internal audit staff could conduct some of the fraud work (given that many fraud roles are situated in internal audit teams), in practice internal audit is a statutory function and fraud is not. Where fraud teams did exist, they were frequently characterised as being under-resourced and lacking specialist and technical expertise; tackling cybercrime or procurement fraud were cited as examples.
- 5.41 Because of these issues, some respondents commented that some authorities had re-established joint-working arrangements with the DWP to take a more holistic approach to fraud, something they said was offered to all authorities:

'If we find a fraud on council tax, then we can join up with the DWP to look at the whole picture. Therefore, we can recover more.'

(Roundtable attendee)

- 5.42 One roundtable attendee pointed out that The Welsh Public Accounts Committee (PAC) have identified a lack of counter fraud officers in its region, and that all Welsh authorities have been asked to outline plans to remedy this.⁵⁹ It was noted that in areas like Wales where there are small fraud teams there are limits to the range of skills sets that can be included. This raised the point, and some argued for this determinedly, that national or regional fraud

⁵⁹ Letter from Mr Nick Ramsay, Chair Welsh of the National Assembly of Wales, Public Accounts Committee, to Dame Shan Morgan, Permanent Secretary, Welsh Government dated 26th August 2019,

teams for some areas offer greater overall potential. It was reported that The Welsh PAC was leaning towards a national team and this approach was generally welcomed by those we spoke to.

- 5.43 Round table participants discussed whether investing in tackling fraud returned a surplus in preventing further losses and recovering monies taken. Some were adamant this was the case and felt they would be able to prove this through figures they had accumulated. That said, it was acknowledged that the evidence was not always convincing to third parties, including senior management, not least when the focus was on frauds prevented:

'I've been shocked how we're not allowed to spend money to recoup money. They're happy to react to things once they've happened, but pre-exemptive targeting... [it is] very hard for them.'

(Roundtable attendee)

- 5.44 In addition, participants discussed how funds saved through fraud work were mainly classed as non-cashable savings (such as council tax reduction scheme/SPD, a fraudulent housing application or the misuse of a Blue Badge), which, unlike cash savings (such as housing benefit), were not realised for use elsewhere in the public sector, leaving few avenues for getting 'real' net cash back in.

- 5.45 Worse still, and this was much lamented, the round table participants discussed how there was no widely supported formula for calculating the financial benefits of investment in fraud, nor a protocol for how best to present them. Some contributors felt they thought they had not '*played the game enough*' and when savings had been made through their counter fraud work, they had been guilty of not going to back senior management to put forward a case for more investment. For example:

'Counter fraud staff probably haven't highlighted savings enough in the past to get more support and services.'

(Roundtable attendee)

- 5.46 The desire to be able to make a business case was reported to become even more problematic when prevention was a focus. As noted, this was described as much harder to convincingly quantify. Moreover, it was reported that there was no specified national model and definition of what preventing fraud involves. Compared to fraud investigation, fraud prevention was described as a much more nebulous concept for people to understand and get on board with. Yet, as participants pointed out, on paper, prevention will nearly always look better, unless a really large fraud is discovered, and in terms of rate of return, prevention wins nearly every time. As one fraud lead outlined:

'Any business person could not argue with this... the business case stacks up, time and time again. You might spend £40k on an investigator [to look at preventive methods], but you don't have to do a great deal to get it [the investment] back.'

(Roundtable attendee)

- 5.47 However, some felt that a move from investigation to prevention would be hard to sell to the public and therefore promoted the status quo; one roundtable attendee defended *'after the event'* investigations by saying: *'We're reactive, rather than proactive. That's because we have so much fraud.'* Another argued:

'We are just getting to the low-hanging fruit, not really getting to the real issues. But the problem is now we have got to the highest 'low-hanging' fruit.'

(Roundtable attendee)

- 5.48 To be clear, the prioritisation of fraud prevention over investigation was widely seen as laudable, but there were other difficulties raised. Some felt that chief executives claim to be supportive and *'on message'* when tackling fraud, but did not focus on, or invest more money in areas where they would get the make the greatest savings. This is a simple private sector business concept that is more alien in the public sector. While others commented that fraud prevention efforts had been curtailed in their organisations due to stretched resources:

'Local authorities are pushed to do fraud prevention but pushed also to make savings.'

(Roundtable attendee)

The final point about scarce resources related to the commercialisation of services at a number of levels. For local authorities, comments were made that paying private organisations for providing services takes money out of the public sector, affecting all resources in an organisation, including countering fraud. In addition to this, where external bodies have been forced into a more commercial market (such as CIPFA), respondents felt that this had changed the relationships with these organisations, from a supportive, to a more commercial one.

Data use and sharing

- 5.49 Survey respondents believed that the use and sharing of data and local intelligence were key to countering fraud in the future. Suggestions to improve current practices centred on having clear and up-to-date policies and procedures; better data mining of local authority records; and using AI for verification checks. One contributor summarised the requirements as:

'Up-to-date policies that reflect the internet age and service delivery and strong internal controls and procedures.'

(Survey respondent)

- 5.50 Both survey respondents and roundtable attendees, however, highlighted a number of barriers inhibiting the use of data to progress fighting fraud within the public sector. They broadly fall into two main types: 1) use of data in local authorities, and 2) arrangements for sharing data.
- 5.51 Regarding the first barrier, respondents answers suggested that local authorities appear to undervalue the data they held regarding its potential to contribute to tackling fraud. This was both in terms of what data they used (or

did not use) and how they analysed the data they held (or failed to analyse it). As one respondent stated:

'Local authorities are 10 years behind valuing the data they hold.'

(Roundtable attendee)

- 5.52 Where data analysis was undertaken, respondents commented that this rarely went beyond simple data matching between a limited number of databases. Respondents felt that they needed to be moving beyond this approach towards identifying patterns and trends and considering use of the latest technological advances such as AI to assist. Rather than seeing data analysis as a standalone operation at the end of a process, respondents felt it should be built into the front end of systems to identify anomalies much earlier on.
- 5.53 Respondents highlighted that while some authorities do undertake data analysis in-house, most use external companies and a number of private businesses are focussed on trying to sell solutions to local authorities. Roundtable attendees raised issues about the quality of data, how to identify good providers and who could be trusted to provide these services. In addition, these external routes, tended to only relate to parts of the authority's system.
- 5.54 The NFI was designed to remedy some of the problems here, it provides data to all local authorities for fraud analysis, however, roundtable attendees raised a number of concerns with this. First, the data matching is run historically and, therefore, the data are already out-of-date when they are received. Individuals commented that having an alert before wrong or fraudulent payments are made (like bank account alerts) would be far more useful. Further, although it is compulsory for local authorities to provide the data, they are under no obligation to investigate any anomalies identified – there are no mandatory rules about how to deal with it.
- 5.55 Roundtable attendees suggested that much of the data they receive (albeit sifted to some extent) is not what they would describe as 'good', it was reported that they often do not show helpful matches and sometimes generated erroneous findings or issues that did not affect payments at all. As one contributor summarised:

'The NFI is ok as far as it goes, but in terms of the number of matches you get, there's a huge amount of rubbish in there before you get to the good stuff.'

(Roundtable attendee)

- 5.56 Analysing NFI data was also noted to absorb a lot of resources, a data matching exercise was viewed as quite complicated. Respondents also felt the system was outdated and needs to be re-examined:

'A re-examination of the archaic NFI approach to data sharing and data matching [is needed].'

(Survey respondent)

'NFI has been going on a long time and we're all very jaded about it. We've been there, we've received the t-shirt, we know it's rubbish. So, we say "here we go again".'

(Roundtable attendee)

- 5.57 When roundtable attendees were challenged about how they would cope with any new data when they are not acting on data they currently hold, they recognised the challenge but were keen to highlight the enormous potential of good data and using it effectively:

'If we had access to better information across a range of agencies, the fraud investigations would be of better quality and we would investigate better fraud.'

(Roundtable attendee)

- 5.58 The second barrier related specifically to the issue of data sharing (or the lack of it) and there are three main points that roundtable attendees outlined. First, although smaller authorities might find it easier practically to share data than larger ones, which may be spread over a number of sites, there are no systems formally set up within the public sector enabling organisations to share data.

- 5.59 Currently, data is often kept in silos, and even those working in the same authority and involved in tackling frauds may not share access to data that would be of mutual benefit. For instance, respondents highlighted that the rent database is not always checked against those paying council tax, which could identify people in rented accommodation avoiding paying council tax. The council tax database could also be used to identify people claiming a single persons council tax rebate when multiple people live in the house (which could be cross checked with number of adults on an electoral roll at that address). An example given was:

'Greater awareness by service departments of the work of other service departments, in terms of sharing data that might identify fraud. Silo working mentality is a major obstacle to fraud prevention.'

(Survey respondent)

- 5.60 Because data sharing services have not been prescribed or provided for nationally by the government, a number of external organisations (such as Synectic Solutions, Destin Solutions Ltd, Data Tank, NAFN) have attempted to fill this void albeit they have been partial in coverage of the gaps, some comments included:

'If the NFI worked, we wouldn't have to have a conversation about commercial support.'

(Roundtable attendee)

'The key areas of focus should be around greater joint-working with other organisations, particularly around data matching.'

(Survey respondent)

‘Share good practice with others, why reinvent the wheel and work with external partners.’

(Survey respondent)

- 5.61 The second reason that participants cited for inhibited data sharing practices related to the recent General Data Protection Regulations (GDPR), which, it was argued, had further complicated an already complex area:

‘There is no structure for it [sharing], no systems set up to contact each other and GDPR has to some extent frightened people about this. It needs to be clearer and given clearance.’

(Roundtable attendee)

‘There’s a marked anxiety and nervousness about “can we share that?”’

(Roundtable attendee)

- 5.62 Some roundtable attendees stated that they use Schedule 2, Part 1⁶⁰ of the Data Protection Act (2018) to try and overcome any accessibility issues, but this was not always clear cut, especially in terms of who the prosecuting authority was. It was suggested that the Cabinet Office, local authority chief executives and the NFI could potentially simplify the process and confirm if such pathways to sharing data do exist, and if so, to make them explicit to those that need to use them.
- 5.63 This ties into the third and final point about dating sharing that the respondents raised. Organisations possess different powers to obtain, share and use data. Roundtable attendees raised the issue of needing legislation in place for their officers to enable national and regulatory teams to share their data with them. They explained that if some data were obtained under certain legislation by one type of organisation, it was unlikely this could be used by another type of organisation for a different type of fraud. If a person was found to be guilty of public sector fraud in one area, then it was more than possible they were committing frauds in other areas.
- 5.64 Barriers aside, respondents flagged a definite appetite and willingness from those working on the ground, to work better together.

Summary of qualitative findings

- 5.65 The qualitative findings provide additional insights to the issues explored in the survey. They highlight the need for changes in the way local authorities currently tackle fraud, which rests to a large extent on more partnership working and on the better use and sharing of data. However, many contributors felt that they have gone as far as possible locally to achieve these and need further central intervention and direction from the Government to help resolve some of the barriers preventing further progress.

⁶⁰ Schedule 2 Part 1(5) of the Data Protection Act 2018 states that personal data are exempt from the non-disclosure provisions whereby: 1. a disclosure is required by or under an enactment, by any rule of law or by the order of a court; 2. for the purpose of, or in connection with, any legal proceedings (including prospective legal proceedings) or the purpose of obtaining legal advice, or is otherwise necessary for the purpose of establishing, exercising or defending legal rights).

5.66 The final section of the report considers the findings as a whole, providing a discussion of the key issues.

Section 6. Discussion

- 6.1 The survey showed that over three-fifths (64%) of respondents felt that fraud was a major problem in UK local authorities and that the incidence of fraud is rising. That said, very few were willing to concede that fraud was a major, or even moderate problem in their own organisations or departments. Over half (56%) of the survey respondents felt that the response to fraud in their organisation was adequate though it is notable that a similar proportion (54%) felt that their organisation should spend more money on trying to prevent fraud.
- 6.2 When asked who the most likely perpetrators of fraud were, the majority of respondents felt that service users, staff and opportunists were most culpable, although there was recognition of incidents involving cyber criminals, professional fraudsters and organised criminals. Weak internal/organisational controls were cited as the most likely reason for people being able to commit both internal and external fraud against local authorities, followed closely by staff not adequately trained to recognise fraudulent activities. The importance of staff being fraud aware was highlighted by other responses. For example, over 7 in 10 (71%) respondents believed that austerity had significantly contributed to fraud in local authorities; fewer staff and more fraud had required them to take on more of the burden. Moreover, putting more services and applications online was another key risk identified (46%) since it increased exposure in new areas of activities and it was far from clear whether staff were geared up to respond effectively.
- 6.3 The belief that organisations were well placed to tackle fraud was emphasised in other ways as 70% of respondents agreed that their organisations had a good understanding of their fraud risks, and 60% felt that their organisation had a committed leadership team who sent out a strong anti-fraud message. The majority (82%) of respondents believed their colleagues would report a fraud if they identified one and that in most cases (65%) staff would know procedures to follow should this occur. Less favourable responses were found for how organisations account for fraud once discovered though, with well over 4 in 10 (45%) of respondents believing that fraud levels are under-reported in their organisations and over a sixth (17%) admitting that their organisations would be reluctant to disclose fraud externally.
- 6.4 When asked about key risks local authorities may face in the future and what should be done to mitigate against these, survey respondents highlighted a number of issues, including raising the profile of the counter fraud role; better use and sharing of data; more effective partnerships working; and preventing fraud from happening in the first place. Indeed, activities which involved more proactive, rather than reactive anti-fraud efforts were emphasised, demonstrating a marked shift away from the traditional practices of tackling fraud, such as detection and recovery.
- 6.5 However, to successfully implement many of these new solutions roundtable attendees highlighted a number of potential barriers, some of which they felt needed government intervention. In particular, they believed that counter

fraud should be made a statutory function within local authorities and that chief executives should be made more accountable for fraud. In addition, further statutory changes were needed to ensure that all local authority service areas can be fully investigated for fraud (such as social care) and to enable better and more formalised partnerships arrangements with other public sector bodies.

- 6.6 In the meantime, while some of the issues are addressed centrally by the government, respondents generally felt that local authorities need to seek new ways of tackling fraud as new risks emerged. It was argued that they need to be smarter in their approaches and find ways of calculating the costs and benefits of different approaches by methods which have the support of the key stakeholders.
- 6.7 Currently, too often chief executives are not matching a verbal commitment to a zero tolerance to fraud with strategies and actions.
- 6.8 There is no crisis in local authority approaches to fraud, not at least according to the senior officers involved and participating in this research. But there are gaps, and there are opportunities that are not being exploited. Some of these are traditional ones such as the need for better partnership working and more cooperation between colleagues. Some issues have existed for a long time such as the better use and sharing of data, but respondents here highlighted how current structures and processes impeded effective working and how new technologies could improve analysis. There were calls for different types of intervention, to make tackling fraud a statutory requirement. The move to focus more on prevention was widely applauded but it needs managing, good practices need to be highlighted and they need to evolve. There is a willingness in practice, the question is whether there is the political will to do so, of that our respondents were much less certain.

Appendix 1. Methodology

Background

The research involved a review of existing literature on tackling fraud in organisations in order to identify current and emerging practices, especially those relating to fraud prevention. Fraud literature on this topic relating to the public sector, and even more so local authorities, is scant and, therefore, evidence was largely drawn from other sectors. This information was then used to identify key issues and themes to explore within the survey and round table discussions.

The research adopted two approaches. First, an online survey targeting senior officers working in local authorities located in England, Wales, Scotland and Northern Ireland and, secondly, three roundtable discussions - two in London and one in Chester.

Survey design

The purpose of the online survey was to capture the views and experiences of a wide variety of senior officers on tackling fraud in local authorities. The survey featured multiple-choice questions, matrix questions and rating scale questions (using a Likert scale).⁶¹ The majority of the questions were closed. The final two questions, which were not compulsory, were open-ended in order to elicit more detailed insights from participants. The survey was piloted with ten individuals with local authority expertise and following feedback and consultation on suggested changes, was finalised.

Survey implementation

The survey was disseminated to approximately 7,700 individuals in local authorities throughout England, Wales, Scotland and Northern Ireland who were selected from the main CIPFA contact database by CIPFA staff. Their aim here was to include senior officers working in local authorities. Specifically, it was distributed with adherence to the following parameters:

- To individuals that worked in key positions in local authorities, specifically those where 'Director' or 'Head' was in their job title;
- Where the job title contained the words: Assurance, Audit, Compliance, Forensic, Fraud, Investigation, Policy, Risk, Crime, Diligence, Enforcement, Integrity, Intelligence, Regulator, or Security;

⁶¹ A Likert scale is a rating scale allowing individuals to indicate how much they agree or disagree with a particular statement.

- All bookers, delegates, or buyers of products or membership products of any counter fraud product in last 36 months; and
- Where people had opted in the database to receive counter fraud material.

Participation in the survey was voluntary and all answers and feedback were anonymous and seen only by Perpetuity staff. The survey was disseminated by CIPFA via email which contained a link to the online survey administered through SurveyMonkey. Individuals were encouraged to complete the survey in the email sent out by the CIPFA Marketing Department by explaining the purpose of the research.

The survey was made available from 21st November 2019 for a period of three weeks and email reminders were sent out on 29th November and 12th December.

Roundtable events

At the end of the survey, all respondents were asked if they wished to take part in follow up roundtable events to further discuss issues raised. Fourteen people attended three events, two held at CIPFA premises in London (four attendees in December; six in January) and one in Chester (four attendees) and each lasted between 90 minutes and two hours. Perpetuity staff facilitated the discussions. These focused on the key themes raised by survey respondents when asked about tackling fraud in the future and barriers affecting this. All three events were recorded after permission was granted from attendees in order to facilitate analysis and enable accurate quotes to be used in the report.

Survey analysis

The survey responses were coded and input into a database to allow for subsequent analysis. SPSS (a statistical software package) was used to perform the analysis, identifying frequencies and performing chi square testing to determine whether there were any significant differences between variables.

Findings from the roundtable discussions were subjected to thematic analysis, by familiarising with the responses provided, coding the data according to emerging ideas and creating categories through comparison of the responses. The purpose of this approach was to identify the overall issues and themes apparent from the discussions and the report was then structured around these emerging themes.

Limitations of research

It should be borne in mind that this study focussed solely on the views, perspectives and experiences of only senior officers in local authorities when tackling fraud. It does not include other levels of officers working in local authorities, who may have been able to contribute knowledge to this area. Nor does it analyse the merits of the practices outlined.

We need also to stress caution about generalising the findings from this research. From a population of 7,700 people. A total of 349 replies were received, with two not meeting the research criteria (one non-local authority employee and one who had retired). In addition, responses with significant levels of missing answers (those who completed the background questions only) were removed from analysis (n=44), equating to a sample of 303, an approximate 4% return on those emailed. Unfortunately, we do not have good data on the population to make meaningful comparisons of the representatives of our sample. Since the survey was anonymous and multiple responses may have been received from the same authority, it is impossible to say what proportion of local authorities this figure represents.

Appendix 2. Survey respondent characteristics

Professional level of survey respondents

Level	N	%
Chief executive	8	3
Director of finance/CFO/Section 151 Officer	40	13
Other director	19	6
Senior manager/Head of department/Head of section	116	38
Other manager	120	40
Total	303	100

Role of survey respondents

List	Function	N	%
List 1	Education services; Children's and adult's social care; Waste services; Public health services; Planning and housing services; Road maintenance; Library services; Community safety; Environmental services; Regeneration; Customer services.	34	11
List 2	Finance/Human Resources/IT & Communications/Internal Audit/Counter Fraud.	250	83
Not listed	Included chief executive; legal; performance and risk; procurement; insurance; councillor.	19	6
Total		303	100

Organisation type survey respondents worked for

Type	Actual N	Actual %	Expected %
England – Counties	44	15	7
England – Unitaries	58	19	13
England – Metropolitan Districts	40	13	9
England – Non-Metropolitan Districts	73	24	47
England – London	33	11	8
Scotland – All authorities ⁶²	28	9	8
Wales – All authorities	21	7	5

⁶² One respondent identified themselves as working for a Scottish authority, but in the Northern Ireland region. From the information provided, it could not be determined which was the correct answer.

Northern Ireland – All authorities	0	0	3
Other	6	2	-
Total	303	100	100

Region survey respondents organisations were based in

Region	Actual N	Actual %	Expected %
London/South East	86	28	30
Midlands	47	15	18
North West	38	13	10
North East/Yorkshire and the Humber	29	10	9
South West	21	7	7
East of England	33	11	9
Scotland	27	9	8
Wales	21	7	5
Northern Ireland	1	0	3
Total	303	100	100

Appendix 3. Risks raised by survey respondents

Risk area	Detail
Related to services	<p>Social care (including assessments, use of funds, under-declaring, self-directed support)</p> <p>Council Tax Fraud</p> <p>Housing fraud (including benefits, tenancy fraud, right to buy)</p> <p>Business rate fraud</p> <p>Small business rate relief fraud</p> <p>Universal Credit fraud</p> <p>Direct payment fraud</p> <p>NNDR fraud</p> <p>Blue Badge fraud</p>
On-going and new frauds	<p>Increased cybercrime (hacking, spoofing, gang attacks, ransomware)</p> <p>Identity theft</p> <p>Organised crime and international gangs</p> <p>Money laundering</p> <p>Serious and organised crime groups targeting local authorities</p> <p>Employee theft and fraud (especially due to increased pressure and disillusionment)</p>
Management	<p>Poor management</p> <p>Systems not developing to counter evolving risks</p> <p>Where fraud becomes 'acceptable' as part of the culture</p> <p>How the public view the handling of fraud incidents</p> <p>Devolved local management</p>
Service delivery	<p>Putting services online (exposure; verification; potential for cybercrime; wider audience)</p> <p>Increased outsourcing and commercialisation of services</p> <p>Managing devolved risks and powers</p> <p>Contract management</p> <p>Procurement fraud</p>
Lack of funding	<p>Increasing demand with reducing resources</p> <p>Lack of funds and budget cuts</p> <p>Reduction in counter fraud work (detection and prevention)</p> <p>Difficult to fund a counter fraud team, especially with the required skills</p>
Impact of social and	<p>Influence of social issues, such as increase in poverty, meaning more benefits are paid and more fraud.</p> <p>Dependency on Central Government policy relating to income and</p>

Political	housing Issues as a result of Brexit. Central Government policy relating to income and housing Poor legislation from government
Other	Freedom passes

Appendix 4. Responses to future risks raised by survey respondents

Response	Detail
Investigations and sanctions	<p>Provide robust investigative and sanction processes</p> <p>Publicise successful prosecutions</p> <p>Raise awareness of prosecutions, both internally and externally</p>
Good internal processes	<p>Robust controls and procedures</p> <p>Appropriate checks and balances in processes and procedures</p> <p>Due diligence, deterrence and good systems</p> <p>Improved contractor vetting and contract management</p> <p>Early agreement of new processes</p> <p>Strong Internal Audit function to ensure strong internal controls</p>
Use of data	<p>Make best use of data</p> <p>More data mining within local authority records</p> <p>Use of AI for verification checks</p> <p>Local intelligence gathering</p> <p>Improved data sharing</p> <p>Clear and up-to-date policies on use of data</p>
IT and cyber controls	<p>Robust IT and cyber controls (including strong firewalls, good e-protection, and verification procedures)</p> <p>Upskilling of IT staff</p> <p>Up-to-date IT policies and procedures</p> <p>Up-to-date software and effective anti-malware protection</p> <p>Joint-working arrangements and better parentships</p> <p>Balance risks of IT development with other risks</p>
Resources	<p>Provide an appropriate level of counter fraud</p> <p>Have a counter-fraud team in place</p> <p>Maintain an appropriate resource to prevent/detect fraud</p> <p>Resource counter fraud teams adequately</p> <p>Understand the impact on service cuts and internal controls</p>
Culture and commitment	<p>Create and embed an anti-fraud culture</p> <p>Good cultural leadership</p> <p>Develop cultural understanding for employees and contractors</p> <p>Good fraud prevention procedures</p> <p>Fraud awareness training for staff</p>

	<p>General awareness promotion</p> <p>General fraud training for frontline staff</p>
Partnership working	<p>Better partnership, collaborative and joint-working</p> <p>Work in partnership with the police</p> <p>Joined-up thinking with other organisations</p> <p>Share good practice</p> <p>Join professional or support networks</p> <p>Improved data sharing</p>
Other	<p>Better legal powers for local authorities</p> <p>Define local authorities' role in protecting vulnerable residents from fraud rather than having a focus purely on organisational fraud</p> <p>Get rid of universal credit and bring in an effective benefit that is not wide open to abuse</p> <p>Look at emerging areas like Airbnb and Just Park</p> <p>More compliance checks for discount applications</p> <p>Better ways of checking for multiple Small Business Rate Relief (SBRR) claims</p>

About Perpetuity Research

Perpetuity Research is a leading research company with wide expertise in both quantitative and qualitative approaches. We work with businesses, national and local government, charities and foundations to help them understand people's behaviour. We have been extensively involved in economic crime-related studies including fraudsters and their reflections on their offending; how offenders get around fraud strategies; evaluation of a fraudster reparation scheme; a survey of fraud and bribery in the Middle East. We have also undertaken studies with the Police Foundation and produced publications including looking at the Impact of Fraud on Local Communities and Improving the Response to the Victims of Fraud.

About the TECAs

The TECAs (Tackling Economic Crime Awards) are an awards scheme which recognise, and reward individuals, teams, initiatives and companies involved in tackling different areas of economic crime. The awards are designed to be both independent and inclusive, they are guided by an ethics policy, all the judges are appointed by associations and specialist economic crime groups. They provide an opportunity for outstanding performers, whether buyers or suppliers, to be recognised and their success to be celebrated. For further information please visit: <https://thetecas.com>

About the authors

Professor Martin Gill

Martin is a criminologist and Director of Perpetuity Research which started life as a spin out company from the University of Leicester. He holds an honorary Chair at the University of Leicester. Martin has been actively involved in a range of studies relating to different aspects of business crime including, the causes of false burglar alarms, why fraudsters steal, the effectiveness of CCTV, the victims of identity fraud, how companies protect their brand image, the generators of illicit markets and stolen goods, to name but a few. Martin has been extensively involved with evaluation research and with the offender's perspective looking at how they target certain people and premises and aim to circumvent security measures. He has published 14 books including the second edition of the 'Handbook' of Security'. Martin is a Fellow of The Security Institute, a member of the Company of Security Professionals (and a Freeman of the City of London). He is a Trustee of the ASIS Foundation. In 2002 the ASIS Security Foundation made a 'citation for distinguished service' in 'recognition of his significant contribution to the security profession'. In 2009 he was one of the country's top 5 most quoted criminologists. In 2010 he was recognised by the BSIA with a special award for 'outstanding service to the security sector'. In 2015 and 2016 he was nominated and shortlisted for the Imbert Prize at the Association of Security Consultants and in the latter he won. In 2016 ASIS International awarded him a Presidential Order of Merit for distinguished service. In annual IFSEC listings he is regularly recorded as one of the world's most influential fire and

security expert. In 2016 he was entered onto the Register of Chartered Security Professionals. Martin is the Founder of the Outstanding Security Performance Awards (the OSPAs) and Tackling Economic Crime Awards (the TECAs).

Charlotte Howell

Charlotte joined Perpetuity in January 2009 and is currently the Research Manager – responsible for managing the delivery of research contracts, and our team of research staff. She also manages the Secured Environments scheme run by Perpetuity Research on behalf of Police CPI. Charlotte is an accomplished project manager with experience of working with a range of clients including businesses, associations, police forces, government organisations and charities. Charlotte's knowledge and experience spans the range of our areas of expertise – including crime prevention and community safety, security research, and the social aspects of health research. Charlotte is also actively involved in delivering fieldwork and has consulted with a range of individuals, including stakeholders (such as individuals from the police, local authorities, service commissioners and staff), offenders (both in prison and in the community) and clients accessing services (such as drug and alcohol treatment services, domestic abuse services and support services for sex workers). Charlotte is adept at quantitative analysis and has a wealth of experience analysing survey responses, client data and performance/outcomes data. Prior to working for Perpetuity, Charlotte graduated from the University of the West of England with a first class LLB (Hons) in Law. Following this she received an MSc in Criminology from the University of Leicester. After graduating, Charlotte worked for the Leicester Criminal Justice Drugs Team, analysing and reporting on Class A drug misuse and treatment information, to maintain and improve performance.

Dr Janice Goldstraw-White

Janice is a Research Associate who has worked with Perpetuity since 2010 and has expertise in the areas of crime, governance, audit, risk management and security. With more than 20 years' prior experience as an accountant, mainly in the public sector, she is particularly interested in crime in the workplace, fraudster behaviour and the role of women in white-collar crime. She has extensively researched in the area of white-collar crime both here and in Australia, with a focus on offender accounts of criminal behaviour. She has particular experience in interviewing within prisons and has undertaken over fifty interviews with incarcerated white-collar offenders. Janice has published a number of articles and co-authored separate chapters in books on workplace crime and the motives of white-collar criminals. Her own book entitled 'White-Collar Crime: Accounts of Offending Behaviour' was published in October 2011.

Caitlyn McGeer

Caitlyn works as a Researcher, having joined Perpetuity Research after earning an MSc in Criminology and Criminal Justice from the University of Oxford with distinction. During her MSc, Caitlyn focused on criminal justice monitoring and evaluation protocol, cultivating an expertise in quantitative platforms such as SPSS and GIS. Caitlyn is equally skilled in qualitative

methodology: interview, ethnographic, and visual methods. Caitlyn is currently completing a DPhil in Criminology at the University of Oxford. Caitlyn has extensive research experience in both domestic and international projects, specifically focusing on facilitating strategic public sector development and the establishment of the rule of law. Beyond academia, her professional background has centred on public-sector communications, risk management, and project development, coupled with advocacy and campaigning capacities. She is a communications specialist and an intuitive project manager. Caitlyn has worked with community development initiatives in Ecuador, Ghana, and Guatemala.

About CIPFA

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

About the CIPFA Counter Fraud Centre

Building on CIPFA's 135-year history of championing excellence in public finance management, the CIPFA Counter Fraud Centre offers a range of products and services to help organisations detect, prevent and recover fraud losses. We support the national counter fraud and anti-corruption strategy for local government, Fighting Fraud and Corruption Locally and were named in the UK Government's 2014 Anti-Corruption Plan and in the 2017–22 Anti-Corruption Strategy as having a key role to play in combating corruption, both within the UK and abroad. Through the annual CIPFA Fraud and Corruption Tracker (CFaCT) survey, we lead on measuring and monitoring fraud, bribery and corruption activity across local government.



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