Editorial

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Countering fraud in the public sector

Fraud committed against the public sector has become a matter of increasing concern for successive UK governments since the 1990s. However, 2006 may well be seen in the future to have been a landmark year in countering fraud against the UK economy. In September 2006, the government-sponsored Fraud Review published its final report, making recommendations which if implemented will radically change the way fraud is investigated and prosecuted. Specifically, the report asks for a National Fraud Authority to coordinate anti-fraud strategies across both the public and private sectors. It also wants to create a National Lead force for the public police, which will collate information on fraud and disseminate best practice among police forces. November 2006 saw the passage of the Fraud Act, the first attempt in English law to codify the law on fraud and to create a specific offence of fraud. Therefore, it seems opportune that this edition should discuss some of the concerns about fraud committed against the public sector, as well as assessing some of the initiatives taken to combat it.

The nature and scale of fraud committed against the public sector

The true scale of fraud committed against the UK economy and the public sector will never be measured accurately. There are two main reasons for this. Firstly, the nature of the offence itself involves some element of deception and deceit, which means that not all cases will be detected and reported. Related to this is the fact that there is no single reliable method of measuring it, with organizations measuring fraudulent activity in different ways based on different criteria.

To date, the most comprehensive attempt to gauge the national picture has been the Home Office-sponsored report by the consultants NERA, published in 2000. This attempted not only to calculate the scale of fraudulent activity, but also to include the costs to the criminal justice system of investigating and prosecuting cases.

It estimated the total cost to the economy as being between £6.75 and 13.32bn; the difference between the lowest and the highest estimate being a sign of the difficulty of measuring fraud. Another more recent report by Centre for Retail Research (CRR) estimated the figure to be £46,735bn with fraud against the public sector being in excess of £18bn (CRR, 2005).

In addition to these aggregate estimates of fraud, individual organizations in the public and private sectors have attempted to identify the types of fraud committed against them and its extent. Some, such as the Department of Work and Pensions (DWP), produce annual estimates of fraud and lost suffered by them, while others publish occasional, or “snapshot” estimates.

The nature of fraud against the public sector

Fraudulent activities are committed against organizations across the public sector, including central and local government departments and agencies and those responsible for the provision of public services. Concerns about frauds being committed against government were first expressed explicitly in 1989, when the Treasury report “Government Accounting” was published. This was amplified in the 1994 edition, which outlined the responsibilities of individual Government Departments on preventing fraud.

For the administrative sector, or “Whitehall”, the annual HM Treasury Fraud reports cover fraud reported by 51 Central Government Departments and their associated agencies. However, such estimates are necessarily partial because they ignore the major sources of fraud against the public sector: those committed against those who collect revenue, such as Her Majesty’s Revenue and Customs (HMRC), and those who distribute payments and/or provide services, such as the DWP and NHS and Local Authorities.

Fraud against the Public Services

The public services are vulnerable to a whole range of frauds, both by employees and customers/clients. Table 1 illustrates some of the major ones.

The way such frauds and others have been tackled has changed radically since the 1990s, with the introduction of strategic management techniques and approaches adapted from the private sector.

The use of strategic thinking in central government dates back to the adoption of private sector approaches from the early 1980s onwards. Specifically, it was tied up with the introduction of the New Public Management, with its emphasis on managerialism (Harris, 1998). This aimed to introduce the principles of professional management into public sector service provision, giving managers the “right to manage”. Part of this involved the move away from

Table 1 Summary of the main frauds committed against selected public sector organisations

<i>Organisation</i>	<i>Frauds</i>
DWP	Job Seekers Allowance (JSA) Income Support (IS) Disabled Living Allowance Pensions
Local Authorities	Housing Benefit (HB) Council Tax (CT) Contractor/procurement Fraud
NHS	Contractor Fraud (Doctors, etc.) Staff Fraud Patient Fraud Pharmaceutical Fraud
HMRC (Her Majesty's Revenue and Customs)	Tax Fraud Working Tax Credit Fraud (WCT) VAT Excise
MOD	Procurement Fraud

notions of direct authority to one of indirect control as exercised through market forces and contracts.

Andersen and Lawrie (2002) in reviewing the literature on strategic management in the public sector point to the unique challenges faced by the public sector in delivering services and outputs. In contrast to the private sector, public sector organizations face multiple stakeholders with potentially conflicting interests. Prominent among these is pressure from politicians who stress “value for money” in delivering public services. This latter point has been of particular importance in producing systematic strategies for countering fraud (HM Treasury 1998).

Thus, major organizations such as the NHS, DWP and HMRC have all implemented counter fraud strategies, including aims and objectives in reducing fraud as well as new structures and practices to achieve them.

The publication of the Fraud Review in 2006 represented a significant development in this process. Not only did it look at the totality of the offence and the impact it has on the economy and individuals, but also advocated that public and private organizations should adopt coherent strategies against fraud.

These developments and some of their consequences are the subject of the first three articles and one of the two features in this edition.

The first article outlines the experience of the DWP in implementing a new strategic approach, based on an intelligence-led approach to fraud

investigations. This included the adoption of aims and objectives and performance indicators and the establishment of new structures and procedures to achieve them. It will be argued that it is uncertain how effective this has been. This is not only because of the nature of fraud, but also because by concentrating on one aspect of their strategy, “Putting it right” they neglected another stage, “Getting it right”. The effect being to increase losses through “customer error”.

Strategic management approaches have been adopted by the DWP and other public sector bodies and imply the need for a new approach to train counter fraud investigators. Button *et al* outline such developments in the second article. They examine the moves towards making investigations of fraud more “professional” in terms of equipping investigators with knowledge of, for example the law in this field and of how to interview suspects and to present evidence in a courtroom situation. The article concludes by evaluating the scheme’s success and explores how such professionalism can be developed further.

The article is complemented by a feature written by Kwabena Frimpong and Paddy Baker, who report on a survey conducted in 2006 on the characteristics and status of Counter Fraud Specialists (CFS) within their organizations. It goes on to argue that counter fraud investigation should be regarded as a profession and outlines developments in this direction.

One of the crucial aspects of a Counter fraud investigator’s job is to interview suspected fraudsters. The parameters of interviewing suspects have become increasingly subject to legislation, and Andrea Shawyer and Dave Walsh examine this in their article on the usefulness of adapting the PEACE model in DWP investigations.

The final article and feature stress that fraud against the public sector is not confined to the UK and that international experiences can inform UK practice. Taking the healthcare sector as their subject, Anna Markovska and Anna Isaeva present a “snapshot” of fraud and corruption in the Ukraine; examining the wider problems that can accompany countries that are in transition from one economic system to another. Mareke Koken, Director, Claim Control at the Association of Dutch Health Insurers, concludes the edition by considering the utility of European countries pooling together knowledge and experiences of in combating fraud against their Healthcare systems. Specifically, the feature examines the work of the European Healthcare Fraud and Corruption Network (EHFCN), an initiative started by the NHS Counter Fraud and Security Management Service (CFSMS).

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