



**This Fraud Awareness handout has been designed to provide essential information to City of London Corporation employees in order to aid in our fight against common types of fraud that may affect the organisation.**

**Employees can be the most effective deterrent of fraud, even if not directly involved in financial systems. Their local knowledge of people and the organisation is critical intelligence in the fight against fraud. They are also best placed to recognise warning signs of fraud in the work place and report their suspicions.**

**Employees receiving this handout will also be provided with a copy of the City of London Code of Conduct, which should likewise be read in conjunction with this learning material.**

**Should you have any questions about any part of the information contained within this document, or wish to receive copies of other Policy, Procedure documents or publications referred to in this booklet, you should approach your line manager in the first instance. Alternatively, you may contact Chris Keesing, Senior Investigator on 020 7332 1278 or Paul Nagle, Head of Audit & Risk Management on 020 7332 1277**

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### 1. A Statement from the Town Clerk & Chief Executive

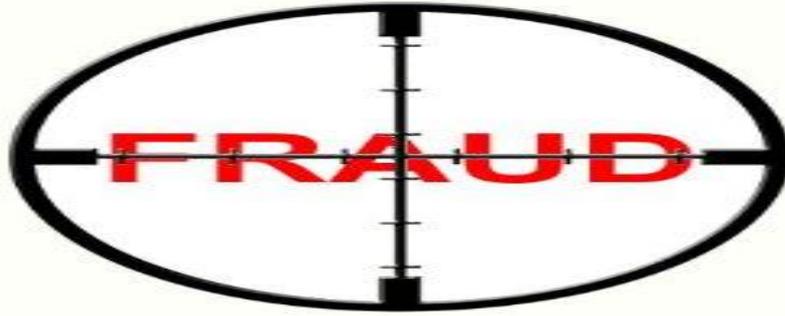
"Increases in fraud go hand-in-hand with tough economic conditions. It's at such times that some unscrupulous people turn to crime to make ends meet, whilst other criminals seek to exploit weaknesses within organisations.

The current time of austerity is impacting upon the services provided by all Local Authorities. The City of London Corporation is having to deliver more with less, and as a result, all staff need to be more vigilant to minimise the risk of fraud.

We must ensure internal controls are maintained and any suspicions of fraud are reported promptly. Only then will our assets and revenues be safeguarded.

It is essential that you read and digest this learning material as it is a critical part of the City Corporation's armory in its fight against fraud. I hope you find the material informative and enjoyable."

## 2. What is Fraud & Corruption?



### What is Fraud?

Fraud can be defined as taking or attempting to take something to which you know you are not entitled. It can be committed by Members, employees, members of the public or organisations.

It can involve theft, false accounting, deception, forgery and bribery. It can range from small, one-off occurrences through to serious organised crime. The [Fraud Act 2006](#) states that people carrying out serious frauds can be imprisoned for up to 10 years.

### What is Corruption?

Corruption is slightly different. It occurs where people abuse their position or powers to make a gain for themselves or for someone else.

### Why does Fraud and Corruption Occur?

Four elements are common to all cases of fraud and corruption:

- **People are involved**
- **Assets are at risk**
- **There is intent or motive**
- **Insufficient controls are in place to deter or prevent such activity**

Fraudsters are driven by common characteristics - need, greed, ego, revenge or even a challenge to beat the system. They often take advantage of the carelessness, naivety or incompetence of others.

**Fraud diverts resources away from those who need them.**

### Did you Know.....?

85% of fraud.....

**.....is perpetrated by employees or former employees**

10% of people.....

**.....would NEVER commit fraud**

80% of people.....

**.....are OPPORTUNISTS who may commit fraud in the right circumstances**

But most worrying of all.....

**.....10% of people will ALWAYS commit a fraud if the opportunity arises!**

### **What is the Impact of Fraud?**

Service Delivery.....

**.....can be affected by the theft of assets or the diversion of scarce resources**

Budgets.....

**.....can become even more stretched from losses of income or from improper spending**

Loss of Reputation.....

**.....can occur from frauds that damage the City Corporation's image both locally and nationally**

### 3. City of London Anti-fraud Culture



The City Corporation's Anti Fraud culture is underpinned by our [Anti-fraud & Corruption Strategy](#), endorsed by Members and Chief Officers. This strategy emphasises the City Corporation's zero tolerance to fraud and sets out the holistic approach adopted by the organisation to fight fraud. This approach encompasses the deterrence, prevention, detection and investigation of fraud and identifies a commitment to the use of appropriate sanctions, prosecutions and recovery of losses.

Aiding the maintenance of a culture in which fraud is not tolerated is the [Employee Code of Conduct](#), which defines expectations of Officers, whilst also detailing guidance on gifts, hospitality and conflicts of interest. In addition to this, Members of the City of London are expected to act with regard to the principles laid out in within the Members Code of Conduct.

#### Preventing Fraud and Corruption

The City Corporation's system of internal controls also help to prevent fraud and corruption. Any relaxation of these could present opportunities to one-off fraudsters and to career criminals.

Some of the key controls include:

- **Clear separation of duties**
- **Clear authorisation procedures for payments, recruitment, procurement, etc.**
- **Regular supervisory checks and monitoring by management**
- **Effective document filing with a clear audit trail**
- **Controls over use of IT systems including changes to passwords**
- **Clear & effective tendering controls & procedures** **If these controls are not in place, your service is at a greater risk of fraud.**

#### Who is responsible?

We all have a responsibility to maintain a strong anti-fraud culture and effective systems of internal control. The following people have responsibility for specific aspects, as detailed below;

##### **Managers.....**

.....Are responsible for recruiting suitable people, protecting the City's assets, and maintaining the systems of internal control. Managers also need to ensure that staff have neither the motivation, nor the opportunity to commit fraud.

##### **Members.....**

.....Add value by providing an independent and impartial review of those services that may be at risk of fraud.

## **Employees.....**

.....Can be the most effective deterrent of fraud, Their local knowledge of people and the organisation is critical intelligence in the fight against fraud. They are also best placed to recognise warning signs of fraud in the work place and report their suspicions.

## **Warning Signs**

Suspicious or odd behavior can be a warning sign of fraud. Whilst there may be non-fraudulent reasons for such behavior, we do need to be aware of potential indicators such as people who:

- **Are under stress and have financial concerns**
- **Are first to arrive in the morning, last to leave at night and reluctant to take holidays**
- **Take risks, break rules or are scornful about internal controls**
- **Have cosy relationships with suppliers or contractors**
- **Have unexplained wealth or sudden changes in lifestyle**

**If you become aware of such circumstances and have concerns, you should discuss them with your line manager. Alternatively, you can use the City Corporation's Whistleblowing Policy or the Corporate Fraud Hotline 020 7332 3663 to log your suspicions.**

#### 4. What can you do to help protect the City Corporation against the risks of fraud?



The current economic climate means we need to do more with less. In such circumstances, all officers need to be constantly vigilant to ensure our internal controls are effective and our assets are protected from fraudsters.

It is increasingly likely that you will see, at some time in the course of your job, warning signs of a fraud being committed. It is your responsibility to report your suspicions promptly and accurately.

Effective fraud referrals will ensure that fraudsters are dealt with quickly and any losses are minimised.

#### **Who to contact?**

##### **Your Manager...**

.....is usually your first port of call if you need advice but if this is inappropriate, you can always contact the Internal Audit Counter Fraud team directly on 020 7332 1278 or 020 7332 1277, via the Corporate Fraud Hotline, on 020 7332 3663 or email [raiseyourconcern@cityoflondon.gov.uk](mailto:raiseyourconcern@cityoflondon.gov.uk).

##### **The Internal Audit Counter Fraud team...**

..... is independent and objective. It is responsible for monitoring organisation-wide fraud prevention and detection procedures. It is always receptive to discussing concerns raised by officers, Members and the public.

Once reported to Internal Audit, professionally qualified and experienced Investigators will evaluate and make initial enquiries to determine the basis of the concerns raised. We will then make a decision on the nature of any investigation undertaken, along with considering whether the matter needs reporting to the Police.

The City of London's [Anti-fraud & Corruption Strategy](#) defines how suspicions can be raised quickly and in confidence. In addition to this the City Corporation's Whistleblowing Policy details how employees and members of the public can raise concerns.

Any concern raised is treated with the strictest of confidentiality.

## **What can you do?**

As an officer of The City Corporation please remember that it is your responsibility to:

- **Be constantly alert to the possibility of fraud**
- **Be objective without being over-zealous**
- **Be familiar with the various types of fraud**
- **Recognise warning signs that indicate potential fraud**
- **Refer any suspicions promptly and accurately**

If you don't feel sufficiently equipped to carry out any of these responsibilities or have other concerns, please speak to your line manager in the first instance. It may be appropriate for your line manager to arrange additional training for you or your section.

Alternatively you can contact the Internal Audit Counter Fraud Team on 020 7332 1278 or e-mail [raiseyourconcern@cityoflondon.gov.uk](mailto:raiseyourconcern@cityoflondon.gov.uk)

## 5. Common Types of Fraud



This section looks at common frauds under **FOUR** types:

- **Frauds involving financial transactions**
- **Frauds on benefits, grants and other funding**
- **Theft and misuse of assets, resources or information**
- **Corruption and bribery**

It includes indicators of potential fraud, plus Case Studies of recent frauds perpetrated against Local Authorities.

### **Frauds Involving Financial Transactions**

Fraudsters often target Local Authority processes that involve financial transactions. Fraud can result from false accounting or from the manipulation of financial processes such as Creditor Payments, Expenses or Payroll.

Such frauds can be prevented by applying effective internal controls, remaining vigilant, and by looking out for suspicious warning signs.

Such frauds can occur where:

- **There is no separation of duties between individuals**
- **Checking procedures are inadequate**
- **Authorisation controls are overridden**
- **Management supervision or monitoring is poor**

The City Corporation participates in data matching exercises such as the National Fraud Initiative, and undertakes additional internal exercises which enable potential fraud and corruption to be identified and fully investigated.

### **Case Study - Creditor Payment Fraud**

*A Payments Manager exploited the relaxation of controls in a Council's Creditor Payments system to defraud over £1.1m.*

*Whilst Council procedures required the separation of input and authorisation functions, the Manager relaxed this control to speed up invoice processing. He then changed payment details input by his staff and directed payments elsewhere. He also coded all payments to VAT so that they didn't appear on budget monitoring reports.*

*The (former) manager was sentenced to 7½ years in prison. Several properties in his ownership were*

*confiscated, together with a substantial cash sum, and compensation was awarded to the Council.*

*Actions were taken by the Council to prevent future breaches of internal controls.*

### **Case Study - Funding Fraud**

*Son diverted direct payments identified to pay for care of elderly mother*

*In March 2011, a court found a man guilty of two counts of fraud and sentenced him to 20 weeks imprisonment for defrauding the public purse of over £12,000. The man had fraudulently diverted the money received from the council by direct payments. The payments were to provide a carer for the fraudster's elderly mother. Council Investigators proved the fraudster had diverted the money instead for his own purposes.*

### **Case Study - Social Housing Fraud**

*Acting on information received about a suspected housing benefit fraud, one London council also uncovered a case of housing tenancy fraud. The tenant claimed to be unemployed and living alone in a housing association property. She was actually employed at a school and lived in, and jointly owned, a separate property elsewhere.*

*The tenant pleaded guilty in court to several benefit offences totaling £25,000. The tenant also pleaded guilty to the offence (under Section 3 Fraud Act) of failing to disclose information and subletting the housing association property.*

*The court sentenced the tenant to three months imprisonment, suspended for two years, with a requirement to undertake 150 hours of work in the community. The court also placed a restraining order on the property jointly owned by the tenant. The council and police are pursuing confiscation proceedings.*

### **Case Study - Theft of Assets**

*A Cashier was responsible for the collection and banking of a Council's car parking income. She was a "mild and modest" individual and an entrusted employee.*

*This trust proved misplaced as the employee siphoned off £10,000 per month from the takings to fund her obsession with Elvis Presley memorabilia and recordings. Her actions went undetected for nearly a decade and the theft amounted to over £550,000. The fraudster was sentenced to 3 years in prison.*

### **Actions taken to prevent further fraud included:**

- Separation and frequent rotation of duties
- Regular, independent monitoring of expected and actual income levels

### **Indicators of potential fraud include...**

- Staff knowledge that an applicant's circumstances differ from claims made
- Unusual, excessive or duplicated claims
- Unwillingness by claimants to provide supporting information
- Complaints from clients that services or benefits have not been received

If you suspect a fraud is taking place, report it to the Internal Audit Counter Fraud team directly on 020 7332 1278 or 020 7332 1277, via the Corporate Fraud Hotline, on 020 7332 3663 or email [raiseyourconcern@cityoflondon.gov.uk](mailto:raiseyourconcern@cityoflondon.gov.uk).

## **Corruption & Bribery**

Corruption occurs where individuals abuse their position or powers to make a gain for themselves or for someone else. It sometimes involves collusion between individuals e.g. a fraudulent agreement between employees or between an employee and a third party.

Bribery is the offering of something e.g. money, goods or services to gain an unfair advantage. It can range from acceptance of small gifts (e.g. to write off a Council fine) right through to large payments to fraudulently approve multi-million pound construction deals. The new Bribery Act 2010 cracks down on all such criminal activities.

The City Corporation has a zero tolerance towards bribery, and disciplinary action will be taken against anyone found to have offered or accepted a bribe in the course of their work and/ or activities on behalf of the City Corporation. In addition to such action, anyone found to have committed offences under the Bribery Act 2010 may be subject to criminal proceedings.

You must report and record any instances where there may be a conflict of interest.

If someone you know has a lavish lifestyle that well exceeds their income, it might be an indicator of corruption or bribery.

### **Case Study – Corruption**

*A council used a worker provided by an employment agency to manage a project. The council placed the agency worker in charge of a large budget and he gave the project work to several contractors.*

*The budget was rapidly overspent and the council diverted money from other council budgets to continue the project. Following information from one of the contractors, the council discovered the agency worker had set up his own fictitious company and was making false claims for work done. The fraud itself amounted to over £110,000. Legal & investigation costs were of a similar scale.*

*The insurance company that issued the council's fidelity insurance policy refused to pay compensation because the council had not undertaken sufficient checks when recruiting the fraudster. The agency had undertaken what it considered to be reasonable employment checks but they did not meet the requirement of the fidelity insurance policy.*

*The agency worker was sentenced to two years imprisonment. Further inquiries showed that the fraudster had provided a false CV and had a previous conviction for a similar offence.*

## 6. Expenses Fraud



This section focuses on potential fraud involving travel and subsistence expenses paid to both officers and Members.

It covers the scope, warning signs and internal controls, plus a real-life Case Study.

The claiming of such expenses is commonplace, and it is a sensitive area that is susceptible to fraud.

Beyond the resulting financial losses, the incidence of any such frauds could badly damage the Authority's reputation.

### Expenses Fraud - Scope

Frauds can occur where individuals:

- **Claim mileage of allowances for meetings or appointments that they did not attend**
- **Overstate mileage, subsistence or attendance times**
- **Duplicate claims for attendance at several meetings or locations on the same day**

### Expenses Fraud - Warning Signs

No claims for expenses can be processed unless they have been appropriately authorised. There are tell tale signs of potential fraud which authorising officers should look out for.

Examples of potentially fraudulent expense claims include:

- **Altered receipts**
- **Incorrectly dated or timed receipts**
- **Photocopied receipts**
- **Receipts which relate to events/visits for which the officer had no prior approval**
- **Late submission of claims meaning that the authorising officer has only scant memory of the event**

### Expenses Fraud - Internal Controls

In accordance with the conditions set out in the [Travel & Subsistence](#) section of the City Corporation's [Employee Handbook](#), employees necessarily incurring additional expense in the course of their work in respect of travel, meals or overnight accommodation will be reimbursed. For staff attending events such as conferences etc. they must refer to the City of London [Business Travel Scheme](#) for information relating to travel, accommodation, hospitality & subsistence rates.

Where additional out of pocket expenses are claimed these must:

- **be submitted within specified timescale's**
- **be authorised by a designated officer**
- **be supported by appropriately timed and dated original receipts wherever possible**
- **not exceed current financial limits as set out in the Travel & Subsistence section of the Employee Handbook, and/ or within the Business Travel**

### ***Case Study - Expenses Fraud***

*A Police investigation at a large Local Authority resulted in a number of former Members being convicted of expenses fraud.*

*One former Member admitted falsifying expenses by claiming 1st class rail fares when travelling standard class and claiming rail fares when sharing a car. The individual was imprisoned.*

*The case study demonstrates the need for managers to be vigilant in checking all claims and to monitor budgets for significant variances.*

## 7. Procurement Fraud



Procurement Fraud in the Public Sector is costing the public purse an **estimated £2.4bn** per annum according to a joint report issued by the Cabinet office and the National Fraud Authority (June 2011)

Procurement fraud can be perpetrated from both inside and outside any organisation.

Procurement Fraud can involve...

- **Falsifying the input of invoices**
- **Diverting payments to suppliers**
- **Misappropriating purchases made**

In addition, where contracts are concerned Fraud can involve...

- **Collusion between employees and a favoured candidate**
- **Collusion between candidates (i.e. cartels)**
- **Over or under valuation of works or services**

### Procurement Fraud - Warning Signs

All employees need to watch out for potentially fraudulent situations where there are:

- **Excessive, duplicated or photocopied invoices**
- **Invoices in advance of goods received**
- **Unexpected deliveries in terms of quantity, quality or timing**
- **Strange payment arrangements or odd addresses**

### Procurement Fraud

Additionally all employees should be mindful of scams which operate whereby invoices are received for goods or services which have not been ordered and in many cases not received either.

An example of this type of fraud typically involves receipt of an invoice for an advertisement in a publication or online site.

The advertisement has not been requested by the authority. The scammers can be quite insistent on payment and may even threaten "legal action."

Local Authorities across the country have noticed an increase in fraudsters contacting payment teams requesting changes to bank accounts. Staff must remain vigilant and ensure that robust

checks are made to verify the authenticity of any requests made to change suppliers bank details.

### ***Procurement Fraud - Case Study***

*In 2009, the Office of Fair Trading (OFT) imposed fines totaling £129m on 103 construction firms in England. These firms were found to have colluded with competitors to agree over-inflated bids for building contracts amongst public sector organisations. This activity is known as 'cover pricing'.*

*Cover pricing is where one or more bidders in a tender process obtain an artificially high price from a competitor. Cover bids are priced so as not to win the contract but are submitted as genuine bids, which give a misleading impression to clients as to the real extent of competition. This distorts the tender process and makes it less likely that other potentially cheaper firms are invited to tender.*

*The OFT also found six instances where successful bidders had paid an agreed sum of money to the unsuccessful bidder (known as a 'compensation payment'). These payments of between £2,500 and £60,000 were facilitated by the raising of false invoices.*

## 8. Recruitment Fraud



You have read throughout this document that employees are The City Corporation's front line in the fight against fraud. The recruitment of the highest calibre of employee is therefore crucial. The City Corporation's [Recruitment & Selection Policy](#) explains the various checks and procedures which must be undertaken before any offer of employment can be made.

Recruitment Fraud occurs where people falsify their identity, their right to work, job application or criminal history to gain employment. Usually this applies to new employees, but it may also involve existing employees who take up different roles within the organisation.

Failure to properly vet candidates and employees can result in someone with false or overstated qualities undertaking tasks for which they are not qualified or authorised. Access to the organisation by unscrupulous employees can also open the door to criminal activity, and harm the City Corporation's reputation.

### Recruitment Fraud - Scope

Vigilance is needed to confirm the circumstances of prospective employees in order to defend against fraud.

In some Public Sector organisations instances of fraud have resulted from job candidates who:

- **Used a false identity to gain employment**
- **Deliberately made false statements about their qualifications**
- **Were ineligible to work in the UK**
- **Failed to declare a criminal record or complete a CRB check**

The impact of recruitment fraud includes:

- **Reduced performance resulting from the appointment of staff with inadequate knowledge, skills or experience**
- **Additional costs of disciplinary action and possible dismissal for such staff, plus the re-recruitment and training of replacements**
- **Increased risks of fraudulent actions by dishonest staff and potential harm to vulnerable service users**

### Recruitment Fraud - Warning Signs

Examples of some specific warning signs include:

- inconsistencies on application forms e.g. unexplained gaps in employment
- supporting documents (e.g. on immigration status) that are copies or otherwise appear to be false, forged or stolen
- unrealistic or contrived employment records, capabilities or qualifications
- absence of up-to-date references e.g. from the preceding employer

**Recruitment Fraud - Case Study**

*A public sector organisation offered a permanent post to an individual following a period of employment as a contractor. There were subsequently some concerns over project finances and suspicion fell on the individual.*

*Investigators found that, on appointment, the individual had used a false identity and was in fact a convicted fraudster. Within weeks of his permanent employment, he had set up a fake company and paid himself over £2 million for work, the vast majority of which was never carried out.*

*When the fraud was discovered, the fraudster went into hiding. However, the Authority successfully pursued recovery of the stolen money plus costs through the civil courts.*

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