

The Fraud Indicator in the UK

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Outline of Presentation

- General measures of fraud
- Past measurement of fraud
- The annual fraud indicator and fraud





There's no fraud here, I've got the statistics to prove it!



Measures of fraud

- Crime statistics
- England and Wales crime survey
- Detected statistics
- Barometers
- Survey guestimates
- Public expenditure tracking surveys (PETS)
- Random sampling
- Fraud loss measurement
- Baskets of estimates



OVERVIEW

2.1 The analysis in this section is based on fraud data supplied by 46 central government bodies, including all the main departments, covering the period 1 April 2004 to 31 March 2005. Overall the analyses show:

- 17 bodies provided 'nil' returns (i.e. had no cases of theft or fraud to report);
- The remaining 29 bodies reported 450 cases of internal theft or fraud with a total value of £3,136,900 (compared to £3,907,000 last year).
- There were 28 large value cases (i.e. £20,000 or more) accounting for a total loss of £2,637,700 (84% of total losses reported). Included were 10 cases with values of £100,000 or more totalling over £1.8 million (2 cases involved the theft of assets, 2 were procurement frauds and 6 cases with a total value of £1,020,000, involved collusion with members of the public and the processing of false claims).
- The analysis of anti-fraud questionnaires (Annex A) shows that most bodies had taken appropriate action to deal with fraud risk such as assessing risk, allocating responsibilities for managing fraud risk, introducing fraud polices and fraud response plans.

ANALYSIS OF FRAUD DATA

11 of 32

2.2 The following paragraphs provide detailed analyses of the business areas in

Unknown Zone

REPORT TO THE NATIONS

ON OCCUPATIONAL FRAUD AND ABUSE

2016 GLOBAL FRAUD STUDY





Executive Summary

The CFEs who participated in our survey estimated that the typical organization loses 5% of revenues in a given year as a result of fraud.



The median loss for all cases in our study was \$150,000, with 23.2% of cases causing losses of \$1 million or more.

Asset misappropriation was by far the most common form of occupational fraud, occurring in more than 83% of cases, but causing the smallest median loss of \$125,000. Financial statement fraud was on the other end of the spectrum, occurring in less than 10% of cases but causing a median loss of \$975,000. Corruption cases fell in the middle, with 35.4% of cases and a median loss of \$200,000.

Randor	n san	npling	
	9.2%	_	0.0%
	0.6%	_	
	0.0%	_	5.6%
	0.0%		
	0.0%	_	0.0%
	0.0%		
	0.0%	_	52.2%



What is fraud loss measurement?

- FLM focuses on a particular type of expenditure or activity (payroll, procurement, social security payment, insurance claim etc)
- Select a statistically valid sample (usually 1700+)
- Assess each case for existence of fraud, using the civil test and making higher checks than the normal audit
- Identify each case as Fraud, Error or OK
- Extrapolate to an overall level of fraud giving the statistical confidence level of the estimate
- Varies usually between 90% or 95% confidence levels at range of 1% to 2.5%



Examples of fraud loss measurement?

https://paymentaccuracy.gov

🚺 www.fca.org.uk/static 📋 Sanctions 📋 Contempt of Court 📋 Corruption 📋 research 🚳 http://www.osteopat

An Official Website of the United States Governme

NHS

mproper Payments Overview

Government-Wide Improper Payment Targets

Charts

Fraud and Error in the Benefit System: 2013/14 Preliminary Estimates (Great Britain)

Department for Work & Pensions



Fraud and Error in the Benefit System:

Preliminary 2013/14 Estimates

(Great Britain)



May 2014 © Crown copyright 2014







Monday, Mar 21, 2016

FAO

2015 Payment

Accuracy Rate

See all programs data

High-Error Programs

rt Fraud, Waste & A

Other Resources

Log In

About



fraud loss measurement a short guide to the methodology and approach

jim gee, mark button and paul bassett





Evaluating FLM

- Challenges
- Can only be used on comparable transactions: procurement, insurance claims, payroll etc
- Costly and timely
- Will end result be politcaly palatable

• Benefits

- Accurate measurement
- Enables clear ROI to be demonstrated
- Uncovers where problems are, which can then be dealt with



Average cost of fraud reports



Number of loss measurement exercises



² Appendix C to Office of Management and Budget Circular A-123 ³ European Healthcare Fraud and Corruption Declaration 2004









Annual fraud indicator





Annual Fraud Indicator 2016



May 2016

A Crowe Clark Whitehil



experian.

Annual Fraud Indicator 2017

Identifying the cost of fraud to the UK economy







Old AFI total costs

National Fraud Indicator £B





Abolition of National Fraud Authority and AFI







The new fraud indicator

- Establishment of a UK Fraud Costs Measurement Committee
- Agreed methodology in partnership with UoP, Experian and PKF/Crowe Clark Whitehill

Classification of confidence

Category	Definition
Gold (G)	Gold standard analysis is met when a statistically valid sample of expenditure/income has been examined, with a clear and legally-anchored concept of fraud applied. Estimates produced offer a 90% minimum level of statistical confidence, with an accuracy level of + or -2.5% , or better. Results have also been independently validated. Included in the Gold standard were statistically valid assessments of the levels of victimisation of individuals, conducted by reputable organisations.
Silver (S)	The silver standard is met when detected cost levels of fraud have been identified and underpinned by a credible estimate of undetected fraud to offer a credible total fraud cost.
Bronze (B)	The bronze standard is met when an attempt at identifying the cost of fraud has been made, but there may be limited confidence in its credibility.









Ctd

• Focus upon expenditure **NOT GDP**

- GDP is "..the monetary value of all the finished goods and services produced within a country's borders in a specific time period."
- Focus instead upon public expenditure and private sector expenditure
- Total turnover for UK private sector excluding financial and insurance activities is £3,739,171 million (i.e. £3.7 trillion). Total turnover for non-profit sector is £93,824 million (i.e. £94 billion).
- Adding these three figures gives us £4.6 trillion
- 1% fraud rate on this would be £46 billion
- 5% fraud rate would be £230 billion
- Committee uses a variety of fraud rate estimates ranging from the financial cost of fraud discounted rate, application fraud rate, specific exercises on procurement/payroll etc



	Private sector procurement fraud		Year 2	2013 ~ 2016		UK		B#
	(1) ONS (2016). <i>Annual business survey</i> . Retrieve https://www.ons.gov.uk/businessindustryandtrad- lts	d from: e/business/businessse	rvices/bulletins/ukno	onfinancialbusine:	sseconomy/201	5provisionalresu		
	. The following is a substantial under-estimate as it	only covers 2/3rd of the	e private sector beca	use financial se	ervices is exc	luded.		
					Option 1: default	Option 2: FLM sample		
		Materials & services £mn (1)	<u>Capital £mn</u> (1)	<u>Total £mn</u> (1)	Fraud £mn	Fraud £mn		
PPF 1	Small businesses	617 504	61.372	678 876	27.073	32 289		
PPF.2	Medium businesses	397,959	23,214	421.173	16,796	20,032		
PPF 3		1343 247	109 712	1452,959	57,943	69 106		
PPF 4	Total	2,358,710	194 298	2 553 008	101 812	121 428		
PPF.5		2,000,00	10 1,200	Fraud rate:	3.99%	4.76%		
	Private sector purchasing fraud	Spend £mn	Fraud £mn	Fraud %		Selection		
			404.040	0.000				
PPF.6	Option 1: FLM default	2,553,008	101,812	3.99%		2		
PPF.7	Option 2: FLM sample		121,428	4.76%				
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Sector	Fraud loss by victim sector £ million	Victim	Total fraud loss £ million	Fraud type	Confidence	Coverage	Year	Income/ expenditure £ million	Fraud £ million	Fraud %	
		Central taxation		Tax fraud	G	UK	2015 to 2016	518,000	16,200	3.13	
		16,280	Vehicle excise fraud	G#	UK	2015	5,800	80	1.38		
	Central government other income	206	Television licence fee evasion	S#	υк	2015 to 2016	3,743	206	5.50		
			Procurement fraud	B#	UK	2013 to 2016	117,277	5,678	4.76		
			Payrol fraud	B#	UK	2013 to 2016	60,805	1,034	1.70		
			Grant fraud	в	UK	2015 to 2016	67,958	2,054	3.02		
	Central government excluding benefits	10,217	Student finance fraud	в	England, Wales, Northern Ireland	2015 to 2018	15,910	481	3.02		
				Pension fraud	В	UK	2015 to 2016	35,430	1,071	3.02	
				National Savings and	8	UK	2015 to 2016	2,067	0	0.02	
				Destal shares found		England	0007 10 0048	786		2.00	
				Cetical charge fraud	0.	England	2007 to 2016	705	29	3.00	
				Dependention charge fraud	0.	England	2007 10 2010	400	20.4	3.00	
				Doptal contractor fraud	0.0	England	2013 to 2016	3,199	116	9.40	
				Pharmaceutical		England	2010102010	0,010	110	0.49	
		NHS	3,423	contractor fraud	G#	England	2013 to 2016	2,100	84	3.97	
				Optical contractor fraud	G#	England	2013 to 2016	542	13	2.47	
				General practice contractor fraud	B#	England	2013 to 2016	7,798	356	4.57	
Public	40.354			Other procurement fraud	B#	England	2015 to 2016	36,301	1,727	4.76	
sector				Payrol fraud	в	UK	2015 to 2016	47,084	800	1.70	
				Blue Badge	S#	England	2013 to 2016	1,105	46	3.96	
				Housing tenangy fraud	D#	England	2013 to 2016	-	1 827		
		government		Drocuromont fraud	5.0	LIK	2013 to 2016	02.258	4,436	4.76	
		excluding	7,805	Pavrol fraud	B#	UK	2013 to 2016	63.255	1.075	1.70	
		Denetics		Grant fraud	В	UK	2015 to 2016	3,121	94	3.02	
				Pension fraud	в	UK	2015 to 2016	10,785	326	3.02	
		Benefit and		Housing benefit fraud	G	UK	2016	24,771	1,000	4.04	
				Income support	G	UK	2014 to 2016	2,879	61	2.12	
				Jobseekers allowance	G	UK	2015 to 2016	2,434	78	3.20	
				Employment and support allowance	G	υк	2015 to 2016	14,979	280	1.87	
				Universal credit		UK	2015 to 2016	490	10	2.05	
			2,422	Persion credit	G	UK	2015 to 2016	0,484	105	2.54	
		tax credits	2,420	Disability living allowance	0.0	UK	2010 to 2010	1,400	00	0.00	
				Cator's allowatco	0.0	UK	1997 to 2016	2,000	102	3.02	
				State pension	G#	UK	2005 to 2010	89,400	0	0.00	
				Council tax reduction fraud	S#	υк	2012 to 2013	4,900	60	1.22	
				Unreviewed	s	UK	2015 to 2016	16,712	120	0.72	
				Tax credits fraud	G#	UK	2015 to 2016	28,482	484	1.70	
				General Insurance fraud	В	UK	2015	72,619	2,896	3.99	
				Mongage maud		UK	2010102016	247,300	1,583	0.04	
		Financial	5,242	Online banking fraud	B	UK	2010	000,000	134	U.U/	
		sector sales		Choque fraud	в	UK	2010	400.158	10	0.00	
				Telephone banking fraud	в	UK	2016	-	32		
				Motor finance fraud	B#	UK	2013 to 2014	-	11	-	
Privato		140,058 Non-financial socior salas Expanditure small enterprises Expenditure modium enterprises	n-financial ctor sales 1,258 penditure 38,358 enterprises 38,358 penditure 21,612	Retall	8	UK	2016	360,107	183	0.05	
sector	140,658			Telecoms fraud	8#	UK	2013 to 2016	37,500	900	2.40	
				Rail transport fare evasion	S#	UK	2014 to 2015	9,728	175	1.80	
				Procurement fraud	B#	UK	2013 to 2016	678,876	32,289	4.76	
				Payroll fraud	B#	UK	2013 to 2016	366,993	6,069	1.70	
				Procurement fraud	B#	UK	2013 to 2016	421,173	20,032	4.76	
				Payroll fraud	B#	UK	2013 to 2016	92,930	1,580	1.70	
		Expenditure large enterprises	74,189	Procurement traud	0# D#	UK	2013 to 2016	208.048	6,092	4./0	
		a ga a saip sau		Procurement freed	BE	UK	2013 to 2010	240,948	1.103	4.76	
Charity	2,314	Registered	2,314	Payrol fraud	B#	UK	2013 to 2014	58,217	990	1.70	
sector		charities		Grant fraud	в	UK	2015 to 2016	5,344	101	3.02	
				Mass marketing fraud	G	UK	2015 to 2016	867,370	4,520	0.53	
				Identity fraud	8#	UK	2015 to 2016		1,344	0.16	
Adult Individuals	6,785	Population	6,785	Private rental property fraud	8#	υк	2010 to 2016	46,907	918	1.90	
					Prepayment meter scame	S#	UK	2013 to 2014	-	3	-

Healthcare costs 2016-2017

NHS England fraud

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Income/ expenditure (£million)	Fraud (£million)	Fraud %
		Dental charge fraud	Gold#	E	2013/14	1,132	43	3.80%
		Optical charge fraud	Gold#	E	2013/14	766	23	3.00%
		Prescription charge fraud	Gold#	E	2013/14	7,676	237	3.09%
		Dental contractor fraud	Bronze#	E	2013/14	3,010	121	4.02%
NHS 2,472 England	Phamaceutical contractor fraud	Bronze#	E	2013/14	2,094	83	3.96%	
		Optical contractor fraud	Bronze#	E	2013/14	518	13	2.51%
		General practice contrac- tor fraud	Bronze#	E	2013/14	7,632	349	4.57%
		Other procurement fraud	Bronze	E	2013/14	21,900	1,048	4.78%
		Payroll fraud	Bronze	E	2013/14	32,660	555	1.70%
							2,472	

Victim	Total fraud loss £ million	Fraud type	Confidence	Coverage	Year	Income/ expenditure £ million	Fraud £ million	Fraud %
		Dental charge fraud	G#	England	2007 to 2016	765	29	3.80
		Optical charge fraud	G#	England	2007 to 2016	458	14	3.00
		Prescription charge fraud	G#	England	2014 to 2016	9,199	284	3.09
		Dental contractor fraud	G#	England	2013 to 2016	3,313	116	3.49
NHS 3,423	3,423	Pharmaceutical contractor fraud	G#	England	2013 to 2016	2,106	84	3.97
		Optical contractor fraud	G#	England	2013 to 2016	542	13	2.47
		General practice contractor fraud	84	England	2013 to 2016	7,798	356	4.57
		Other procurement fraud	84	England	2015 to 2016	36,301	1,727	4.76
		Payroll fraud	B	UK	2015 to 2016	47,084	800	1.70



Data updated to the most recent costs based on the Bank of England's inflation calculator





Annual UK fraud losses are indicated to cost £190 billion Private sector fraud losses are estimated to be £140 billion

Public sector fraud losses are estimated to be £40.4 billion



UK fraud by estimate confidence

The AFI results can be presented in terms of the confidence of the estimates used.







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Any questions?

