

Public Nuisance

25 Feb 2014

Last year, the UK's public sector lost £2.3 billion to fraudulent purchasing practices. Procurement fraud is an area where the figures show there is a large problem. On an individual level, companies have to show they are serious about tackling it.

Statistics can be damning. And some are certainly more damning than others. The Annual Fraud Indicator, which is published by the National Fraud Authority (NFA), puts the amount lost by the public sector to illegal purchasing practices at an eye-watering £2.3 billion. Of this, procurement fraud is thought to have cost central government £1.4 billion and local government £890 million. False and double invoicing, price fixing, altering payment details and giving bribes to secure contracts are some of the examples of procurement fraud that the AFI cites. Hardly an encouraging picture.

London Office
36 Whitefriars Street
London
EC4Y 8BQ
+44 (0)203 947 1539
enquiries@rahmanravelli.co.uk

Midlands Office
3 Brindley Place
Birmingham, West Midlands
B1 2JB
+44 (0) 121 827 7985

Northern Office
Roma House, 59 Pellon Lane
Halifax, West Yorkshire
HX1 5BE
+44 (0)1422 346 666

Rapid Response Team
24 Hour Emergency Contact
0800 559 3500

Fax +44 (0)1422 430 526
DX16001 HX1

On the plus side, this figure indicates a slight reduction in the problem. The total figure for 2011 was £2.4 billion. But this can hardly be said to be an issue that is under control. The government has made noises about not tolerating the tax payer being ripped off and has pointed to its attempts to improve the identifying and prosecuting of fraud. Only time will tell if the government's efforts reap rewards. One thing is certain, however, and that is that procurement fraud is a major problem. In 2011, the NFA worked with the Chartered Institute of Purchasing and Supply (CIPS) to try and establish the scale of procurement fraud in the public, private and voluntary sectors. The research revealed that almost one in ten buyers in these sectors had fallen victim to at least one procurement fraud in the previous 12 months. Four in every ten believed that fraud posed a significant risk to business – with the same number believing that construction projects were most vulnerable to fraud. Perhaps most worryingly, however, only 28% said that their organisation had undertaken any kind of fraud risk assessment. The responses of those who were surveyed allowed the researchers to put an estimate on fraud accounting for between 1.8% and 4.9% of procurement spending in the private sector.

At a time when 13 people have now been charged with offences relating to fraud allegations at welfare-to-work outfit A4E and both G4S and Serco are under investigation for overcharging the government for electronic tagging of offenders, the public sector has much to do to prove it can remove its vulnerability to fraud. A report earlier this year by accountants PwC claimed that the amount of fraud carried out by suppliers to the public sector had leapt from 13% to 32% in two years.

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Under the Fraud Act 2006, fraud can be committed by false representation, failure to disclose information or abuse of position. In each, the issue of honesty is at the heart of any prosecution. But regardless of whether you are in the public, private or voluntary sector, it is worth introducing a strong anti-fraud culture in your organisation for many more reasons than the importance of honesty. If a fraud investigation involves your business or organisation, it will be massively damaging – even if no one is eventually charged or convicted. Trying to retain customers with an investigation underway is difficult enough. But add to this the potential damage that can be caused by the resulting loss of working man hours, the pressure on workplace resources, unfavourable publicity, disruption, the lack of continuity and the large-scale loss of credibility and it becomes clear that a fraud investigation can wreak havoc on the functioning of a business

Taking a proactive approach – by preventing fraud from being carried out rather than reacting when it has already been committed – may seem a lot of effort. Many businesses may not consider it worthwhile. But A4E, G4S and Serco may now be in a position to argue rather strongly against that view.

Rahman Ravelli works with organisations and companies that work for governments and other public agencies. We have seen the devastating impact a fraud investigation can have on a company. We are also fully aware of the way legislation such as the Bribery Act has put the onus on companies to take the lead (and the responsibility) when it comes to the effect their activities are having. As experts in compliance, we can speak from experience when we say that a company under investigation for fraud is in a far better position if it can show it did all it possibly could to try and prevent fraud being carried out under its roof. Investigators will be far less lenient if they identify a lax attitude to – or even a tolerance of – fraud by a company or organisation.

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Taking advice from experts in compliance will certainly insure a company against the risk of being seen as complacent about fraud. But even on a day-to-day basis, a company can do much to prove it is serious about preventing or eradicating the potential for fraud. Maintaining proper records, storing them properly, introducing a whistleblowing policy and ensuring everyone feels comfortable about using it are all ways in which companies can be seen to be dedicated to reducing the scope for fraud to be perpetrated in its name or by its staff or associates. A whistleblowing policy cannot be mere lip service to fraud prevention. It has to be a genuine procedure, regularly reviewed and amended when necessary. It has to make anyone with concerns about someone they work with feel free to report in confidence, knowing that their information will be investigated.

Such a policy will, if managed correctly, allow an organisation to respond quickly and purposefully to any allegations. Only in this way can fraud be prevented or, at least, its damage limited. A company has to be able and prepared to tackle such an issue if it arises. A swift investigation and review may take time and effort. But it will take far less of both – and prove far less damaging – than an inquiry conducted by an outside authority that has suspicions of wrongdoing. Companies will be far better off if they conduct their own investigation. That way they can decide the course of events and what information should be disclosed to staff, trading partners, customers and other associates. They will lose this ability to manage the investigation of the allegation if their failure to act results in it coming to the authorities' attention. If investigators come in, they will sweep company premises for any paper or digitally-stored material and take away large amounts of evidence – that may prevent a company functioning properly. And they will take a dim view of the fact that they have had to look into allegations because the organisation in question could not or would not take it upon itself to carry out the most basic inquiries.

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Self-reporting wrongdoing presents companies with the chance to voice concerns to the authorities thus minimising the potential penalties that may be imposed. At a time when deferred prosecution agreements (DPA's) are to arrive in the UK in a matter of months, companies are about to be given the chance to declare any wrongdoing, agree a course of action and a timescale to put things right. If this all happens they will, under the terms of the DPA, avoid prosecution. It is an option that gives companies scope to "come clean", put their house in order and escape the most severe punishment. But it is also an option that will only be made available to companies that can show they have been trying to prevent wrongdoing being committed in their name.

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