Matching Precision and Professionalism to Counter Fraud

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KPMG FORENSIC
Background - Personal

- 26 years a Counter Fraud Specialist in Central Government, Local Government, the NHS

- Chief Executive of the UK NHS Counter Fraud Service - for more than 8 years charged with countering fraud and corruption in the largest organisation in Europe

- Founding Director-General of the European Healthcare Fraud and Corruption Network; founding Chair of the Institute of Counter Fraud Specialists; founding Vice-Chair of the Counter Fraud Professional Accreditation Board

- Steering Group member of the UK Attorney-General’s Fraud Review and Chair of the Stakeholder and Fraud Loss Measurement Working Groups
Introduction

- Background
- The historical, professional and strategic context
- The UK Government’s Fraud Review
- The new comprehensive approach
- Fraud Loss Measurement and Reduction
- Making a REAL difference
Professionalism and Precision are the keys.

What do they mean in the context of counter fraud work?

How precise can we be about the problem of fraud? To what extent can business intelligence be provided about this issue?

What should we be doing, what information do we need to be successful and what skills do we need to deploy?

What are the key aspects of a real professional approach?
It means:

• Having a clear **REMIT**

• Having the **AUTHORITY** to fulfil it

• Developing a clear **STRATEGY** and **BUSINESS PROCESS**

• (Measuring the **PROBLEM** accurately)

• (Creating an effective **STRUCTURE**)

• (Taking **ACTION** in all key areas)
Background – Professionalism

It means:

• Adopting the right APPROACH
• Applying the highest STANDARDS
• Having the necessary, specialist SKILLS
• Generating and maintaining SUPPORT

REDUCING LOSSES, DELIVERING BENEFITS
A New Approach

TRADITIONAL APPROACH
- Reactive & ‘pick & choose’.
- Considered enough to merely do something - anything!
- Focused on activities (e.g. investigations).
- Focused on perceived exposure to fraud and abuse.
- Perceptions based on anecdotal information or cases which have come to light.
- Cannot quantify effects or track benefits to the organization.

NEW APPROACH
- Proactive & comprehensive.
- Identifies and applies exactly the right solution.
- Focused on outcomes (e.g. reduced losses).
- Focused on real exposure to fraud and abuse.
- Statistically sound and legally founded method of measuring fraud.
- Quantifies the reduction in fraud losses and tracks tangible improvements.
The Developing Professional Approach

- 1998 onwards: the NHS
- 2001 onwards: the new profession of Counter Fraud Specialist
- 2004: the European Healthcare Fraud and Corruption Declaration
- 2005-2006: the CIPFA ‘Managing the Risk of Fraud’ professional standards supported by the Audit Commission
- 2006: the Government’s Fraud Review Report
- 2008: the formation of the UK National Fraud Strategic Authority
The Developing Professional Approach

• A common understanding of the need for a comprehensive, integrated approach aimed at reducing the burden of fraud on organisations across the economy

• Agreement that this approach should follow a common business process …
THE COMPREHENSIVE APPROACH

- Measure fraud losses accurately
- Develop a holistic strategy and business process
- Create a professional structure to implement the strategy
- Use the structure to take a range of action
- Deliver reduced losses

- Anti-fraud culture
- Deterrence
- Prevention

Detection investigation sanctions redress
THE COMPREHENSIVE APPROACH

Fraud Loss Measurement (FLM) is the first stage of the comprehensive approach to countering fraud.

FLM helps deliver reduced fraud losses by identifying the nature and scale of the fraud which is taking place so that it can be stopped.
Identification of the Problem of Fraud

• HOW MUCH?

Statistically valid estimation to obtain accurate **quantitative** information about the scale of fraud losses

• HOW AND WHERE?

Fraud risk assessment to obtain **qualitative** information about the nature of the problem

**MEASURE FRAUD LOSSES ACCURATELY**
Why Fraud Loss Measurement?

• To allow the right solution to be applied
• To allow a rational judgement to be made about the level of investment in the right solution
• To allow the tracking of progress and a proper evaluation of the chosen solution
• To identify the REAL financial benefits of counter fraud work
• To identify REAL financial benefits to be applied to better services and systems
• (To incentivise / mobilise the honest majority and deliver even greater financial benefits)
There are six stages of work:

1. Work with the client to agree which area of expenditure to apply FLM to
2. Research, define and obtain the statistically valid sample
3. Gather all available information needed to be able to determine the presence of fraud, error and correctness
4. Make determinations about the presence of correctness, error and fraud in respect of each case within the sample
5. Group the transactions and supply numbers and values for statistical examination
6. Estimate to determine total losses to $\pm 1\%$ accuracy and 95% statistical confidence
Six stages:

1. **Work with the client to agree which area of expenditure to apply FLM to**

   Ideally this judgement should balance a number of factors:

   - The value of the area of expenditure concerned
   - The level of known fraud risk
   - The level of internal / external / public concern about fraud
   - The ease of undertaking the FLM exercise
   - The potential financial benefits to be derived
Six stages:

2. **Research, define and obtain the statistically valid sample:**
   - Identify the value of the expenditure to be considered
   - Identify the number and nature of the transactions
   - Identify any obvious differences between the transactions to allow a stratified sample to be identified
   - Identify where information is held which may indicate the presence of correctness, error or fraud in each case within the sample
   - Identify where and how the data is held and obtain a data extract comprising the sample
Six stages:

3. Gather all available information needed to be able to determine the presence of fraud, error and correctness

- Gather information with a view to determining:
  - (a) Correctness v. Incorrectness
  - (b) If incorrect, it is then possible to determine the presence of fraud OR error
- Gather information and evidence which is intrinsic to each transaction (i.e. what the data itself indicates)
- Gather information and evidence which is external to the data (e.g. in the case of procurement fraud, does the company concerned exist?)
PRECISION : Identify the problem

Six stages :

4. **Make determinations about the presence of correctness, error and fraud in respect of each case within the sample**

Clarity about what fraud is :

- UK - Derry v. Peek 1889 : Where someone ‘knowingly or recklessly obtains resources to which they are not entitled’ – knowledge or recklessness are the required ‘mental element’ in civil law

- Internationally - Swiss Institute of Comparative Law 2005 - a similar concept applicable across 28 countries in Europe and beyond
Six stages:

4. Make determinations about the presence of correctness, error and fraud in respect of each case within the sample (Continued)

• Clarity about what error is: Where a transaction is incorrect, but without the ‘mental element’
• Determinations are made to the civil law burden of proof – the ‘balance of probabilities’
AN EXAMPLE: Procurement Fraud

FRAUD – For example:

• A good or a service has been under-provided (either in terms of quantity or quality) - or not provided at all
• A good or a service has been overcharged
• The organisation providing the good or service does not exist or does not provide the good or service
• The organisation providing the good or service does not exist at the stated address
• Where a payment has been directed into the bank account of an employee for fictitious goods or services
• That these events have happened in such a way that a given individual or organisation knowingly or recklessly benefits
AN EXAMPLE: Procurement Error

ERROR – For example:

• A good or a service has been under-provided (either in terms of quantity or quality) - or not provided at all
• A good or a service has been overcharged
• The organisation providing the good or service does not exist or does not provide the good or service
• The organisation providing the good or service does not exist at the stated address
• Internal fraud – e.g. where a payment has been directed into the bank account of an employee for fictitious goods or services
• That these events have happened but without the presence of the mental element of ‘knowledge’ or ‘recklessness’
AN EXAMPLE: Payroll Fraud

FRAUD – For example:

• An employee does not exist or is found to be using a false identity
• An employee is receiving salary or allowances to which they are not entitled
• An employee’s claimed employment history is false
• An employee’s claimed qualifications are false
• That these events have happened in such a way that a given individual knowingly or recklessly benefits
AN EXAMPLE : Payroll Error

ERROR – For example:

• An employee’s identity details differ from those which are correct
• An employee is receiving salary or allowances to which they are not entitled
• An employee’s claimed employment history differs from the facts
• An employee’s claimed qualifications differ from those actually awarded
• That these events have happened but without the presence of the mental element of ‘knowledge’ or ‘recklessness’
Six stages:

5. **Group the transactions and supply numbers and values for statistical examination**

   - Group the transactions on the basis of the nature and extent of the available information to consider
   - Categorise each group of transactions as fraud, error, or correctness
   - Select a sample of transactions for QA
   - Supply the numbers and value of transactions within each category for statistical examination
Six stages:

6. **Estimate to determine total losses**

- **Accuracy:**
  - The ‘industry standard’ is + or – 1%
  - ‘Best practice’ is accuracy = up to ± 0.3% at 95% level of statistical confidence

- **Statistical confidence:**
  - 95% statistical confidence (the normal level applied to such estimates)
The Development and Communication of a Clear Strategy and Business Process to tackle the Defined Problem

- The design and development of comprehensive strategies, tailored to address the defined problems and capable of mobilising the honest majority and forming a ‘common language’ for those implementing them;

- The communication of counter fraud strategies to all stakeholders and representatives of the ‘honest majority’ by all available means;

- The development of a clear remit, aims and objectives – embodied in a defined Business Process - for those implementing the strategy.
PROFESSIONALISM: Work to solve the problem

The Creation of a Structure to Implement the Strategy

- The determination of an appropriate investment in counter fraud work to tackle the defined problem;
- The identification of the authority that is needed to implement the counter fraud remit;
- The recruitment of staff with appropriate specialist skills and experience, and understanding both of the particular context and of the professional and ethical framework within which the work should be undertaken;
- The establishment of strong links with stakeholders which creates a real partnership in tackling the problem.
PROFESSIONALISM: Work to solve the problem

- ANTI-FRAUD CULTURE
- DETERRENCE
- PREVENTION
- DETECTION
- INVESTIGATION
- SANCTIONS
- REDRESS

USE THE STRUCTURE TO TAKE A RANGE OF ACTION

DELIVER REDUCED LOSSES

DELIVER REDUCED LOSSES
PROFESSIONALISM: Work to solve the problem

- Anti-Fraud Culture
- Deterrence
- Prevention
- Detection
- Investigation
- Sanctions
- Redress

Use the structure to take a range of action

Deliver reduced losses
The establishment of a real anti-fraud culture including the dissemination of messages to mobilise the honest majority

- The seriousness and actual impact of fraud losses
- The responsibility of stakeholders to protect the organisation and its resources
- The potential impact of peer group pressure
- The professional, technically skilled and ethical nature of ongoing work to tackle the problem and
- The implementation of processes to assess progress in this respect
The development of a strong deterrent effect including arrangements to publicise messages to deter the dishonest minority

- The extent to which the relevant peer group finds fraud totally unacceptable
- The likelihood of attempted fraud being prevented
- The proactive detection systems designed to detect fraud where it isn’t prevented
- The likelihood of evidence of any fraud being uncovered by a professional investigation
- The existence of a range of sanctions which can be applied in parallel and the certainty of their application
The creation and maintenance of arrangements to prevent fraud covering all policies, processes and systems

- The design and redesign of existing policies, processes and systems drawing on both generic experience and specific knowledge of risks
- The design of new policies to allow the creation of processes and systems which are resistant to fraud
- The collation of knowledge about policy and systems weaknesses derived from every investigation into potential fraud and all relevant audit work
- The prioritisation of subsequent work to revised the revealed weaknesses
PROFESSIONALISM: Work to solve the problem

The development of multi-faceted processes to detect fraud

- The use of analytical intelligence to identify potential anomalies where fraud may have occurred
- The implementation of whistle blowing procedures throughout the organisation together with a culture which sustains this
- The organisation of regular proactive exercises looking for potential fraud where policies or systems have been found to be weak
- The collation of intelligence concerning both specific frauds and general trends
PROFESSIONALISM : Work to solve the problem

The development of an ability to undertake professional investigations

- The implementation of an effective forensic computing capacity
- The implementation of an appropriate surveillance capacity
- The implementation of an appropriate financial investigation capacity
- The capacity to investigate all types and levels of fraud to a standard which allows the full range of sanctions (criminal, civil, disciplinary and regulatory) to be applied
The development of a capacity to seek to apply a full range of combined sanctions where fraud is found to be present

- An understanding of the interaction between different types of sanctions and the optimum sequence for their application
- An understanding of relevant aspects of the criminal and civil law together with relevant disciplinary and regulatory processes
PROFESSIONALISM : Work to solve the problem

The development of a capacity to seek redress where fraud is found to be present

• The ability to trace, freeze and recover assets
• The ability to use the law to return victims of fraud to position they were in before the fraud
The Developing Professional Approach

1. Measure fraud losses accurately
2. Develop an integrated strategy and business process
3. Create a professional structure to implement the strategy
4. Use the structure to take a range of action
5. Deliver reduced losses

- Anti-fraud culture deterrence prevention
- Detection investigation sanctions redress
PRECISION : How do we define fraud so we can measure it?

Clarity about what fraud is:

- Legally anchored definitions to avoid accusations of inventing a definition to make measured losses look high or low

- Apply the civil legal concept of fraud – the lowest standard where losses might be actionable – so that ALL losses are measured

- UK - Derry v. Peek 1889: ‘where someone knowingly or recklessly obtains a resources to which they are not entitled’

- Internationally - Swiss Institute of Comparative Law confirmed in 2005 that a similar concept is applicable across 28 countries
Where have fraud losses been measured?

- To date there have been 57 Fraud Loss Measurement exercises by 43 organisations in 9 countries.
- These have been in many types of expenditure (including payroll, procurement, insurance, benefits, healthcare, consumer, provider) and both public and private sector.
- Most losses have been found to be (initially) in the 3-8% of expenditure range:
  - two have found losses of less than 3%;
  - five have found losses of more than 8%;
  - 50 have found losses of 3 – 8%.
How much do fraud losses cost? Some examples:

• UK (NHS) : 5 - 6% reduced to 1 - 3% over 8 years
• UK (DWP) : 4.1 – 5.5%
• France (CNAMTS) : 6.6% reduced substantially now
• US (Medicaid) : 6.04% (including error)
• Netherlands (Insurance) : 1.2 – 4.6%

• New Zealand has just completed measuring its healthcare fraud losses; a major UK local authority is currently measuring fraud losses; a major European health insurer has just completed measuring its fraud losses
Matching Precision with Professionalism

- Accurate fraud loss measurement exercises
- Rational decisions on the level of investment required to tackle the problem
- Informed decisions on where the investment is best spent to achieve the greatest return
- Quantification of the financial benefits that are derived from counter fraud work
- Clarity about the rate of return on the investment
A Business Approach to Fraud

- Accurate information … good quality business intelligence
- A proactive focus on reducing losses rather than reacting to problems when they occur
- A comprehensive range of action to tackle the problem including work around culture, deterrence and the design of policies and systems
- The establishment of a proper context for counter fraud work to mitigate reputational damage
- FRAUD AS A BUSINESS OPPORTUNITY NOT AS A BUSINESS PROBLEM
**Case Study – the NHS – 1998 to 2006**

**Up to 522** COUNTER FRAUD SPECIALISTS IN THE NHS

**Up to 1,170,000** NHS STAFF AND CONTRACTORS COVERED BY AGREEMENTS TO WORK WITH NHS CFS

**Up to 1901** POSITIVE ARTICLES IN THE MEDIA OVER 6 YEARS

**Up to 2459** INVESTIGATIONS SINCE 2000

VALUE OF FRAUD DETECTED AND STOPPED **UP TO £222 MILLION** - A 3000% INCREASE IN DETECTION RATES OVER SIX YEARS

**Up to 360** SUCCESSFUL PROSECUTIONS - WITH A 96% SUCCESS RATE

**Up to 434** CIVIL AND DISCIPLINARY CASES
Case Study – the NHS – 1998 to 2006

SOME EXAMPLES
PATIENT FRAUD LOSSES IN ENGLAND DOWN BY 55% SINCE 1999

PATIENT FRAUD LOSSES IN WALES DOWN BY 45% SINCE 2000

PROFESSIONAL FRAUD LOSSES IN ENGLAND DOWN BY UP TO 61%

£50 MILLION RECOVERED - £220 MILLION DETECTED AND STOPPED - £540 MILLION DETERRED AND PREVENTED

TOTAL FINANCIAL BENEFITS TO THE NHS UP TO £811 MILLION BETWEEN 1999 AND 2005

A 12 : 1 RETURN ON THE BUDGETARY INVESTMENT OF £67 MILLION
Measure, Detect, Investigate, Prevent and Re-Measure

1. HOW MUCH?
2. UP TO 40% REDUCTION

PREPARATION
FRAUD LOSS MEASUREMENT 1
DATA ANALYTICS
FRAUD LOSS MEASUREMENT 2
HOW AND WHERE?
DETECT
PREVENT
INVESTIGATE
Making a Real Difference

• If it can be done in the NHS ... a huge diverse industry of organisations ... with massive expenditure on payroll and procurement ... and all in the heat of political focus and public scrutiny ... it can be done

• This is a new approach to fraud which combines precision with professionalism ... and which can make a real difference

• That approach can maintain the faith of the public - be they policy holders, shareholders, employees or citizens - in our organisations

• That approach can free up resources to provide better systems and services and to enhance human development
Matching Precision and Professionalism

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Making a REAL difference

ANY QUESTIONS?
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