



# HM TREASURY

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24 November 2004

**DAO(GEN) 15/04**

Dear Accounting Officer

## **2003-04 FRAUD REPORT – AN ANALYSIS OF REPORTED FRAUD IN GOVERNMENT DEPARTMENTS**

This is the latest in the series of DAO letters covering the analysis of frauds reported to the Treasury under the arrangements set out in Chapter 5 of 'Government Accounting 2000'. The Report provides an analysis of certain categories of frauds reported by departments for the financial year 2003-2004 and can be found at [www.hm-treasury.gov.uk/fraud](http://www.hm-treasury.gov.uk/fraud). The purpose of the Report is to raise fraud awareness within central government and to help managers strengthen systems to counter the risk of fraud.

### **Actions**

2. Accounting Officers are asked to note the following:
  - a) The Report contains an executive summary. The main findings and conclusions can be found in the **annex** to this letter.
  - b) **Section 2** contains anti-fraud advice and guidance.
  - c) **Section 3** contains details of internal theft and fraud reported in accordance with Government Accounting, Chapter 5. **Annexes B, C and D** provide more information on interesting or high-value cases.
3. Accounting Officers are also asked to bring this letter to the attention of all managers with responsibility for the development and operation of systems and procedures involving the handling of public funds, assets or contracts. Separate copies of this letter will be sent to Finance Directors, Agency Chief Executives and Heads of Internal Audit.



## **Contacts**

4. Enquiries on the content of the Report should be directed to Richard Fennelly, Assurance, Control and Risk team (tel: 020 7270 5792; e-mail: [richard.fennelly@hm-treasury.gsi.gov.uk](mailto:richard.fennelly@hm-treasury.gsi.gov.uk)).

## **Background**

5. Chapter 5 of '*Government Accounting 2000*' requires government departments to make an annual return to the Treasury of all cases of suspected or proven frauds (including attempted fraud) affecting their departments and agencies within the following categories:

- a) Fraud perpetrated by, or suspected to have been perpetrated by, departmental staff;
- b) Frauds perpetrated by members of the public with a value of £20,000 or more and which contain valuable lessons for others; and
- c) Contractor or supplier frauds.

6. The Report aims to inform departments of the scale and nature of certain categories of fraud which have been reported to the Treasury and, where this information is available, the weaknesses that allowed the frauds to be perpetrated, the means by which they were discovered and the action taken against offenders. This information is provided to help departments learn from the experiences of others when reviewing and developing their own control systems. The Report also aims to increase awareness of the risk of fraud and, in some areas, to suggest ways in which the risk can be managed and reduced.

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**This annex provides a summary of the main findings and conclusions contained in the Fraud Report.**

- 28 departments reported 630 cases of internal fraud in 2003-2004. 19 other bodies provided 'nil' returns. The total value of fraud was £3,907,000 and included one case allegedly involving collusion between staff and with external fraudsters with a value of £2,000,000.
- Departments, executive agencies, NDPBs and other central government bodies were also asked to complete a questionnaire about their anti-fraud arrangements. In total 108 questionnaires were completed (by 38 departments and 70 other bodies). These showed that nearly all departments and 87% of other bodies had anti-fraud policies, that most had established clear avenues for staff to report their suspicions of fraud and that a high proportion took positive action to manage the risk of fraud.
- The highest number of fraud cases occurred in the categories **personnel management related fraud** (161 cases, 26% of total) and **fraud related to payment processes** (160 cases or 25% of the total). The **personnel management** cases involved very little financial loss to departments (£5,500 in total). A high proportion of the **payment** cases (67 or 42% of cases in the category) involved **collusion** and 87 cases (54% of cases in the category) were discovered as a result of staff or others reporting their suspicions of fraud via hotlines or other arrangements such as senior management, line management or internal audit.
- In terms of value, the most significant category was **income related fraud** that accounted for over 51% of total value. The £2,000,000 case fell into this category and involved **collusion** between members of staff and outsiders.
- The main reasons frauds or theft occurred were absence of control or lack of security (85 cases) or where collusion allowed control systems to be by-passed (81 cases).
- The highest numbers of cases (254 or 40%) were discovered through the operation of control procedures or as a result of staff reporting their suspicions of fraud or theft (231 cases or 37%).
- There were 597 cases with known perpetrators. Appropriate action had been taken, or was in the process of being taken, against them (including 6 prosecutions; 124 dismissals or resignations; 65 demotions, loss of spine points or promotion bans; 320 awaiting the outcome of legal or internal proceedings).
- Our analysis revealed two main areas that departments need to consider:
  - **Security over assets.** Most **thefts** reported occurred because of poor security over assets with a significant number of personal

computers being stolen from desks or classrooms. Thefts of personal computers carry the added risk of losing confidential information that could lead to serious criminal fraud or embarrassment to the departments concerned. In spite of the decrease in the numbers reported this year (as a consequence of the increase of the threshold to £5,000) the total value remained about the same indicating that individual losses are often quite significant. Departments are advised to review their security arrangements.

- **Income/Collusion.** In value terms the most significant frauds arose because the activities of some staff were not monitored closely enough or because there was a lack of segregation of duties between functions such as requisitioning, ordering and payment. Collusion was also involved in a number of the high value cases and again, this year, included collusion between staff and contractors or members of the public. Good management information, regular and frequent management checks, segregation and rotation of duties and well publicised avenues for reporting suspicions of fraud should go some way to reducing the risk of these types of fraud occurring.