



Matching Precision and Professionalism to Counter Fraud

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KPMG FORENSIC

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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

Background – Professionalism and Precision

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?

Background – Professionalism

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: mostly
investigative**

**Limited understanding of
size of the problem**

Activity not outcomes

**Rarely a proper strategic
approach**

New and integrated approach

Proactive: comprehensive

**Accurate measurement of total
fraud losses**

**Outcome focused: reduction of
losses and avoidance of
reputational damage**

**Comprehensive and integrated
approach (see following slides)**

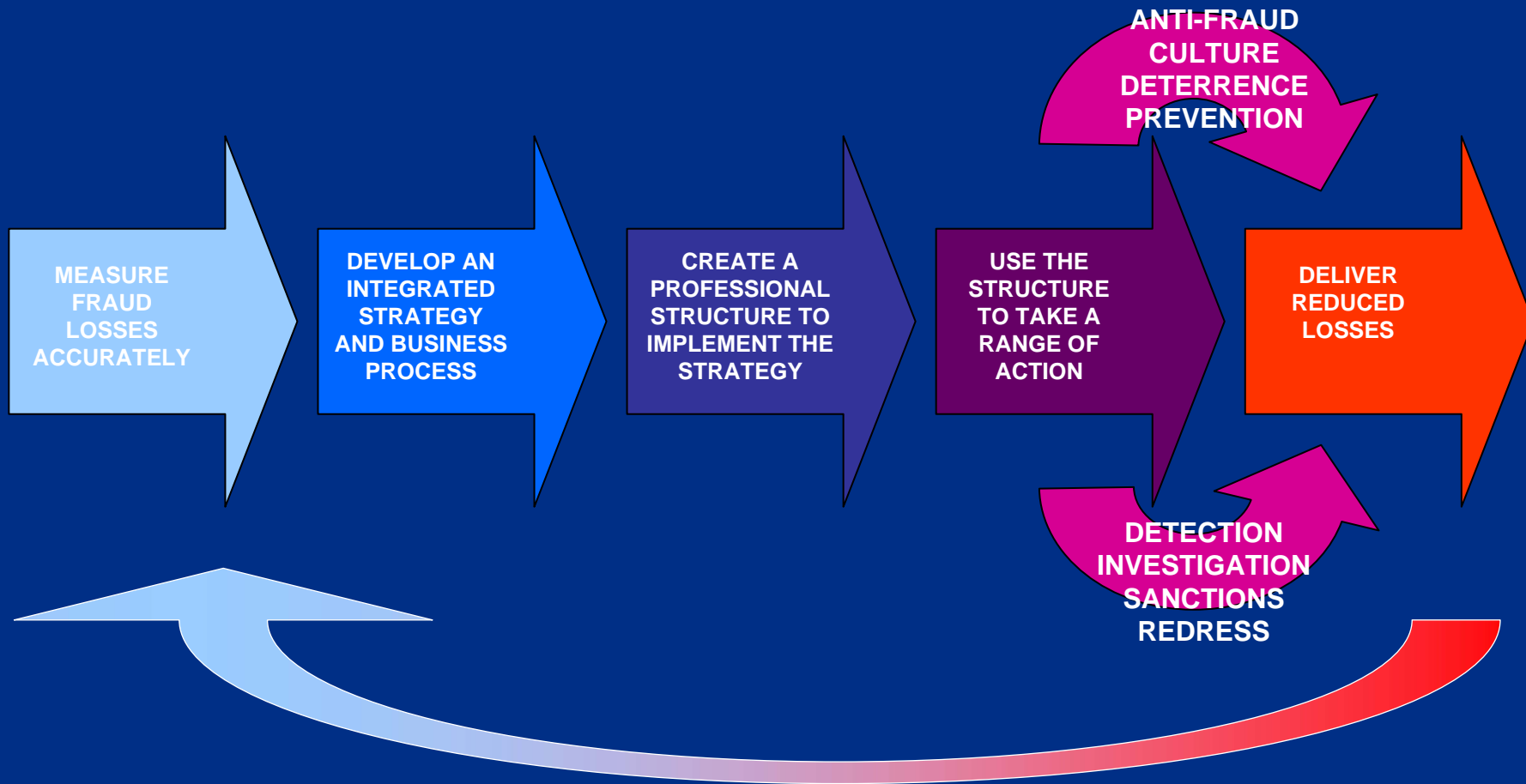
The Developing Professional Approach

- **1998 onwards : the NHS**
- **2001 onwards : the new profession of Counter Fraud Specialist**
- **2003-2004 : the NAO Report ‘Tackling External Fraud’**
- **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 UK Government’s Fraud Review Report – a cross-economy to make the UK the hardest target in the world for fraudsters**

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 Developing Professional Approach



PRECISION : Identify the problem


*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

PRECISION : Identify the problem

Why Fraud Loss Measurement?



MEASURE
FRAUD
LOSSES
ACCURATELY

- 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)

PRECISION : Identify the problem

Six stages :

- 1) Research, define and obtain the statistically valid sample
- 2) Review each transaction or record
- 3) Obtain additional evidence or information to indicate that transactions are CORRECT or ERROR or FRAUD is present (including third party information)
- 4) Apply the civil law concept of fraud
- 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

PROFESSIONALISM : Work to solve the problem

*The Development and Communication of a Clear **Strategy** and Business Process to tackle the Defined Problem*



DEVELOP AN
INTEGRATED
STRATEGY
AND BUSINESS
PROCESS

- 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

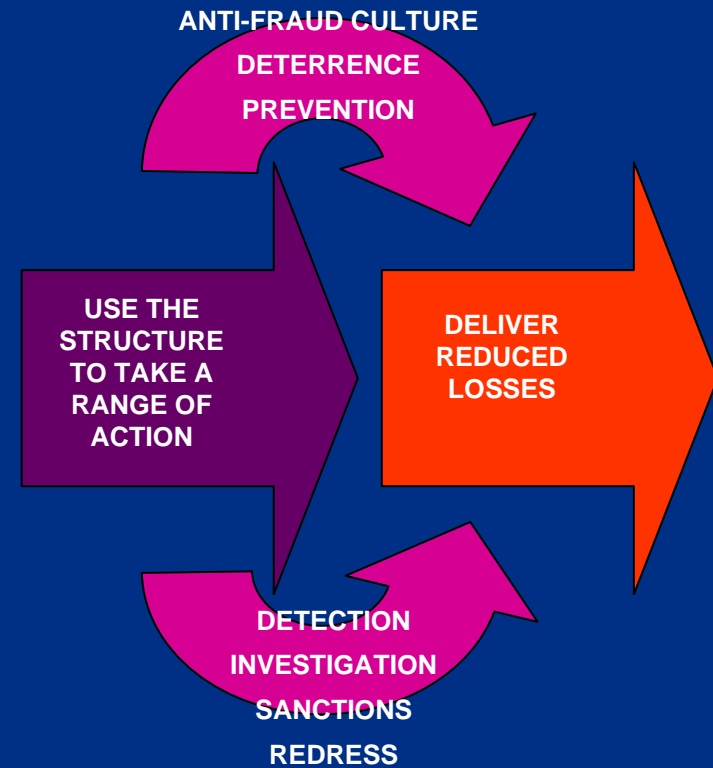
*The Creation of a **Structure** to Implement the Strategy*



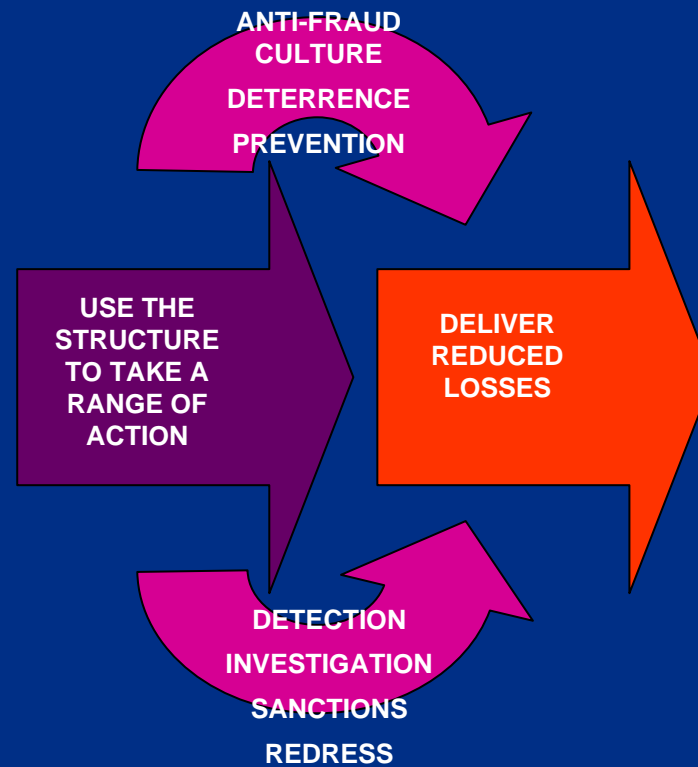
CREATE A
PROFESSIONAL
STRUCTURE TO
IMPLEMENT THE
STRATEGY

- 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



PROFESSIONALISM : Work to solve the problem



PROFESSIONALISM : Work to solve the problem

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



PROFESSIONALISM : Work to solve the problem

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

PROFESSIONALISM : Work to solve the problem

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 whistleblowing 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



PROFESSIONALISM : Work to solve the problem

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



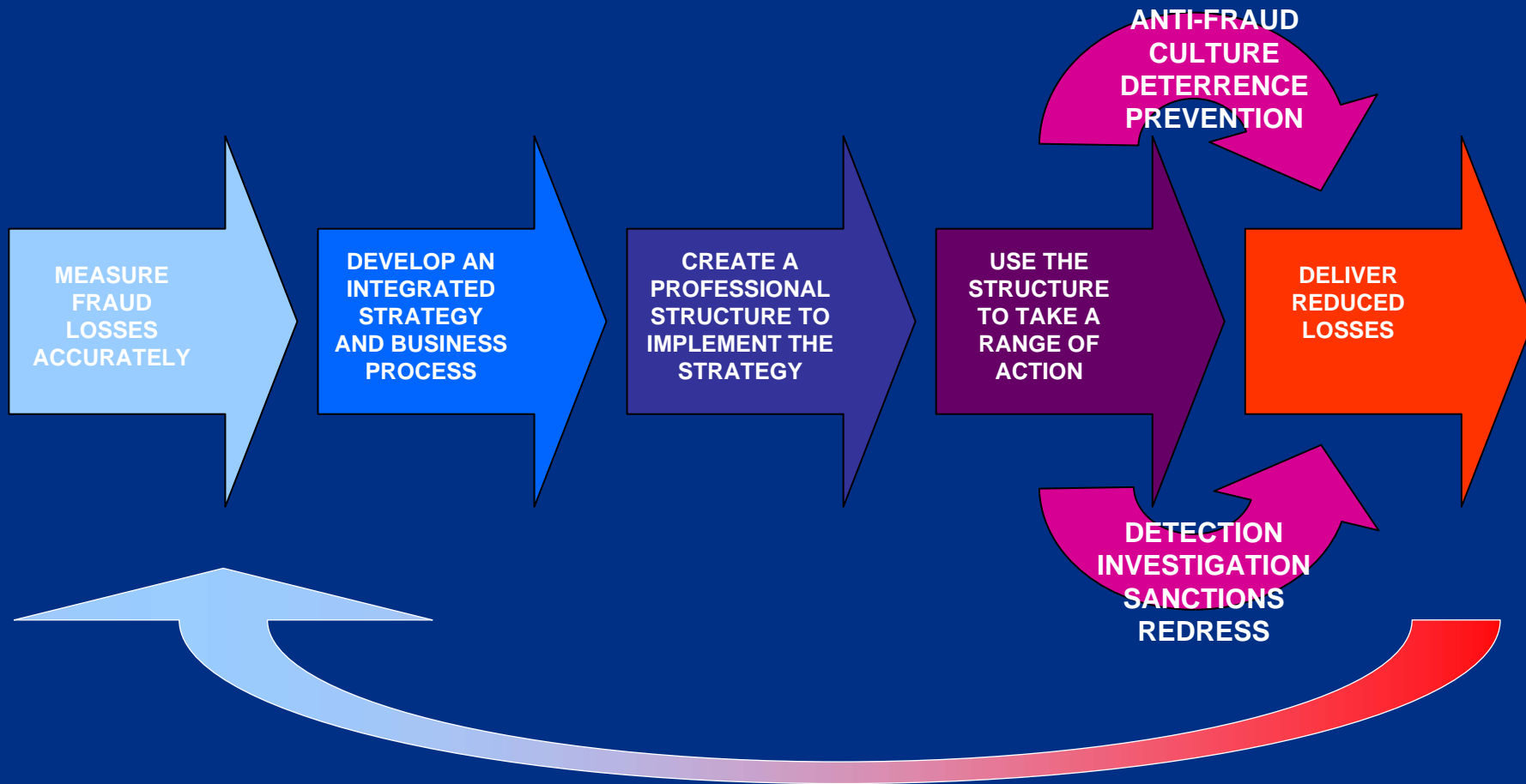
PROFESSIONALISM : Work to solve the problem

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



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 have fraud losses been found to cost?

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% nationally (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

Case Study – the NHS – 1998 to 2006

PATIENT FRAUD LOSSES IN ENGLAND **DOWN** BY 55% SINCE 1999

PATIENT FRAUD LOSSES IN WALES **DOWN** BY 45% SINCE 2000

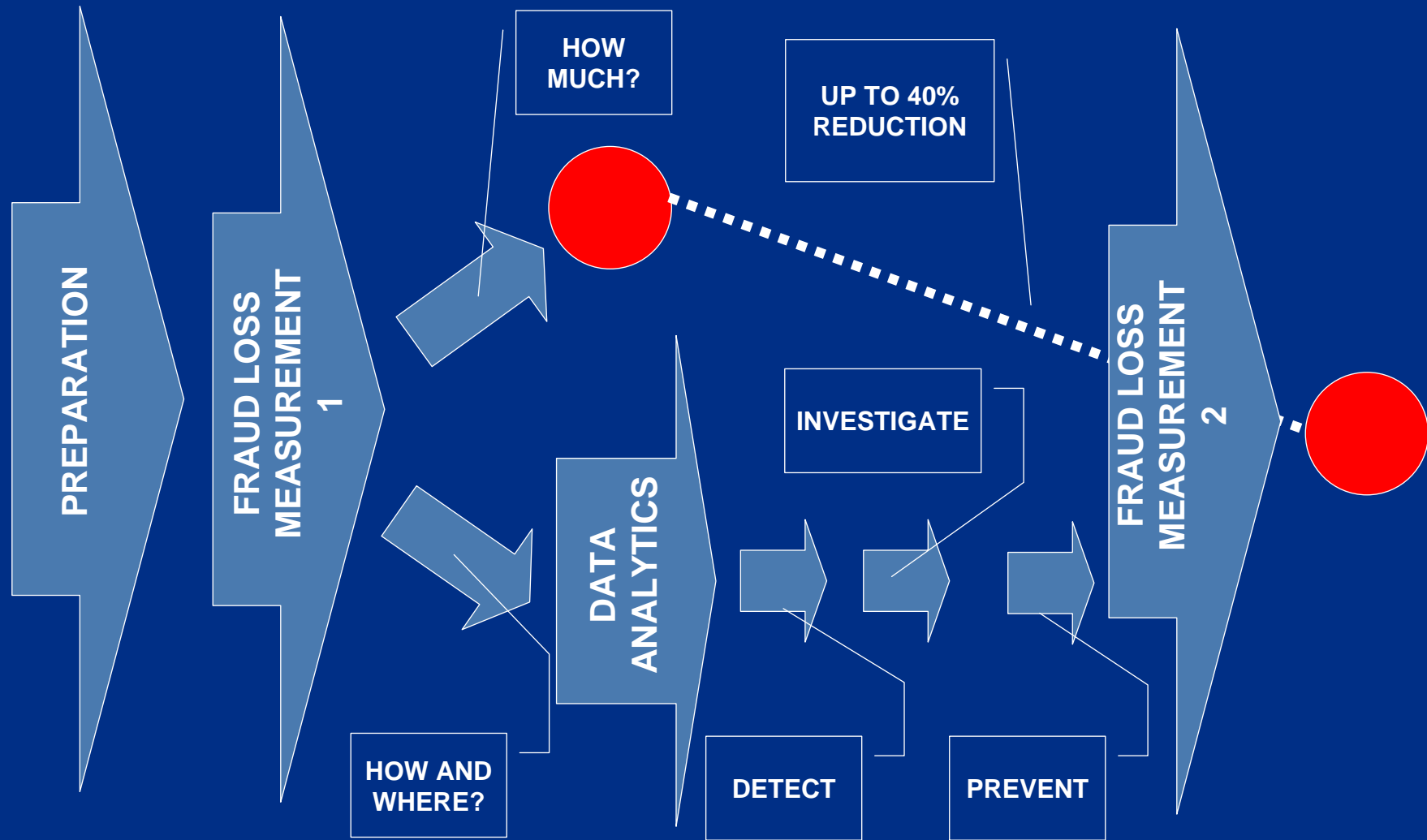
PROFESSIONAL FRAUD LOSSES IN ENGLAND **DOWN** BY UP TO 61%

£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



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 enhance shareholder value

Matching Precision and Professionalism

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Making a **REAL** difference

ANY QUESTIONS?



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