



FRAUD RISK STRATEGY



FRAUD RISK STRATEGY

Table of Contents

Introduction	3
Key Definitions	4
Why do People Commit Fraud?	4
Pressure/Motivation	5
Opportunity	5
Rationalisation	6
Risk Management	6
Identifying the Risk - Local Government Fraud Risk Areas	7
External Fraud Risk Areas	7
Internal Fraud Risk Areas	7
Understanding and Assessing the Risk	8
Risk Response Strategy	8
Anti-Fraud Strategy	8
Approach	8
New and Emerging Risks	10
Planning and Resourcing	10
Prevention	11
Detection	12
Response	12
Review	14

Introduction

Fraud is the most common and pervasive crime in the UK, costing private companies, individuals, and the public sector many billions of pounds each year. The impact of fraud and related offences can be devastating, ranging from unaffordable personal losses, often suffered by vulnerable victims, to threatening the ability of affected organisations to survive.

Fraud is not an issue that any organisation wants to confront or acknowledge, however, the reality is that most organisations will experience some form fraud. Within Local Government, it is particularly widespread. Global surveys have found that the impact of fraud on government and public administration sectors is second only to the banking and financial services sector.

The Public Sector Fraud Authority (PSFA) estimates that between £39.8 billion and £58.5 billion of public money is lost to fraud and error each year. The National Audit Office (NAO) places the cost to the taxpayer to be even higher, estimating it at between £55bn and £81bn annually. According to the latest figures in the recent Local Government Association endorsed *Fighting Fraud and Corruption Locally Strategy*, the cost of fraud and error against the public sector is estimated to be at least £33 billion per year. During the pandemic alone, additional losses were estimated at around £13 billion. These are significant sums that could otherwise be spent on the provision of public services.

The Councils that make up the Counter Fraud and Enforcement Unit (CFEU) Partnership have a duty to protect public funds from the risk of fraud. While it is impossible to eliminate all fraud, they must maintain a sufficiently robust control framework to mitigate these risks.

Local Authorities are responsible for promoting and developing high standards for countering fraud and corruption within their organisations. This commitment supports good governance and demonstrates effective financial stewardship and strong public financial management. They face significant challenges in mitigating fraud while continuing to deliver frontline services against a backdrop of reduced resource and income streams.

The Economic Crime and Corporate Transparency Act 2023 (ECCTA) creates a new offence: 'Failure to Prevent Fraud'. Under the Act, an organisation may be held criminally liable if an employee, agent, subsidiary, or other associated person, commits a fraud intending to benefit the organisation, and the organisation did not have reasonable fraud prevention procedures in place.

FRAUD RISK STRATEGY

In line with the fraud risk assessment checklists outlined in the *Fighting Fraud and Corruption Locally (FFCL) 2020*¹ strategy and the *Government Functional Standard GovS013: Counter Fraud*², this strategy sets out the direction and desired outcomes for the partnership.

A key element of this approach is fostering an anti-fraud culture and implementing practices that support and guide Councillors, employees and contractors in addressing the serious issues of fraud and corruption. This document provides an overview of our policy on the matter and supports the work of the CFEU in preventing, detecting and deterring fraud and corruption.

Key Definitions

- Bribery** Bribery is the act of offering, giving, requesting, or agreeing to receive a financial or other advantage, to influence the performance of an individual in a position of authority. It involves an intent to gain an unfair advantage or to induce improper performance of a duty.
- Fraud** The term ‘fraud’ refers to offences contrary to the Fraud Act 2006, which are based on false representation, dishonesty, financial gain or loss, and related offences such as bribery and money laundering. Fraud typically involves the use of deception to dishonestly make a gain and/or cause a loss to another. Fraud can also involve the abuse of a position of trust.
- Corruption** Corruption is the abuse of entrusted power for personal gain, often involving dishonest or unethical conduct. It can occur in both public and private sectors and typically includes actions such as bribery, fraud, nepotism or embezzlement.

Why do People Commit Fraud?

Fraud is often appealing due to the perceived ‘low risk / high reward’ opportunities it presents. It can be committed with relative ease and often from a distance, making it more difficult for both victims and authorities to detect. It is a crime that can be perpetrated by serious organised crime groups operating across international boundaries, but also by otherwise law-abiding individuals seeking opportunistic gain. In the public sector, the absence of a clearly identifiable victim further benefits the fraudster as it depersonalises the impact and reduces the perceived severity of the offence.

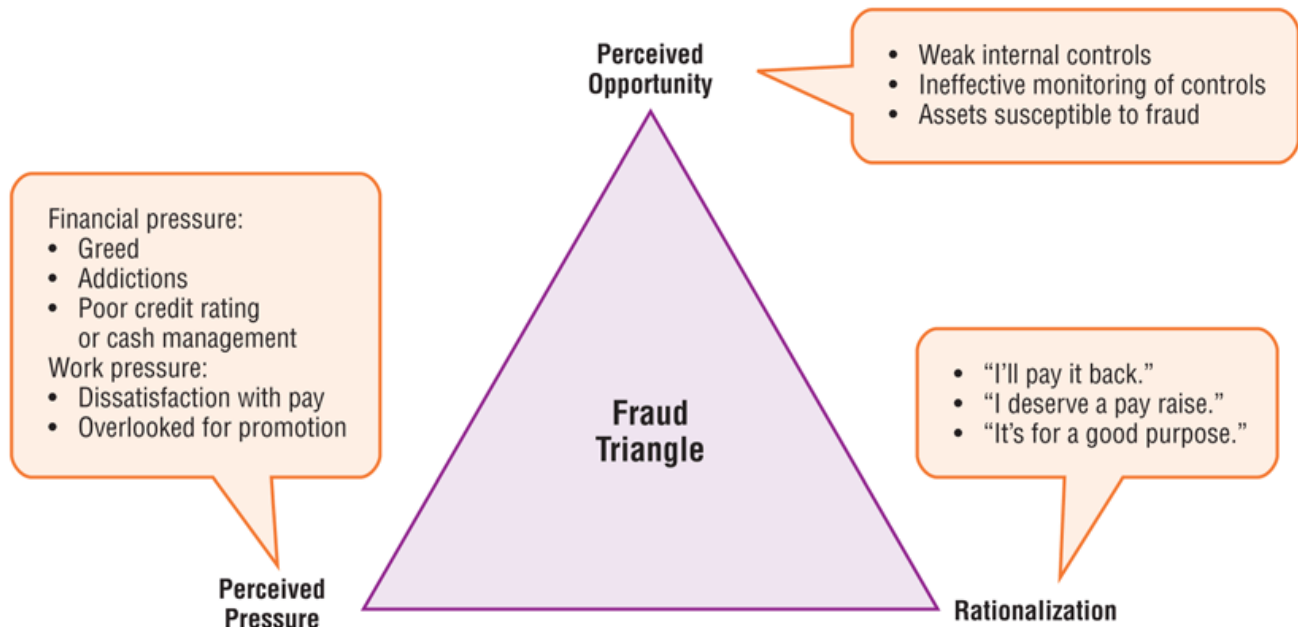
The ‘fraud triangle’ is commonly used to explain the factors that influence an individual’s decision to commit fraud. It identifies three components that increase the risk of fraud: opportunity, perceived pressure (incentive), and rationalisation. These elements apply equally

¹ [Fight Fraud and Corruption Locally](#)

² [Government Functional Standard - GovS 013: Counter Fraud](#)

FRAUD RISK STRATEGY

across all sectors/organisations and should always be considered as part of the wider approach to risk management. It is important to recognise that within Local Government, the opportunities and incentives to commit fraud are wide ranging.



Pressure/Motivation

In simple terms, motivation to commit fraud is often driven by either greed or need, such as personal financial difficulties, rising living costs, debt, or workplace pressure to meet performance targets. While many people may encounter the opportunity to commit fraud, only a small minority choose to act on it.

Personality and temperament, particularly an individual's tolerance for risk and fear of consequences are also factors, even those with strong moral principles can be influenced or coerced by others. Some individuals may only be tempted when faced with severe financial hardship or the threat of ruin.

Opportunity

In terms of opportunity, fraud is more likely to occur in organisations with weak internal controls, poor security, and an absence of policies clearly outlining acceptable behaviours. Research confirms that while some employees are inherently honest and others habitually dishonest, many fall in between and can be influenced by opportunity. The organisational culture, along with the example and behaviours demonstrated by leadership, plays a significant role in shaping perceptions of acceptable conduct and can significantly influence the likelihood of fraud.

FRAUD RISK STRATEGY

Rationalisation

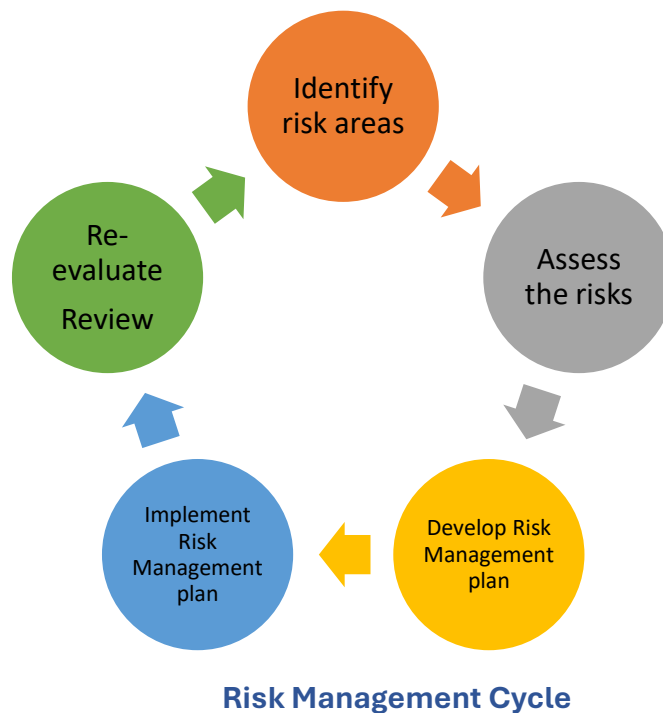
Many people obey the law because they believe in its principles and/or fear being shamed or rejected by those they care about if caught. However, some individuals can rationalise fraudulent behaviour in various ways, including:

- **Necessity** – particularly when the act is perceived to benefit the organisation
- **Harmlessness** – believing the victim is large enough to absorb the loss, or views the organisation as faceless and impersonal
- **Justified** – thinking the victim ‘deserved it’, or acting out of a sense of being wronged or mistreated

The ‘fraud diamond’ theory builds on the fraud triangle by adding a fourth component: the perpetrator’s **capability** to commit fraud. This could include:

- Position/Role within the organisation
- Intelligence
- Confidence and Ego
- Coercion skills or the ability to lie convincingly
- Immunity to stress or the ability to cope under pressure

Risk Management



FRAUD RISK STRATEGY

Identifying the Risk - Local Government Fraud Risk Areas

The threat of fraud faced by Local Authorities comes not only from the public (external), who access a wide range of services, but also from employees and contractors (internal) working across various service areas.

Due to the nature of services provided - such as welfare payments, grants, housing, Council tax discounts and exemptions, and business rates - fraud in these areas remains a key focus for ongoing prevention and detection efforts. Below is a list of fraud and corruption types to which Local Authorities are particularly vulnerable:

External Fraud Risk Areas

- **Social Housing Tenancy Fraud** – including false applications, sub-letting for profit, right to buy fraud, property abandonment, and fraudulent allocation.
- **Council Tax Fraud** – misuse of discounts and exemptions, such as the Council Tax Reduction Scheme (CTRS) and single person discount.
- **Business Rates (NNDR) Fraud** – fraudulent applications for reliefs and exemptions.
- **Adult Social Care Fraud** – including care workers claiming for unworked hours or misuse of direct payments.
- **Blue Badge Scheme Abuse** – unauthorised use or misrepresentation to gain parking privileges.
- **Grant Fraud** – false claims or misuse of grant funding.
- **Cybercrime** – phishing emails, viruses, and payment fraud (managed by ICT)
- **Serious and Organised Crime** – including fraud in licensing, contracts, right to buy, ‘cuckooing’, and online or payment card fraud

Procurement, Purchasing, and Contract Management Fraud

A significant risk area that can involve both internal and external actors is within procurement. Fraud can occur at any stage of the procurement cycle, including tendering, contracting, invoicing, or delivery of services.

Other internal fraud risks within Local Authorities include:

Internal Fraud Risks

- Payroll fraud
- Fraudulent expense and allowance claims
- Bribery, corruption and abuse of position
- Failure to declare conflicts of interest
- Pre-employment fraud – provision of false information
- Misallocation of social housing – favouring friends or family

FRAUD RISK STRATEGY

- Manipulation of benefits, grants or Council tax accounts for personal gain
- Asset Misappropriation – unauthorised use of Council property or resources
- Misuse/Manipulation of Systems – altering records or bypassing controls

Understanding and Assessing the Risk

Once risks have been identified, an assessment of their potential impact and likelihood of occurrence should be made using a consistent criterion. This will enable the development of a prioritised risk analysis framework. The impact assessment should go beyond financial considerations to include effects on the organisation's service delivery, reputation, and the political sensitivities involved.

Risk Response Strategy

Strategies for responding to risk generally fall into one of the following categories:

- **Risk Retention** (e.g. choosing to accept small risks)
- **Risk Avoidance** (e.g. discontinuing use of certain products to eliminate the risk)
- **Risk Reduction** (e.g. implementing controls and procedures to minimise risk)
- **Risk Transfer** (e.g. transferring risk contractually or to insurers)

This strategy, together with the existence of the CFEU, provides assurance that the partnership has an appropriate control framework in place to mitigate the risk of fraud. While it is impossible to eliminate the risk entirely, there are areas where continuous monitoring is required.

Anti-Fraud Strategy

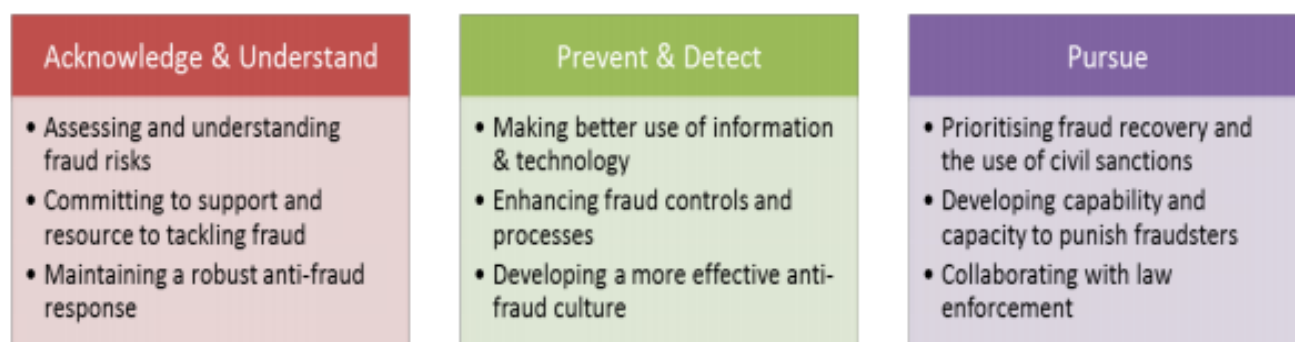
Approach

The changing context in which Local Government services are delivered (outsourcing and reorganisation), the increasing risk of fraud by motivated offenders, reduced Local Authority resources, and associated changes to existing local control frameworks, together create a pressing need for a consistent and recognised approach to tackling fraud perpetrated against Local Government.

In 2011, the first counter fraud strategy for Local Authorities was produced in the form of the *Fighting Fraud and Corruption Locally* (FFCL) strategy. The strategy was based on the following three principles:

- **Acknowledge** – Recognise and understand fraud risk.
- **Prevent** – Prevent and detect more fraud.
- **Pursue** – Take a robust approach in punishing fraud and recovering of losses.

FRAUD RISK STRATEGY



Two additional principles have since been introduced:

- **Govern** – Setting the tone from the top and ensuring robust arrangements to ensure that counter-fraud and anti-corruption activities are embedded throughout the organisation.
- **Protect** – Safeguarding against serious and organised crime, preventing individuals from becoming victims, and mitigating against the wider harm that fraud can inflict on the community. For Local Government, this includes protecting public funds, protecting the Local Authority from fraud and cybercrime, and preventing future fraudulent activity.

These principles are underpinned by the following:

Culture	Creating a culture in which beating fraud and corruption is part of daily business
Capability	Ensuring that the range of counter fraud measures deployed is appropriate to the range of risks
Capacity	Deploying the right level of resources to deal with the level of risk
Competence	Having the right skills and standards
Communication	Raising awareness, deterring fraudsters, sharing information, celebrating success
Collaboration	Working across boundaries with other authorities and agencies, sharing resources, skills and learning

The strategy was developed collaboratively by Local Authorities and key stakeholders from across the fraud arena. It was designed to help Local Authorities better understand their fraud risks, support the development and maintenance of a culture in which fraud and corruption are recognised as unacceptable, and to provide a blueprint for a more robust and coordinated response (*CIPFA – The Local Government Counter Fraud and Corruption Strategy*).

In 2022, in response to the significant levels of fraud and error experienced during the pandemic, the Public Sector Fraud Authority (PSFA) was established to develop capability within the public sector to identify and mitigate fraud risk. While the PSFA primarily supports central government, steps are being taken to include and support Local Government counter fraud functions.

FRAUD RISK STRATEGY

The framework for the CFEU's fraud and corruption control plan includes:

- Identifying New and Emerging Risks
- Planning and Resourcing
- Prevention
- Detection
- Response

New and Emerging Risks

The strategy has been designed to acknowledge and respond to the evolving nature of risks within the public sector. Unexpected events, such as pandemics, emergencies and international conflicts, can significantly alter the service delivery landscape and introduce new types and levels of fraud risk, affecting both public sector finances and operational structures.

For example, the Covid-19 pandemic prompted Local Authorities to implement wide scale remote and home-working practices, which increased risks related to cybersecurity and employee's integrity.

More recently, factors such as the cost-of-living crisis, remote working, and the war in Ukraine have contributed to increased risks across the partnership. These include a rise in the number of grant schemes being administered and a growing trend of employees holding multiple contracts of employment.

Emerging technologies, particularly Artificial Intelligence (AI), also present a range of risks across all service areas, including the creation of fraudulent content, the facilitation of scams, and the circumvention of existing security measures. The use of AI technology increases the reach of the fraudster and enables multiple targeting of numerous organisations and applications/systems.

Planning and Resourcing

The CFEU is a corporate resource with annual work plans designed to raise awareness and allocate resources based on identified areas of vulnerability. This approach enables the department to provide both proactive and reactive investigations in the areas deemed high-risk. There is an on-going need to ensure that internal controls remain robust and effective.

Service-specific fraud risk registers are being developed to make fraud risk more relatable and understandable to colleagues, thereby raising awareness and supporting prevention efforts. These registers will also help identify new and emerging risks, which will, in turn, inform the CFEU's annual work activities.

Levels of identified fraud, along with supporting statistics and reliable data, help shape risk management strategies. This information provides evidence for the need for internal controls in high-risk areas, supports cultural change, and informs best practice.

FRAUD RISK STRATEGY

The CFEU submits quarterly reports to corporate management and bi-annual reports directly to Audit Committees, detailing ongoing work streams and outcomes. This ensures Councillors are briefed and remain informed about fraud risks. By maintaining a dedicated team to collect and analyse this data, the partnership is ensuring a comprehensive risk management approach that continuously reviews and strengthens internal controls.

The CFEU also works closely with Internal Audit to identify internal control weaknesses and to ensure that any necessary follow-up actions are reviewed and implemented.

Prevention

Working directly for the Chief Finance Officer (Section 151 Officer), the CFEU is responsible for developing, reviewing, and updating the Counter Fraud and Anti-Corruption Policy, the Whistleblowing Policy, the Proceeds of Crime and Anti-Money Laundering Policy, and all related procedures concerning fraud prevention and criminal investigations.

The CFEU has focused on raising awareness and changing the culture across the partnership through a combination of online training and in-person awareness sessions. The team has worked diligently to educate employees, helping them to better understand fraud risks and how best to mitigate them. Given the scale and diversity of public sector organisations, it is essential that awareness training is relatable to the audience or individual employee to maximise its impact. To support these efforts, CFEU introduced a revised and updated Whistleblowing Policy to complement fraud awareness training and ensure employees feel confident in reporting allegations of wrongdoing.

Annual work plans are developed in consultation with Internal Audit and include proactive fraud initiatives in high-risk areas, deterrent activities, and the allocation of resources for reactive investigations.

As Local Government continues to utilise outsourcing, it is vital that contractors are made aware of the principles outlined in the Whistleblowing, Proceeds of Crime and Anti-Money Laundering, and Counter Fraud and Anti-Corruption Policies. Contractors must also comply with all relevant terms, conditions, and internal procedures, such as declaring conflicts of interest and following proper processes for expense claims.

The partnership is committed to ensuring that modern slavery and human trafficking have no place in its supply chains or in any part of its operations.

FRAUD RISK STRATEGY

Detection

The CFEU is a trained and dedicated resource available to support departments in the following areas:

Internal Reactive Cases: Conducting investigations into allegations of employee or Councillor corruption, fraud or other serious misconduct. This includes preparing cases for prosecution, as well as for disciplinary and standards hearings.

Council Tax Discounts: Assistance with the processing of National Fraud Initiative (NFI) data matches, undertaking targeted fraud drives and reviews, and applying sanctions and penalties where appropriate.

Council Tax Reduction Scheme: Acting as Authorised Officers under the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013 to investigate fraud, apply criminal sanctions, and work jointly with the Department for Work and Pensions (DWP).

National Non-Domestic Rates: Assistance with proactive reviews of specific exemptions and reliefs and investigating suspected evasion or avoidance.

Procurement: Delivering proactive fraud prevention initiatives in high-risk areas, reviewing processes and documentation to reduce risk and enhance control mechanisms, providing fraud awareness training for relevant officers, and offering guidance on the impact of serious and organised crime and how to implement appropriate controls/safeguards.

Housing Allocation, Housing and Tenancy Frauds: Carrying out regular reviews of housing waiting lists, collaborating with registered social landlords and housing providers, and acting as Authorised Officers under the Prevention of Social Housing Fraud Act. The CFEU also has the capacity to prepare cases for both criminal and civil proceedings.

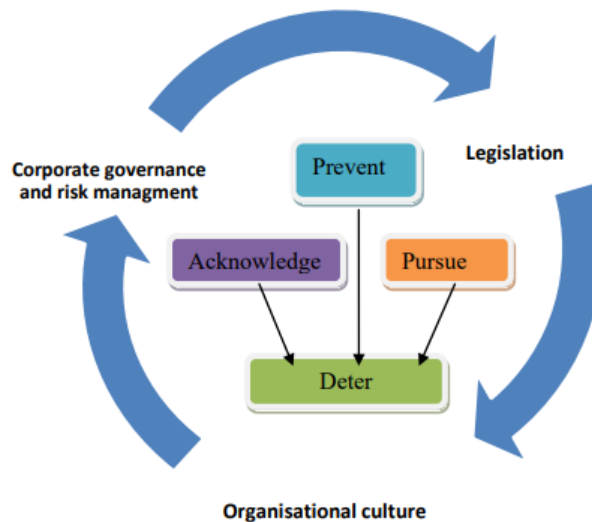
Annual Work Planning: Focusing on emerging risks, nationally recognised threat areas, and locally identified risks based on demographic trends.

Fraud Risk Registers: Developing and maintaining fraud risk registers for the partnership, as well as for individual service areas. The registers are subject to ongoing review and updated to reflect known and emerging risks.

Response

To support both fraud detection and an appropriate response, the Council's dedicated CFEU is staffed by qualified Investigation Officers, as well as Intelligence and Support Officers, all committed to identifying and addressing internal control weaknesses and pursuing criminal prosecutions where necessary. The CFEU also places a strong focus on the recovery of debt and assets to minimise losses to the public purse.

FRAUD RISK STRATEGY



The Council websites include a dedicated counter fraud page, providing information on how to make referrals and an overview of the work undertaken by the CFEU. This page also includes links to the relevant policies adopted by each individual Council.

In addition, the CFEU operates an independent website at www.cfeu.org.uk, which provides detailed information about its services. The site also highlights current fraud trends, victim support resources, and updates on fraud scams across Gloucestershire, helping to raise awareness and support efforts to prevent and disrupt fraud.

The website provides an opportunity to establish a communication platform that is accessible to both residents and employees across the county and beyond. This dedicated webpage will allow the CFEU and its partners to shape fraud-related messaging, offer guidance and advice, and signpost individuals to support services. The site will also serve as an educational tool, helping to inform communities about the evolving nature of fraud threats. By sharing success stories and testimonials, the platform aims to reduce stigma and increase the reporting of fraud. Internally, departments can refer cases directly to the CFEU, including making referrals in confidence where necessary. In the case of sensitive whistleblowing referrals, the CFEU can conduct fully confidential investigations with limited notification.

The CFEU works across its partner organisations and the wider criminal enforcement community to share best practice, build knowledge, and strengthen fraud detection and prevention. Where appropriate, the CFEU will refer matters to the police or agency with relevant jurisdiction.

To ensure continued awareness of fraud risks, the CFEU provides regular training to employees and Councillors, reports on successful court outcomes in the media, and shares positive results with internal teams.

FRAUD RISK STRATEGY

Review

Following any proactive initiative or fraud investigation, the work is subject to review and management oversight. Local Authorities have both internal and external audit functions which also play a key role in fraud prevention. The audit functions enable the organisation to adapt to an evolving risk environment and continuously monitor, identify and address any deficiencies.

The CFEU and Internal Audit meet quarterly to discuss areas of low assurance and emerging fraud risks, which can then be incorporated into future work plans. Where an investigation has taken place, any identified risks or weaknesses in controls are highlighted. The CFEU provides a report to the relevant manager, outlining findings and offering recommendations where areas of concern are identified. Internal Audit may also review these recommendations and determine whether a follow-up audit is required. In addition, when fraud is identified during any audit work, a referral is made to the CFEU.

Policies are reviewed regularly to ensure they are relevant, aligned with current best practices, and compliant with up-to-date legislation. Any training required because of policy updates is then delivered accordingly.

Service-specific risk registers will be reviewed regularly in collaboration with the relevant service area manager, while the CFEU's annual work plans are overseen by corporate management.