



# ***Protecting the public purse from procurement fraud***

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# FRAUD AND CORRUPTION IN LOCAL GOVERNMENT PROCUREMENT

A large iceberg floating in the ocean. The tip of the iceberg, which is the visible part above the water, is a jagged, white mountain peak. The vast majority of the iceberg is submerged underwater, appearing as a dark blue, textured mass. This visual metaphor represents the concept of 'the tip of the iceberg', where a small, visible portion of a much larger, hidden problem is shown.

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\*Review undertaken while seconded to MHCLG from CIPFA

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## GENESIS OF THE REVIEW

In the UK Anti-Corruption Strategy 2017-2022 the commitment was made to undertake a review into procurement fraud and corruption risks in local government - to be led by the Secretary of State for Communities and Local Government in collaboration with the Anti-Corruption Champion.

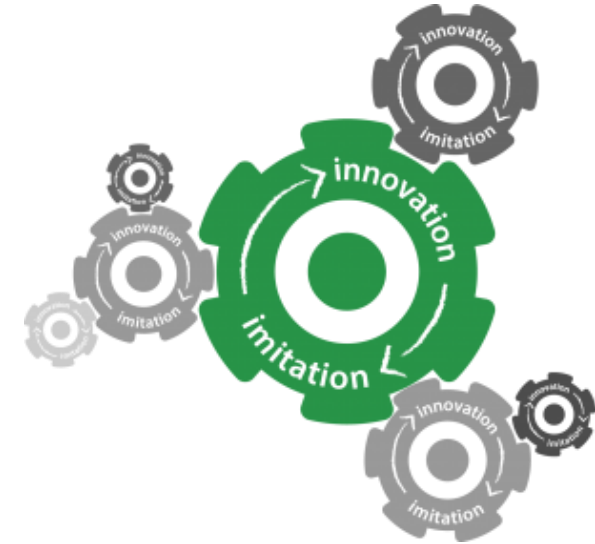


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# CONDUCTING THE REVIEW

## Methodology

- Workshops with local government officials
- Survey sent to Councils
- Literature review
- Call for evidence (cases and good practice)
- 1-2-1 discussions
- Established cross-departmental working group



## Engagement from the sector

- Over 120 workshop participants
- 145 respondents to the survey
- Invitations to visit Councils
- Numerous 1-2-1 discussions
- 25+ case studies and 20+ examples of good practice
- Support from LGA, CIPFA and *Fighting Fraud and Corruption Locally* board



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## SUMMARY OF KEY FINDINGS

### Culture and 'tone from the top'

Culture is key
Use data and technology
Need to share data and information
Support whistleblowing
Work together

### Capacity and capability

Systems and processes
Counter fraud expertise within procurement
Contract management
Awareness of organised crime and cartels
Risks of commercialisation

### Metrics and methodologies

Standard definitions
Benchmarking case numbers
Measurement methodologies
Identifying incidents
Challenges in concluding investigations

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# MAIN RECOMMENDATIONS FOR LOCAL AUTHORITIES

## **Improve understanding of risks**

- Including mandatory fraud and corruption awareness training

## **Build capacity and capability**

- Counter fraud/anti-corruption
- Procurement and contract management

## **Build an Anti-Fraud and Anti-Corruption Culture**

- Tone from the top: Councillors and leadership teams
- Joint working and information sharing
- Impact of deterrence
- Importance of transparency

## **Recognise the importance of systems and processes**

- Including due diligence, conflicts of interest, gifts and hospitality

## **And the importance of recordkeeping and data quality**

- Analyse data to look for indicators
- Consider risks of fraud and corruption when upgrading technology

## **Importance of sharing good practice and information**

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# Procurement fraud in the NHS

**Oliver Stopnitzky**  
Fraud Prevention Unit

# What we do

- Intelligence-led organisation
  - £1.21bn: Estimated NHS vulnerability to fraud each year
- We set standards for NHS counter fraud work
- Investigate high-level and complex NHS fraud cases
- Data analytics
- We develop targeted fraud prevention solutions





# Preventing Procurement Fraud

- Disaggregate spend
  - £1.37bn disaggregate spend (outside organisation and OJEU thresholds)
  - 5.96% of total spend on suppliers
- Contract management
  - 145 contracts worth £65m with no involvement of the following, in the contract management process:
    - End user and contract manager
    - KPI assessment
    - Contract cost or schedule variances assessment
- Purchase Order vs non-Purchase Order spend
  - Total value of non-PO spend is £4.6bn for the 94 organisations where data was received. An average non-PO spend (against total spend) of 47.05%. 51% of the sample registered above this average (£3.7bn), equating to 80% of all non-PO spend for the dataset.
  - The spending categories of Staff and Patient Consulting Services & Expenses, Purchased Healthcare, and Transportation are the most vulnerable to non-PO spend.

# Fraud prevention guidance

**Contract splitting**

NHS fraud prevention quick guide | v1.0 July 2019

Contract splitting is the practice of artificially breaking up purchases of goods and services to bring total expenditure below organisational and legislative thresholds in order to avoid formal procurement rules. While contract splitting may not always constitute fraud, it increases the risk of fraud occurring in procurement processes by weakening control measures.

The EU Procurement Directives and UK procurement legislation state that a procurement opportunity should not be subdivided for the purpose of reducing the total value so that it falls unacceptably below the EU threshold and thereby becomes exempt from procurement regulations. Procurement regulations require procurement activity above specific thresholds to be publicly advertised and competitively tendered, which can be seen to be a longer, albeit more transparent process.

Contract splitting is also known as artificial disaggregation or spind.

Conducting a disaggregated spend review can highlight the practice of contract splitting, as well as provide management information to the procurement function that will demonstrate value for money, and opportunities to improve buying practices and prevent fraud from occurring.

**Who is this quick guide for?**

This guidance is intended for those staff working in NHS procurement teams particularly those responsible for managing contracts and relationships with suppliers, finance teams, internal audit, and audit committees.

**Buying goods and services**

NHS fraud prevention quick guide | v1.0 July 2019

This quick guide highlights the fraud risks when buying goods and services directly from suppliers.

Fraud in this area includes any act whereby deliberate steps are taken to mislead a NHS organisation with a view to dishonestly obtain payments individuals are not entitled to, for example by staff, suppliers or fictitious suppliers or collusion between these groups.

**Who is this quick guide for?**

This guidance is intended for NHS staff, particularly budget holders, those with responsibility for negotiating goods and services or approving invoices, and procurement and finance teams, particularly those with responsibility for processing invoices and payments.

**How to spot fraud**

Staff should remain vigilant to fraud within the process of buying goods and services, here are some areas of vulnerability to be aware of:

- False invoices, where either a legitimate or fabricated supplier dishonestly submits invoices to the NHS for goods or services not supplied.
- Inflated invoices, where a supplier dishonestly submits invoices that do not accurately reflect the goods or services provided or contracted to the NHS.
- Duplicate invoices, where a supplier dishonestly submits more than one invoice for the same goods or service.
- VAT fraud, such as VAT charged on invoices without a VAT registration number and erroneous VAT charges.
- An invoice for goods or services with hidden or incorrect fees, such as handling fees, set up or on-site and administration fees that should not be charged for.
- An invoice from an unfamiliar supplier.

**Mandate Fraud**

NHS fraud prevention quick guide | v1.0 July 2019

Mandate fraud is described as change of bank account scans, payment diversion fraud or supplier account takeover fraud.

**What is Mandate Fraud?**

Mandate fraud is described as change of bank account scans, payment diversion fraud or supplier account takeover fraud. It occurs when someone gets an NHS organisation to change a direct debit, standing order or bank transfer mandate, by purporting to be from a genuine supplier that regular payments are made to. The payments are then fraudulently diverted into the criminal's bank account. The genuine supplier details are usually obtained from a range of sources including contact staff, publicly announced contracts and online lists of supplier contacts.

**CEO email fraud**

CEO (Chief Executive Officer) email fraud is another form of mandate fraud whereby the fraudster requests changes to payroll bank account details. This type of fraud typically occurs when an email from a trustee is sent to an NHS organisation purporting to be the organisation's CEO or a senior director with instructions to change bank account details of the person they are implementing. The trustee will request that funds are transferred as a matter of urgency to the alternative bank accounts. The trustee of staff receiving the email will feel pressured to comply due to the apparent seniority of the sender and urgent nature of the email.

**Who is the quick guide for?**

This guidance is intended for those staff working in NHS finance teams, particularly those responsible for setting up bank account details and processing bank payments.

**How to spot mandate fraud**

Mandate fraud can occur in different ways, here are some methods to be aware of:

- A telephone request is received where the caller is suggesting some urgency.

**Petty cash**

NHS fraud prevention quick guide | v1.0 July 2019

Petty cash is held and maintained locally for the purchase of small value sundry items or for incidental expenses. Fraud relating to petty cash can occur if, for example, a dishonest claim is made for a non-authorized item or expenditure.

**Who is this quick guide for?**

This guidance is intended for staff with delegated responsibility for handling petty cash, their managers and NHS finance teams.

**How to spot fraud**

It is important for staff to remain vigilant to fraudulent activity and loss relating to petty cash. Here are some vulnerabilities to be aware of:

- No receipt for expenditure or monies spent.
- Unrecorded expense claims and receipts.
- Using petty cash to fund unauthorised activities which are not in line with the NHS organisation's policy.
- Using petty cash to purchase unauthorised items.
- Failing to validate a patient's entitlement prior to approving a reimbursement.
- Returning cash from the petty cash fund.
- Tissue your messages in place of cash or valid receipts.
- Unrestricted access to the petty cash fund.

NHS organisations should be mindful that although petty cash amounts handled at any given time may be small, the real indicator of fraud is the amounts of funds that are cumulatively disbursed through the account over the year.

**Credit card fraud**

NHS fraud prevention quick guide | v1.0 July 2019

Credit cards are commonly used in the NHS for a variety of purchases and transactions, usually for the ordering and/or purchase of goods and services where immediate payment is required or where normal procurement processes do not apply. This quick guide looks at common fraud risks relating to the use of credit cards by NHS organisations.

Credit cards can also be referred to as purchasing cards and are issued to designated staff for making authorised purchases or transactions.

**What is credit card fraud?**

Credit card fraud can include:

- unauthorised transactions made using a stolen or cloned credit card
- unauthorised transactions made using stolen payment details from a credit card, e.g. goods and services are purchased online or over the phone using stolen card details (this is often referred to as 'card not present' fraud)
- the use of skimming devices to exploit the contactless feature on credit cards where multiple unauthorised transactions of up to £100 can be processed with a card reader

With a credit card the threats to NHS organisations are exactly the same as those faced by private individuals.

**Who is this quick guide for?**

This guidance is intended for all staff issued with a credit card for authorised transactions, their managers and staff working in NHS finance and procurement teams.

**Contract reviews**

NHS fraud prevention quick guide | v1.0 July 2019

The NHS spends a significant amount of money on goods and services, which are obtained through a variety of contracts and arrangements. Contract management is key to ensuring optimal financial and operational performance of contracts; however it can also be used to prevent and detect fraud.

Contract review meetings can be used to minimise fraud risks that can occur during the contract management phase. Therefore it is important to understand what fraud looks like and what control measures can be employed to ensure accountability, transparency, and probity during the contract management phase.

**Who is this quick guide for?**

This guidance is intended for those staff working in NHS procurement teams, particularly those responsible for managing contracts and relationships with suppliers.

**How to spot fraud**

Contract review meetings can help to identify vulnerabilities to fraud risks in the procurement process. Here are some vulnerabilities you may want to look out for:

- Unbalanced buyer/supplier relationships where conflict of interest rules are not followed and relationships between those managing the contract and the supplier are not disclosed or managed.
- Contract terms, Key Performance Indicators (KPIs) and deliverables which are different to those included in the tender documentation.
- Overbilling for goods and services or unjustified expenses claims by consultants/contractors.

**Due diligence**

NHS fraud prevention quick guide | v1.0 July 2019

The purpose of this quick guide is to highlight NHS organisations' role and responsibilities with regard to preventing fraud, bribery and corruption in the procurement of goods and services supply chain.

**What is due diligence?**

Due diligence is an essential tool in a risk management framework and it helps identify and manage fraud risks that may arise in transacting or dealing with a third party or supply chain (e.g. a supplier or subcontractor).

The purpose of due diligence is to understand the credibility and status of a third party's business and how it fits with your organisation. By doing this, the NHS organisation is able to ensure its supply chain delivers its prescribed goods and services in an honest and ethical manner.

**Who is this quick guide for?**

This guidance is intended for NHS procurement teams who engage with and manage supplier relationships.

**Types of due diligence**

There are various types of due diligence that will provide NHS organisations with the confidence and knowledge to empower their organisation's decision making process.

There are three main types of due diligence for NHS organisations to consider:

- Financial**

Financial due diligence is the process an NHS organisation undertakes to verify the financial information provided to it and to assess the underlying performance of a potential supplier. The benefit of undertaking financial

**Suppliers' code of practice: preventing fraud, bribery and corruption**

NHS fraud prevention quick guide | v1.0 July 2019

The purpose of this code of practice is to highlight the role and responsibilities of NHS organisations and their suppliers with regard to preventing fraud, bribery and corruption in the procurement of goods and services supply chain.

**Who is this code of practice for?**

This guidance is intended for NHS procurement teams, who should share this document with the suppliers they work with. It is intended to complement existing guidance and codes of practice and provide direction to suppliers on what is expected from them when engaging with the NHS.

**What is fraud, bribery and corruption?**

Public procurement in the UK is directed by the EU Treaty and the EU Procurement Directives, the UK Public Contract Regulations 2015 and the UK Public Procurement Regulations 2015 which implement the EU Directives. This legal framework is provided to ensure public procurement is conducted in a fair and transparent manner both in the UK and across the EU. The EU procurement requirements must be followed, in addition to the UK procurement regulations, in cases where the value of the procurement is over a certain monetary threshold.

**Fraud**

Fraud involves acting with dishonest intent and can occur at any point during the procurement lifecycle as defined by the Fraud Act 2006, which outlines three different ways of committing the offence:

- fraud by false representation

# Preventing Procurement Fraud

- **Impact of Covid-19 in managing the risk**
  - Frauds reported:
    - PPE
    - Staff sickness and hours worked
    - Phishing scams
  - Risks identified by NHSCFA:
    - Mandate fraud
    - Procurement fraud
    - NHS recruitment
    - Payroll
- **The practical implications of Procurement Policy Notes:**
  - PPN 01/20: Relaxation of public procurement regulation in the response to Covid-19.
  - PPN 02/20: Payment to suppliers to ensure service continuity during and after the Covid-19.
  - PPN 03/20: Increase transaction limit and raise monthly spending limit on procurement cards with the aim to accelerate payments to suppliers to support and improve cash flow.
  - PPN04/20: Ensure service continuity during the coronavirus outbreak. It updates and builds on the provisions contained in PPN 02/20, i.e. transition from supplier / contractual relief arrangements (as stipulated by PPN 02/20) to business as usual.

**NHS fraud.**  
**Spot it.**  
**Report it.**  
**Together**  
**we stop it.**

**0800 028 4060 | [www.cfa.nhs.uk](http://www.cfa.nhs.uk)**





# ***Tackling procurement fraud and a post assurance framework***

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CENTRE OF COUNTER FRAUD EXPERTISE, CABINET OFFICE



***Questions?***

**CHARITY  
FRAUD  
AWARENESS  
WEEK**

**19-23 OCTOBER 2020**

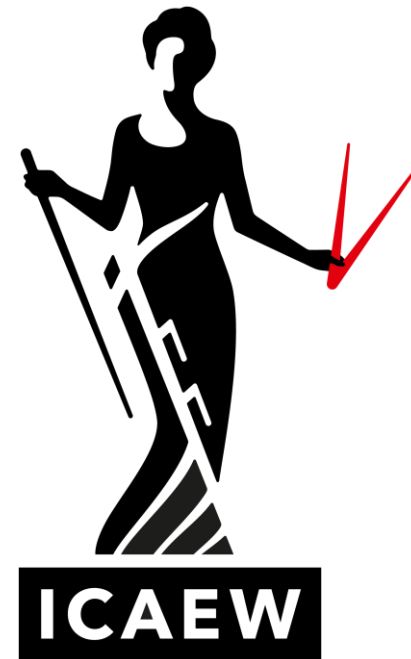
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