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20 FEB 1989	
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Treasurers:  
Regional Health Authorities  
District Health Authorities  
Special Health Authorities for the  
London Postgraduate Teaching Hospitals

Authority	Date
DTL	✓
MA	✓
HMA	
PA	✓
PJA	✓
Don. Ser.	

February 1989

22 FEB 1989

Dear Treasurer

**LOSSES DUE TO FRAUD**

1. Health Circular HC(78)42 "Losses and Special Payments" as amplified by Appendix 3 to FM4/81, Appendix 4 to FM9/81 and Appendix 3 to the June 1988 Financial Matters (EL(88)P/97) requires Authorities to submit reports of all discovered frauds perpetrated by NHS employees, computer frauds and cases of suspect or proven procurement fraud by contractors.
2. Government departments have to submit annual reports of these frauds to Treasury. The reports include frauds involving Departments indirectly (eg by health authority staff).
3. Treasury analyse the cases reported and circulate details so that Departments may be on their guard about particular types of fraud.
4. A copy of the 1987-88 Treasury analysis is attached. The 187 cases of fraud and the total identified gross loss of £2.5m compare with 84 cases and an estimated gross loss of £1.6m in 1985-86; and 111 cases and an estimated gross loss of £0.7m in 1986-87. It is not clear whether this rise results from an increase in fraud or from improved detection. A very high proportion of the estimated loss in 1987-88 was accounted for by 14 cases totalling £2.3m. The figures underline the need for continuing vigilance in preventing fraud.

Reported Fraud by staff including computer fraud

5. Annex A contains a summary of frauds perpetrated by staff. Annex B provides an account of individual cases where more than £10,000 was involved. Two of the fourteen losses in excess of £10,000 related to frauds perpetrated by NHS employees.
6. Annex C summarises those cases which involved computer fraud. In each of the three cases reported computer records were changed to divert Giro cheques to incorrect addresses.

7. Of the cases reported in Annexes A, B and C, 40 per cent resulted from either absence of adequate controls or failure to observe or apply existing control procedures. This highlights the importance of ensuring that adequate controls are in place and are consistently applied. Theft of goods from stores resulted in some particularly high losses. Authorities should ensure in particular that physical security and control systems are adequate to prevent similar losses.

8. Only 35% of reported frauds were discovered by the normal operation of control procedures. 23% came to light as a result of information received and 13% following suspicion of the perpetrators' activities. Authorities should consider whether internal check controls are adequate, and whether their staff are sufficiently aware of the possibility of fraud and how to report any suspicions they may have.

#### Procurement fraud by contractors

9. There were 41 cases of suspected or proven procurement fraud notified. 23 cases involved a gross amount of £8.3m. In the remaining 18 cases the amount involved is not known. Details of frauds in excess of £10,000 are shown in Annex D. Authorities should consider the extent to which they might be vulnerable to such frauds and, where appropriate, strengthen their control systems accordingly. It would be worth examining the adequacy of procedures for checking that goods and services have been supplied in accordance with contracted prices before invoices are passed for payment.

#### Arrangements for Reporting Fraud

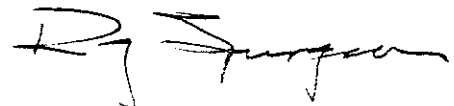
10. Treasurers are reminded that details of frauds where the loss falls within the authority's delegated limit, should be submitted with the annual financial accounts (Note 16).

#### Distribution of this letter

11. As this letter describes how frauds have been carried out, it has been classified Management-in confidence. Please would you therefore restrict its distribution only to those of your Managers who are responsible for the development and review of control systems. Staff involved in the operation of systems and procedures should not be made aware of its content.

12. Any enquiries about this letter should be addressed to Mr N L Taylor (Ext 4468) or to Mrs M M Rogala (Ext 4462).

Yours sincerely



RAY SPURGEON  
Deputy Director  
of Financial  
Management

ANALYSIS OF FRAUD - 1987-88

SUMMARY

1. In 1987-88 187 cases of fraud were notified, which involved an estimated gross loss of £2,483,506. In 22 of these cases, the amount of money involved could not be determined.

2. The gross total of £2,483,506 includes 14 cases which account for £2,322,742. These are separately identified in Annex B

3. Of the 187 reported cases, 3 have been classified as computer frauds and are described at Annex C.

ANALYSIS BY TYPE OF FRAUD

Fraudulent Encashment of Instruments of Payment

4. 12 cases totalling £39,595, of which one case accounts for £20,000 (see Annex B).

Travel and Subsistence

5. 61 cases (33 per cent of all cases) totalling £41,253. These include 41 cases, totalling £26,452 (including individual cases of £4,260 and £3,500) of claims for travel/subsistence not incurred; 5 cases (£4,829) of unrecovered advances; and 1 case of £3,000, involving the falsification of vouchers.

Misappropriation of cash

6. 32 cases totalling £125,168 of which five account for £81,821 (see Annex B). These comprise 12 cases (£60,265) of false accounting, 11 cases (£51,124) of failure to receipt, and 9 other miscellaneous cases (£13,779).

Instrument of payment received on false documentation

7. 23 cases totalling £581,712 of which three account for £566,096 (see Annex B). These include 18 cases totalling £579,514 (including the three already mentioned) of false claims/orders and 4 cases (£2,128) involving payroll.

Theft of Assets

8. 15 cases totalling £750,133 of which three account for £744,825 (see Annex B).

False claims for hours worked

9. 17 cases totalling £15,527. These include 4 cases (£14,711) relating to false claims for overtime.

Miscellaneous/Others

**MANAGEMENT IN CONFIDENCE**

10. 27 cases totalling £930,118, of which two account for £910,000 (see Annex B). There was one case of £6,464 which involved the misuse of a telephone line for private international calls.

INDIVIDUAL CASES OVER £10,000

FRAUDULENT ENCASHMENT OF PAYABLE INSTRUMENTS

1. £20,000  
(approx) - The perpetrator was stealing Girocheques after enveloping, but before despatch, and those which were returned to the office. A fraud section special projects team, whilst investigating other Girocheque irregularities, discovered this fraud.

MISAPPROPRIATION OF CASH

2. £13,102 - During the course of his official duties, the perpetrator collected cash from registered traders in respect of VAT arrears and failed to remit these payments to the Department. The fraud was discovered following a visit by a trader to a VAT office who was paying in money in part clearance of a VAT debt.
3. £17,184 - The perpetrator entered false information on casual pay lists and raised credit transfer vouchers to direct the amounts to his various bank accounts. Suspicion by colleagues led to the discovery of the fraud.
4. £11,058 - In an attempt to win money at a casino to clear a UK bank debt the perpetrator stole cash from his place of duty. The perpetrator confessed to the crime.
5. £27,477 - The perpetrator misappropriated public funds received in respect of advances. The department was contacted by the police and informed that following investigations, a complaint had been received alleging the misuse of public funds.
6. £13,000 - The perpetrator who had responsibility for collecting payments from the public kept some of the monies for himself. He confessed when internal audit arrived to carry out checks.

INSTRUMENT OF PAYMENT RECEIVED ON FALSE DOCUMENTATION

7. £350,586 - The perpetrator registered a non-existent farm and nursery business for VAT purposes and submitted VAT returns in respect of the fictitious

## MANAGEMENT IN CONFIDENCE

business. He covered the fraud by using his official position to intercept any queries relating to the fictitious trader. The fraud was discovered when the perpetrator took a period of authorised unpaid leave. A query was received and a visiting VAT officer was unable to locate the farm.

8. £197,000

- The perpetrator raised false orders and invoices for goods which were never received. The fraud was perpetrated by the staff in collusion with representatives of five different companies. Suspicion by a member of staff, when he saw a large consignment of goods being driven away from a stores depot, led to the discovery of the fraud.

9. £18,510

- The perpetrator persistently over-ordered and took delivery of unwanted and little used goods at inflated prices. He subsequently claimed that he was pressurised by the supplier and that once the practice was established the quantities increased. He also accepted payments from the supplier. The fraud was discovered when an invoice showing an incorrect order number was passed by the finance department to a unit works officer who queried the volume and nature of the goods.

### THEFT OF ASSETS

10. £500,000

- A quantity of sullage was illegally removed by four contractors with the collusion of departmental staff. They were paid inducements to fortify the sullage, allow unauthorised removal and ensure that the water content of the product was reduced to increase the proportion of recoverable oil. The fraud was discovered following information received by the police.

11. £222,064

- The perpetrator used his position and knowledge of the system to ensure that stores were moved around the depot to facilitate their misappropriation by his son who entered the depot to remove the stores. He adopted a system for removal of the stores whereby no official paperwork, including gate passes, was necessary. The fraud was discovered by the police acting on information received from a third party.

MANAGEMENT IN CONFIDENCE

12. £22,761

- The perpetrator stole a quantity of drugs and medical supplies over a four year period because of the lack of adequate controls. The fraud was discovered following suspicions of another party.

OTHERS

13. £750,000

- The members of staff were involved with employees of a company in the unlawful removal of bottles of duty-free spirits from a warehouse, thus depriving the government of the revenue due. The fraud had been committed over a period of at least fourteen years. The fraud was discovered when staff in a local warehouse discovered that regulations governing commercial samples of spirits were not being observed.

14. £160,000  
(approx)

- A member of staff was involved with a contractor in the falsification of work orders for their financial benefit. Some types of work were ordered by the member of staff too frequently, or at a time of the year inappropriate for the activity. The fraud was discovered by management checks.





IDENTIFIED CASES OF COMPUTER FRAUD

(3 cases)  
£1,200)  
£1,154)  
£660)

- The perpetrators gained access to and changed computer records so that girocheques would be diverted to incorrect addresses.



## MANAGEMENT IN CONFIDENCE

ANNEX D

## PROCUREMENT FRAUD BY CONTRACTORS - CASES OVER £10,000

1. £210,000 - The perpetrators misappropriated scrap equipment. VAT inspectors discovered the fraud.
2. £421,000 - This was a case of a company claiming monies which constituted additional profits. The suspected fraud was discovered during a post costing exercise. The full amount was refunded to the department. The police who conducted a number of investigations into possible fraudulent practices, concluded that there was an absence of criminal intent.
3. £120,000 - The perpetrators failed to pay over the proceeds of sales undertaken on the department's behalf. The fraud was discovered during checks by the department.
4. £980,000 - Progress payment irregularities were identified by the department's accountancy services staff. The Crown Prosecution Service decided that there was insufficient evidence to obtain a conviction in a criminal trial.
5. £1,000,000 (approx) - A company had been making false claims for progress payments. The department became aware of the fraud when the company went into receivership.
6. £94,000 - Employees of a company were submitting false progress payment claims. The department became aware of the fraud when the company went into receivership.
7. £48,000 - The perpetrators misused the department's project funds. The fraud was discovered by the department's finance staff.
8. £14,000 - The company was alleged to have received a premature payment. The department became aware of the suspected fraud when the company went into receivership. The police investigated the matter but no criminal offence was revealed.

MANAGEMENT IN CONFIDENCE

9. £400,000 - A company was suspected of over-claiming progress payments from the department. The suspected fraud was discovered by the department's accountancy services staff.
10. £50,000 - The perpetrators were suspected of misbooking work. Information from a third party led to the discovery of the suspected fraud. However, after a police investigation, the informant was unable to substantiate the allegations.
11. £5,000,000 - The perpetrators were suspected of overpricing on spares contracts. The fraud was discovered by the department's technical costing staff. An investigation is being undertaken.
12. £17,000 - This is a case of suspected overcharging on a grounds maintenance contract covering two establishments. The cause of the overcharges included the duplication of orders and charging for items of work not carried out during winter months, eg grass cutting. The fraud was discovered by an investigation into the high cost of grounds maintenance work in one particular area.