

Cuts in the wrong place will leave public sector open to fraud

LONDON, UK: PwC is warning its public sector clients that spending constraints and staff cuts in the wrong places may leave the public sector open to fraud, as employees affected by redundancy (and suppliers faced with contract termination) seek to maximise their benefit on the way out. The report, *Navigating Your Way Through Stormy Waters*, focuses on increasing risks in this area.



At a recent event hosted by PwC forensic services, only three out of twenty seven senior representatives of large public sector bodies were able to confirm their organisation had a formal fraud risk register, a basic tool for managing risks in this area, commonplace in private sector firms of any significant size.

Losses through fraud less visible in good times

Ian Elliott, partner, PwC, said: "In good times, loss through fraud is less visible as delivery of services is still possible, even with a certain level of misappropriation. Things are tightening now and businesses everywhere are seeking to reduce loss through waste in all its forms."

The increased threat of fraud will hit different parts of the public sector at different times as the cuts become real. Some Whitehall civil servants are facing decisions about their future employment right now while, for local government, the pinch points are likely to come in the run up to April when cuts announced in the Comprehensive Spending Review (CSR) are realised in next year's Local Authority budgets.

Fraud takes many forms

Fraud in the public sector ranges from manipulation of data to meet targets in the health sector, to procurement frauds, which include a range of established activities such as false invoicing via dummy suppliers, pass through schemes, overbilling, write-offs, kickbacks and suppression of rebates.

Alongside basic recommendations for fraud controls and monitoring, the report covers some of the emerging techniques

for fraud detection. For example, data analytics is increasingly applied to find hidden patterns in data within financial systems, which may indicate fraud.

"Experience has taught us that each procurement fraud leaves a 'data fingerprint'. 'Kick-back' schemes, for example, will typically involve a large supplier with purchase orders raised by a limited number of individuals and supplier relationships controlled by the same group," Elliott adds.

By using techniques such as 'data visualisation' and 'data clustering', organisations are able to search for the typical fingerprint and identify procurement frauds earlier, preventing loss and imposing an effective deterrent against future fraudsters.

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