



Centre for  
Counter Fraud  
Studies

# **The Real Cost of Staff Fraud**

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## Executive Summary

The Centre for Counter Fraud Studies was commissioned by CIFAS to investigate the real cost of staff fraud by identifying the hidden costs of dealing with a fraud which should be added to the initial loss.

The Centre, in partnership with CIFAS and counter fraud professionals, first conducted a brainstorming session to identify all potential hidden costs on top of the initial loss. These could be broken down to the costs of investigation, staff suspension/sickness and temporary replacement costs of suspects and other staff, internal disciplinary costs, external sanctions costs, permanent staff replacement costs, miscellaneous costs and intangible costs (such as reputation, staff morale).

The Centre then conducted a survey and undertook interviews securing data on the real costs of fraud for 45 cases. These included 18 from the public sector, 26 the private sector and 1 voluntary sector.

The initial fraud losses in the 45 cases amounted to just under £19 million, with a mean loss of £424k overall. These figures were distorted by a few cases over a million, so further analysis was undertaken largely in the under £1 million, under £100k and under £25k initial fraud loss categories (please not all costs in text are rounded to nearest £k).

From these cases it was possible to estimate the average cost of dealing with a fraud ie the costs on investigation, staff suspension, recruitment etc according to the size of the fraud. Analysis of the cases found that the mean costs of dealing with a fraud taking into account recoveries for an initial fraud under £25k was just under £23k, for cases under £100k it was just under £29k, for those under a £1 million it was just under £40k and for all it was £59k.

In cases under £25k the public sector average was just under £20k compared to just under £25k in the private sector. For cases under £100k the public sector costs were over double the private sector at £44k versus £20k. In cases under a million the difference becomes smaller at £47k for the public versus £36k for the private.

The costs of dealing with the fraud minus recoveries mean that in cases under £25k there is a 265 percent increase on the initial loss on average, 117 percent increase in those cases under £100k, 45 percent increase on those under a million and a 14 percent increase on all the cases in this report.

When recoveries are removed from the costs of dealing with fraud for cases where the initial fraud loss was under £1k the average costs of dealing with the fraud are £20k, for initial fraud cases between £1k and £25k they are £25k, for initial fraud loss cases between £25k-£100k they are £38k and for the £100k to £1 million cases they are £167k. Using the under £25k, under £100k and under £1million categories the figures are £23k, £29k and

£63k respectively. Given significant recoveries are rare this could be considered a better estimate of the real costs of dealing with staff fraud.

If the costs of dealing with fraud are broken down for all cases under £100k internal investigation/justice costs account for 46 percent of costs, with 44 percent for staff absence costs and 10 percent for staff replacement costs and less than 1 percent for costs of external sanctions. For cases under £1 million the costs of investigation/justice costs are larger at 62 percent, with 33 percent for staff absences, 5 percent for staff replacement and again less than 1 percent for external sanctions.

There are substantial differences between the public and private sectors. In cases under £100k in the public sector staff absences account for 61 percent of costs, which is only 30 percent in the private sector.

In the 45 cases recoveries of monies from the fraudster were generally very poor. In the cases over a million no recoveries were achieved. For all cases under £100k the total recoveries were £21,481 and for those under a million £943,441. This leads to a mean recovery of £682 for cases under £25k, £692 for cases under £100k cases and £23,010 in the under £1 million cases.

Criminal sanctions were the most common external sanction, but were only pursued in a minority of cases. Amongst all 45 cases in four it was not known if a criminal prosecution was sought, in another 11 it wasn't and in the remaining 30 it was. However, in only 17 of the cases did a criminal trial occur, which represents just over a third.

There was also evidence from this research that the impact of the fraud had a significant effect on the morale of colleagues and their performance. The fraud also damaged the reputation of the department and managers where the fraud occurred.

The report shows the costs of dealing with a fraud are substantial and recommendations are made, divided between those for organisations to consider and for further research.

#### *Recommendations to organisations*

Recommendation 1. Such are the costs of dealing with a staff fraud and prospects for the return of money the priority for any organisation should be to avoid it in the first place and do all that is possible to prevent staff fraud. A comprehensive staff fraud prevention strategy should be a priority for any organisation involving measures to prevent those who are higher risk of dishonesty from entering an organisation and minimising the opportunities for those already working.

Recommendation 2. HR procedures of an organisation are vital to fraud prevention. One important aspect of some internal frauds was that recruitment involved no criminal record or character checks on applicants. Although such checks can be time-consuming, far more can be lost in fraud if someone with inappropriate character is recruited.

Recommendation 3. A further significant cost is staff suspension/sickness relating to the fraudster, a major issue for some public sector bodies. More consideration should therefore be given in some organisations to policies that enable faster termination of employment of fraudsters or continued employment in roles with very low risk for fraud.

Recommendation 4. More importance could be given, within organisations, to actions taken as a result of cases of fraud which had come to light. This could include: changing procedures where internal fraud had flourished: and giving publicity to the effectiveness of the organisation in catching such fraudsters, eg in initial training of new staff.

*Recommendations for further research*

Recommendation 5. The 45 cases in this study generally showed no or very low recoveries of fraud losses. Most of these utilised the criminal justice system. There were not many cases involving the civil justice system to judge effectiveness here. Further research on cases where civil remedies have been used would be useful to compare effectiveness and costs.

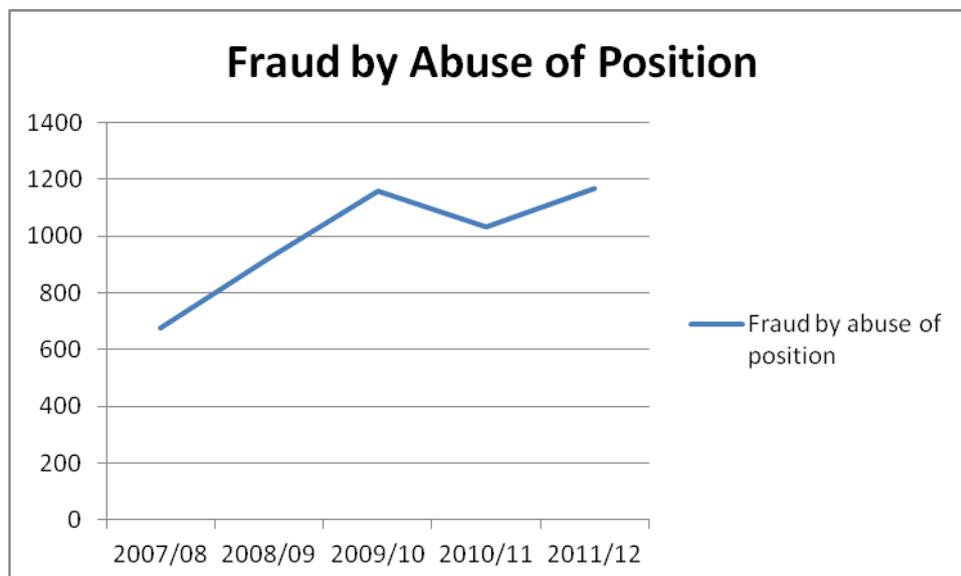
Recommendation 6. This research has covered internal fraud. It would be interesting to research the costs of dealing with external fraud too, so comparisons could be made to this research on the costs involved.

## 1. Introduction

The growing body of research on the cost of fraud shows that its costs are significant. The National Fraud Authority's annual fraud indicator has illustrated the total cost to society to be £73 billion.<sup>i</sup> There has also been research based upon fraud loss measurement exercises – the most accurate measure of fraud – which has suggested an average loss of 5.67 percent for fraud and error in expenditures surveyed.<sup>ii</sup> A significant portion of these fraud costs can be attributed to corrupt staff abusing their positions. However, these estimates focus upon the initial losses and not the costs associated with dealing with it. This report will seek to gauge the costs of dealing with staff fraud providing findings that begin to fill that gap in research.

The real extent of staff fraud is difficult to assess because of the reluctance of some organisations to publicise cases and many dealt with beyond the criminal justice system. There are, however, a number of useful barometers which would suggest staff fraud is on the increase. CIFAS publishes statistics from its staff fraud database covering 230 organisations. In 2011, 378 cases were reported, which had risen to 539 in 2012, a 42.6 percent increase.<sup>iii</sup> Another barometer of trends in fraud is the reported crime statistics relating to the offence of 'abuse of position' under the Fraud Act 2006. This is predominantly an employee related fraud as the offence involves the abuse of some form of trust, which can generally only be carried out by an employee or those holding a position of responsibility within an organisation. This crime often occurs when an employee raids the employer's or client's bank account for their own benefit, although it could be undertaken by volunteers in positions of trusts in societies too. The recorded crime statistics show there has been a substantial rise in this category of fraud (almost doubling in five years).

Figure 1. Recorded fraud by abuse of position 2007-2012



All the prominent assessments of fraud costs focus upon the actual fraud loss as the cost. However, a staff fraud inevitably involves much more than the actual loss. There are the investigatory costs, staff disciplinary costs, legal costs, staff replacement costs to name some. This project sought to uncover the full range of costs which occur when staff commit frauds, which go beyond the actual initial financial loss. The research is based upon survey responses and interviews from organisations which were willing to share their experience of staff fraud. It is the largest published analysis to date of assessments concerning individual cases of staff fraud, but because of the methodology used it is difficult to state how representative it is of all cases. Although the report touches upon issues such as the reasons staff fraud occurs, the extent of it and attitude of public and private bodies towards it, these were not primary objectives in this research. The analysis on costs also focuses upon particular cases and not the counter fraud infra-structure in general within an organisation. Some interviewees were also negative about certain criminal justice institutions and it is important to note these are their views and do not necessarily represent the views of the authors and the funders of this research, CIFAS.

The report will begin with a discussion of the methods used and then identify the principal additional costs that should be added to the initial loss. The calculation principles used for this research are then outlined, before the analysis from the cases used for this research. The report then considers the costs of fraud in detail. Finally the report concludes and also sets out some recommendations. Throughout the report some of the case studies from the interviews are listed (some cases were too sensitive and too difficult to make anonymous and so have not been listed, but were used in the overall calculations).

## **2. Methodology**

The first phase of this research involved a literature search for any work which has sought to estimate the costs of staff fraud as well as processes which may form part of an organisation's response to a fraud, such as staff recruitment costs, employment tribunal costs etc. The research team then arranged a 'brainstorming' session with certain CIFAS staff and two experienced senior counter fraud managers where all potential costs were mapped. This enabled the research team to produce a questionnaire, which was uploaded to Survey Monkey. An E-Mail and web address was then circulated to CIFAS members, the Centre for Counter Fraud Studies distribution list and UK ASIS membership list asking for responses. Given the sensitivities surrounding staff fraud the aim of the research team was purely to get as large a response from a diverse group as was possible. The findings from this research cannot be said to be representative of the public, private and voluntary sectors, but they do represent the largest set of data on staff fraud from these sectors published to date. The questionnaire also asked if the respondent would be willing to be interviewed.

CIFAS had asked for specific sectors to be covered in the research such as: financial services, retail, public sector local, public sector central and construction. Respondents from the survey and contacts drawn from the research team and CIFAS were utilised to produce a purposive sample. The same questionnaire as for the survey was used, but the interviews provided the basis to secure more context to the fraud and probe in more depth what actually happened. It must also be stressed that staff fraud is a very sensitive subject for many organisations. Several contacts were targeted and who usually were very open to research were reluctant to be involved in this project. Several, who initially were interested when securing advanced sight of the questionnaire stated they would not be able to help as they had not experienced any staff fraud. Some of these were organisations with substantial budgets employing thousands of staff. The researchers came to the conclusion that organisations are very embarrassed about staff fraud and they are even more reluctant to reveal to the outside world what has occurred.

### **3. The Real Costs of Staff Fraud**

The brainstorming session and literature search uncovered a wide range of costs that can be added to the initial financial loss from a staff fraud. Figure 2 below illustrates the additional costs to an organisation which can be added the initial fraud loss in the centre. Some of these costs will now be considered in more depth. Before we do so it is important to note that the general costs of the preventative and reactive structures organisations create to deal with fraud have been excluded from this analysis. One could argue, however, that the costs associated with these structures should be allocated as an overhead to any frauds. The research team took the position that all organisations above a certain size are going to have some fraud infra-structure which is an overhead. Determining these costs and then allocating them would be very challenging and complex. Therefore the focus of this analysis is the costs associated with the particular fraud under consideration.

Figure 2. The additional costs of staff fraud for the victim organisation



### 3.1 Fraud loss

At the centre is the fraud loss. In most cases this is relatively easy to calculate. It can, however, be more complex in some cases. For example if someone fabricates qualifications on a CV to secure a job and performs competently, is the loss the salary paid to them?

### 3.2 Costs of investigation

Once a member of staff is suspected of fraud it needs to be investigated. Some organisations have in-house staff capable of undertaking this, others use external staff or a

mix of staff. The investigation might involve the use of specialist staff such as computer forensics or surveillance staff. The investigators may have to travel to places beyond their workplace to conduct interviews. During an investigation it might also be necessary to liaise with internal or external lawyers, forensic accountants, human resources, occupational health for advice. Some investigations might take only a few days, some may take months. These all add to the costs of the fraud.

### *3.3 Staff sickness/suspension costs*

During and/or at the conclusion of an investigation the suspected member of staff in many organisations is suspended on full-pay. Some staff may go off sick as a result of the investigation and receive sick pay. The nature of an investigation may also mean it is necessary to suspend staff under suspicion, but who are subsequently found to be innocent. The allegations and stress of the investigation may also lead to some innocent staff going sick. This might mean the organisation has to secure an independent evaluation of the fraudster by occupational health or a doctor at further expense. Periods of sickness and suspension in some cases can go on for weeks, months and even years, adding substantial costs to the fraud. Lengthy periods of sickness/suspension, in some cases, may also lead the organisation hiring temporary staff to replace those off work, adding to the costs.

### *3.4 Internal disciplinary costs*

In some cases of staff fraud the outcome is quite simple after an investigation or on discovery of the fraud and the fraudster resigns immediately. However, in many cases the fraudster goes through the staff disciplinary process. These processes vary between organisations but usually there will be the costs of putting the case together and the cost of the hearing – which usually involves senior staff. It is not uncommon for cases to be adjourned several times due to the member of staff not turning up due to sickness. This might require further medical reports. The member of staff may appeal adding further to the costs. In some cases when an employee is sacked they may take the case to an employment tribunal, thus adding further costs to the case. It is also not unheard of for staff to take out grievances against other members of staff, further lengthening the process. As one investigator from a local authority was to describe when senior people have their whole career at stake some will do all they can to delay the outcome.

...you get some of these directors, like this guy (refers to Case Study 3), he's the big I am, he wants to play out the whole thing, deny it all, because his whole career is on the line.... he's got everything to lose, so they fight it out, so the more senior people, the more senior they are, the longer it takes to deal with, that's my experience.

### *3.5 External sanction costs*

In many cases of staff fraud the case ends with the dismissal of the member of staff. The difficulties of pursuing a criminal sanction, resources available and fear of reputational

damage are some of the more common reasons. Some cases are referred to the police for criminal prosecution and this may mean further costs to the organisation such as the production of the file, meeting with officers, facilitating further investigations and attendance at court. In rare cases an organisation might also pursue a private prosecution when there is no interest from the CPS. Some organisations on top of this or separately might also pursue a civil action, again involving similar costs for investigating staff, but also the costs of the lawyers to conduct the case. In some cases organisations pursue regulatory sanctions against the fraudster through professional bodies, which might also involve additional costs. For example in the NHS it is common to do this and many staff found to have committed fraud are referred to the relevant professional body for disciplinary action such as the General Medical Council, General Dental Council etc.

### *3.6 Permanent staff replacement costs*

The resignation or the termination of employment of a fraudster in many cases will require them to be replaced. Depending upon the level of seniority this will incur further costs in recruitment and training. This may involve advertising, short-listing, interview, vetting and training costs. In some senior positions it may be necessary to turn to recruitment consultants at further cost.

### *3.7 Miscellaneous costs*

Some cases throw up other costs. In some cases the results of staff engaged in fraud results in a fine by a regulator. For instance one large service company was fined £300k by the Financial Services Authority for poor fraud controls. In certain regulated sectors, therefore, internal fraud can expose the organisation to the risk of heavy fines.<sup>iv</sup> In some fraud cases it might be necessary to interview lots of staff. This may take them from their duties for half a day or more. Certain occupations also often throw up additional procedures to go through, such as a Court Martial when military personnel are involved. A case might become high profile which involves media attention and as a consequence the organisation has to use or hire media management expertise.

### *3.8 Intangible costs*

There are also costs associated with internal frauds which are very difficult to measure. One of the most salient is the costs associated with a damaged reputation. Internal frauds can be damaging to the image of an organisation and this can lead to loss of business, decline in share price etc, which are very difficult to measure (in the medium and longer term). Another intangible cost is the impact on morale of a department within an organisation that a fraudster comes from. The impact may lead to low morale and affect their performance and this is difficult to measure. This may also lead to greater staff sickness and higher labour turnover, which also incur costs for the organisation. These are clearly additional costs to the initial cost of the fraud, but because of the difficulties in measuring these, they have

been excluded from the analysis of costs later in this report. However, we do briefly assess in the cases concerned the impact on staff morale and reputation of the organisations according to the interviewee and respondents.

### *3.9 External costs*

The focus of this report is the victim organisation, but it is important to note the costs of staff fraud also affect other organisations. If there is an attempt to use the criminal justice system or it is used there will be the costs of the police or other investigators (Serious Fraud Office for example), prosecutors, courts and punishment infrastructure if there is a successful prosecution. Similarly if there are attempts or actual use of Employment Tribunals, regulators or professional associations there will be costs here too. Some cases of fraud result in health problems for the fraudster and victim organisation staff resulting in the use of NHS services meaning further additional costs. These costs were beyond the remit of this report, but it is important to remember the costs do not end with the victim organisation.

## **4. Caveats and Calculation Principles**

Respondents and interviewees were asked to supply a great deal of data and for many this would be difficult information to secure. In those circumstances they were asked to give their best estimate. The interviews allowed for probing and clarifications, which was not available with the survey data. As such we are much more confident of the interview data than the survey. Our analysis of the survey responses did lead us to discount many of the replies as there was not enough quality data entered to be of any use. In total 93 survey responses were received, which was reduced to 28 usable responses.

In total there were 45 usable cases for this report drawn from the surveys and interviews. 41 of those cases were under a million pounds, with 4 cases over. These 4 large cases distort the data, so to address this further analysis took place using categories drawn from the initial fraud size. The most common categories used were initial frauds under £25k, under £100k and under £1 million. Given for most organisations, staff frauds will fall into the first two categories this was a further justification to consider these cases together. Where appropriate, further analysis by smaller sub-groups has also been undertaken. This provides for better comparison and reduces the impact on overall figures of 4 large cases in the sample. It is important to note again that because of the methodology used the findings should be treated as the largest data set in this subject area to date and it is difficult to determine how far it reflects the reality of the private, public and voluntary sectors.

Where it has been necessary to calculate day rates the annual costs of employment have been divided by 228 (assumption there are 228 working days based on 365 - 104 weekend days, 25 holidays and 8 bank holidays). Where there was an annual salary linked to a particular person and weeks or months of time were identified, the annual salary was

divided by the appropriate number of weeks or months. To account for the additional costs of employment an uplift of 20 percent was added where the return was clearly only salary/wage costs. Where there has been doubt of a return, for instance whether the costs of employment were actually the salary, the researchers have erred on the side of caution and used lower figures.

In many cases interviewees and respondents have combined certain costs together. For instance often the investigation and internal disciplinary costs were provided together. This has made it difficult to distinguish in the analysis between internal costs of investigation and internal discipline. Therefore if we consider figure 2 the costs of investigation and internal disciplinary costs have effectively become merged in the analysis later.

The costs of calculating recruitment costs proved challenging, so the researchers utilised the CIPD<sup>v</sup> research on the costs of recruitment which estimate the costs for the following categories of employment:

Senior managers/directors	£10,000
Managers and professionals	£5000
Administrative, secretarial and technical	£1545
Services (customer, personal, protective and sales)	£1350
Manual/craft workers	£700

A decision was taken on which category the fraudsters fitted and the appropriate cost applied. As noted earlier no attempt was made at estimating the intangible costs of fraud, although the authors did seek to gauge the impact. Some data on this will be presented later.

## 5. Responses and Demographics

In total there were 45 cases of staff fraud where it was possible to calculate the total costs of the fraud. These were drawn from 28 survey responses and 14 interviews (some interviews produced more than one case). The cases were drawn from: 18 from the public sector, 26 from the private sector and 1 from the voluntary sector. More detailed analysis of the sectors the cases were drawn from is listed below in table 1. It shows financial services dominated with 13 of the cases, followed by local government with 8, central government 5, retailing 4. Several other sectors were represented with either 1 or 2 cases.

Table 1. Specific sector of cases where known or indicated

Sector	Number of Cases
Financial Services	13
Local Government	8
Central Government	5
Retailing	4
Wholesale	2
NHS	2
Travel, Leisure and Hotels	2
Business Services	1
Charity	1
Education	1
Facilities	1
Telecoms	1
Transport and Distribution	1
Property	1

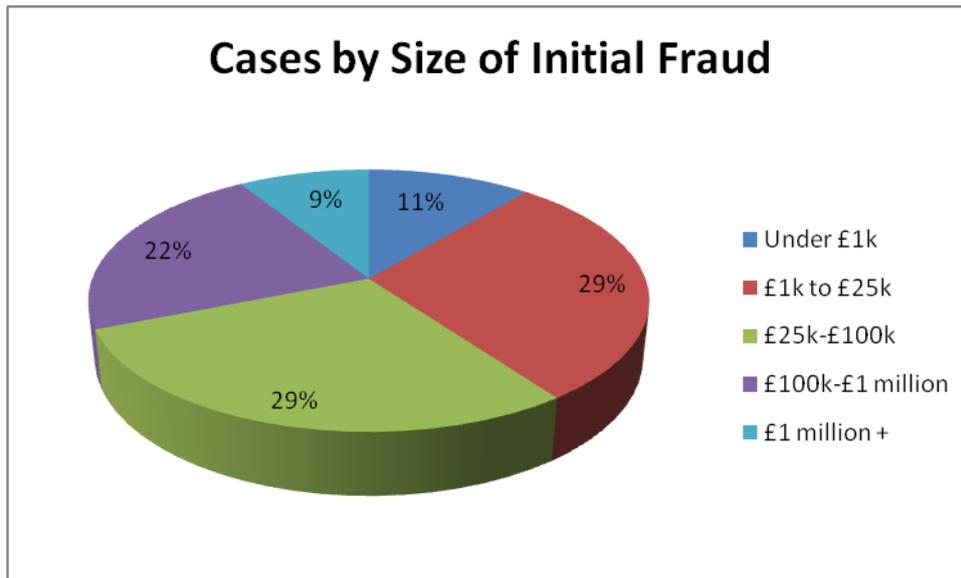
Interviewees or respondents (where indicated) were dominated by counter fraud specialists/managers at 23, followed by 4 internal auditors, 4 internal investigators, 1 each of the following: police officer, group crime investigation manager, consultant, background screening manager.

In 39 of the cases the size of the organisation was known. 2 were in the £1 million to £5 million category, 5 were in the £5 million to £50 million category and 32 were £50 million plus in turnover. In terms of the number of employees indicated, 21 cases were from in organisations with 5001 employees or more, 19 cases were in organisations with 1001-5000 employees and one case was in an organisation with less than 10 employees. Bar this one case the cases are drawn from generally large and very large organisations.

### 5.1 Initial fraud loss

In the 45 cases the initial fraud loss ranged from 0 to £10 million. Some frauds can be attempted or might not actually lead to an immediate quantifiable loss, such as job application fraud. There were four £1 million plus cases of fraud in the 45, with the rest below. At the other end of the scale there were 5 cases under £1000, which were £0, £200, £356, £480.27 and £500. In-between the bulk of the cases were between £1k and £100k accounting for 58 percent of cases – 29 percent each for £1k to £25k and £25k to £100k. In the £100k to £1 million accounted for 22 percent of cases. The breakdown is set out in figure 3 below.

Figure 3. The 45 cases by initial size of fraud



In the 45 cases the initial fraud losses amounted to just short of £19 million with just over £6.5 million in the public sector, over £12 million for the private sector and £10,700 for the voluntary sector (but only one case). The mean loss for all cases was £424k, £374k for the public sector and £475k for the private sector (please not all costs in text are rounded to nearest £k). There was only one response for the voluntary sector at £10,700. When this is broken down to the under £25k cases the mean initial loss was just under £9k for all, with £5k for the public and £11k for the private. For cases under £100k cases the mean for all becomes £25k, for the public £22k and private £27k. For all cases under £1 million the mean for all sectors are similar at £88k for all, £83k for the public sector and £94k for the private sector.

Table 2. Mean initial fraud loss by sector and by comparable group size

	All	Public	Private	Voluntary
Mean Under £25k Frauds	£8,524	£4,723	£10,967	£10,700
Mean Under £100k Frauds	£24,572	£21,568	£27,040	
Mean Under £1 million frauds	£88,166	£83,156	£94,271	
Mean All Frauds	£424,499	£374,166	£475,260	£10,700

## Notes:

1. This table covers the initial fraud loss to an organisation and does not build in any of the costs of dealing with the fraud. Also note the *All* includes the Voluntary sector too.

### 5.2 Total fraud loss (the initial fraud loss plus the costs of dealing with it)

When all the costs of dealing with the fraud are added to the initial loss minus any monies that have been recovered there is a significant rise in costs. The total costs of fraud rise to £21.7 million, £7.5 million for the public sector and £14.3 million for the private sector. The means are respectively £481k, £404k and £548k. When we focus upon the more comparable sized cases the mean for the total costs of fraud for those cases where the initial loss was under £25k is £31k, the under £100k cases rises to £53k and for the under a £1 million cases it rises to £128k.

Table 3. Mean total fraud loss: initial fraud loss plus costs of dealing with it minus any recoveries

	All	Public	Private	Voluntary
Mean Under £25k Frauds	£31,088	£24,563	£35,903	£28,621
Mean Under £100k Frauds	£53,203	£65,559	£47,344	
Mean Under £1 Million Frauds	£127,899	£130,542	£130,285	
Mean All	£483,196	£414,337	£548,321	£28,621

Note:

1. This table covers the total costs of dealing with the fraud to an organisation and thus a combination of the initial loss with all the additional costs of dealing with it, but also taking into account any recoveries from the fraudster(s) which reduce the overall costs. Also note the *All* includes the Voluntary sector too.

### 5.3 Costs of dealing with internal fraud

The two sets of costs: the initial and the final (minus recoveries ) begin to show the significant costs involved with dealing with a staff fraud. For all cases the mean cost of dealing with a fraud was £59k, for the cases under a million just over £39k, for under £100k cases, £29k and for under £25k cases just under £23k. In the under £100k category the public sector costs were nearly double the private sectors. In the under a million category it was more comparable, but still more expensive in the public sector.

If the mean initial losses are compared to the final mean total costs of fraud the increase in costs can be calculated. That is what the additional costs of dealing with the fraud add to the initial loss as a percentage. For those cases under £25k, the increase was 265 percent, for those under £100k it was 117 percent, for under a million cases 45 percent and for all 14 percent. Not surprisingly the costs of dealing with a fraud diminish as a percentage as the initial fraud loss rises. For the lower value cases under £25k, nevertheless, increases in the

final costs doubling or more the initial loss would not be uncommon, as the case studies will reveal later in the report.

Table 4. Mean total cost of dealing with fraud (minus recoveries)

	All	Public	Private
Under £25k Frauds	£22,564	£19,840	£24,936
Under £100k Frauds	£28,631	£43,991	£20,304
Under £1 Million Frauds	£39,733	£47,386	£36,014
All	£58,696	£40,171	£73,061

Notes:

1. This table covers the actual costs of dealing with fraud by taking the initial fraud loss from the total fraud losses minus any recoveries. Also note the *All* includes the Voluntary sector too.
2. The decline in costs for All public sector from the Under £1 million was due to public sector cases over a million where the costs of dealing with fraud were relatively low.

Table 5. Percentage increase on mean initial loss to mean total cost (minus recoveries)

	All	Public	Private
Under £25k Frauds	265	420	227
Under £100k Frauds	117	204	75
Under £1 Million Frauds	45	57	38
All	14	11	15

Note:

1. This table compares the initial fraud loss to the total fraud loss minus any recoveries to determine the average uplift in costs which occur when a fraud is detected. Also note the *All* includes the Voluntary sector too.

It is important to note that the actual size of the fraud doesn't always matter in terms of the final outcome in terms of costs. The two case studies below illustrate how two similar sized frauds in organisations can result in significant variations in the ultimate costs of dealing with the case.

**Case Study 1: The NHS nurse working while claiming to be sick**

In this case a nurse phoned in sick from her shift to which she was entitled sick pay, but actually worked that day for a private nursing home for an agency. By chance a colleague was visiting that home that day and so her fraud was exposed. The actual fraud loss for this case was £480.27. The case involved 4 days investigation which amounted to £1206 internal investigation costs. The case involved the time of line managers and human resources which amounted to a further £526 and £428 respectively. The disciplinary process cost £921, which resulted in the termination of the employment of the nurse. The case was then referred to the police and a decision was made to issue a police caution, which didn't involve any further costs. However, the case was also referred to the regulator for nurses, the Nursing and Midwifery Council, which involved further work by the investigator amounting to £241. The case is to be heard later this year. The nurse was replaced and using the CIPD costs for this level of staff this would amount to a further £5000. The actual cost of this fraud is therefore £8856.27. The trust did recover the initial loss from the nurse of £480.27 from her final pay meaning the actual loss was £8376, for what was initially only a £480.27 loss.

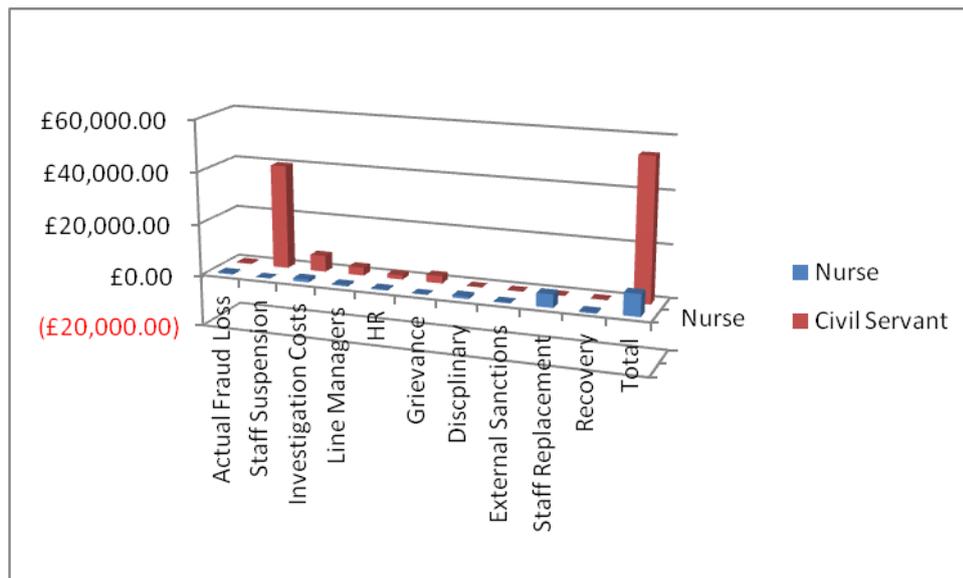
**Case Study 2. The civil servant who exaggerated his expenses**

In this case a civil servant working for a large central government department had his expense claims assessed as part of a normal random audit and it was found over a four month period false claims amounting to £356.55p had been made. Further investigations of the civil servant showed he had not followed proper procedures in the award of a £50,000 IT contract (there was no evidence of any corruption in this). The case was treated as a disciplinary, but the employee fought it at every stage using illness, grievances, non-attendance of interviews and curtailing interviews early that did take place. From discovery of the case to dismissal it took 94 weeks. During this period he was suspended on full-pay for six months and half pay for the remainder, costing the organisation £40,062 in staff absence costs. The case was investigated internally with costs of £6217. Internal management time dealing with the case amounted to £3079 and HR costs amounted to £1593. The civil servant also tabled grievances and this amounted to costs of £2818. This civil servant was not replaced and no costs were secured from the civil servant. This £356.55p fraud, therefore cost £54,125.55p.

Table 6. Case studies 1 and 2 compared

	Nurse	Civil Servant
Actual Fraud Loss	£480.27	£356.55
Staff Suspension	£0.00	£40,062.00
Investigation Costs	£1,206	£6,217
Line Managers	£526	£3,079
HR	£428	£1,593
Grievance	£0	£2,818
Disciplinary	£921	£0
External Sanctions	£241	£0
Staff Replacement	£5,000	£0
Recovery	-£480.27	£0
Total	£8,376	£54,125.55

Figure 4. Case studies 1 and 2 compared



The costs of dealing with internal fraud can therefore be substantial. To further illustrate this analysis was undertaken of just the costs of dealing with the fraud and ignoring any recoveries and the actual loss. This gives an idea of the costs involved in dealing with an internal fraud for an organisation ignoring what might potentially be secured in recoveries. Given, as will be shown later substantial recoveries are rare, this provides a better idea of the costs of dealing with staff fraud.

For this category it was also decided to use a wider range of groups by the size of initial fraud than for other questions, so as to get a better idea of the costs of different sized

frauds. The disadvantage of this was that it meant some groups were based upon only a handful or less of cases, so caution should be given to these figures, particularly by public and private sectors (the small numbers are often distorted by one case). This analysis is presented in table 7. This shows that for cases where the initial fraud loss was under £1k the average cost of dealing with it was nearly £20k. For £1 to £25k cases this rises to £25k, to £38k for cases in the £25k to £100k; then £167k for £100k to £1 million cases.

For the analysis by initial fraud group size we have used elsewhere in this report, for all cases under £25k the mean is £23k, for those under £100k, £29k and for those under £1 million, £63k. For those under £25k cases the public sector has lower costs, but this reverses for the other sized groups.

Table 7. Mean cost of dealing with fraud by initial fraud loss size

	All	Public	Private
Under £1k Frauds	£19,793	£30,218	£4,155
£1k-£25k Frauds	£24,574	£13,252	£31,067
£25k-£100k Frauds	£37,741	£86,553	£16,047
£100k-£1 million Frauds	£166,752	£60,444	£167,105
£100k or More Frauds	£194,691	£103,293	£286,090
Under £25k Frauds	£23,246	£20,523	£25,685
Under £100k Frauds	£29,325	£44,534	£21,120
Under £1 million Frauds	£62,844	£76,984	£56,156

Note:

1. This table reviews the costs of dealing with a fraud and ignores any recoveries. This enables a view on the size of the costs to be determined assuming no recoveries occur. Given recoveries are rare, this provides an additional line on the costs of dealing with fraud. Also note the *All* includes the Voluntary sector too.

As stated earlier because of the way in which the costs were provided by many respondents and interviewees the internal investigation and internal justice costs were merged. We call these the internal investigation/justice costs. Thus if we return to figure 2 it covers the internal investigation and staff disciplinary costs together. It was, however, possible to distinguish the costs of staff absences and the costs of recruiting replacement staff. Data was also available on the costs of pursuing external sanctions. The reality of the latter is that the costs for this are normally largely built into the internal costs of dealing with fraud. This is because a decision to keep the possibility of pursuing a criminal sanction requires the investigation to be conducted in an appropriate way from the start. As such these costs are in reality blurred. However, many respondents and interviewees were able to offer costs where external sanctions pursued, such as additional work on the investigation, attendance at court, court costs etc. These have been assessed and they are relatively low, as will be shown. This should not for the reasons outlined above be taken as the real costs of pursuing a criminal investigation. The pie charts show in both the biggest slice of costs is the internal investigation/justice costs. The next biggest is the cost of guilty staff absences. Staff recruitment costs are relatively small, with the cost of external sanctions less than one percent.

Figure 5. Distribution of major costs of dealing with fraud for cases under £100k



Figure 6. Distribution of major costs of dealing with fraud for cases under £1 million



There were differences between the public and private sectors, particularly at the lower levels in cases under £100k. The two pie charts for the public and private sectors illustrate this. The big difference is the proportion of costs involved with staff suspensions, accounting for 61 percent of the costs in the public sector, compared to 30 percent in the private sector. However, not all public sector organisations were bad in this respect, one central government department interviewed had a policy of seeking to covertly move the suspected fraudster to low risk duties until enough evidence is secured to pursue instant dismissal, but also to try and prevent them destroying evidence and observe what they are actually doing.

Figure 7. Distribution of major costs of dealing with fraud for cases under £100k in the public sector

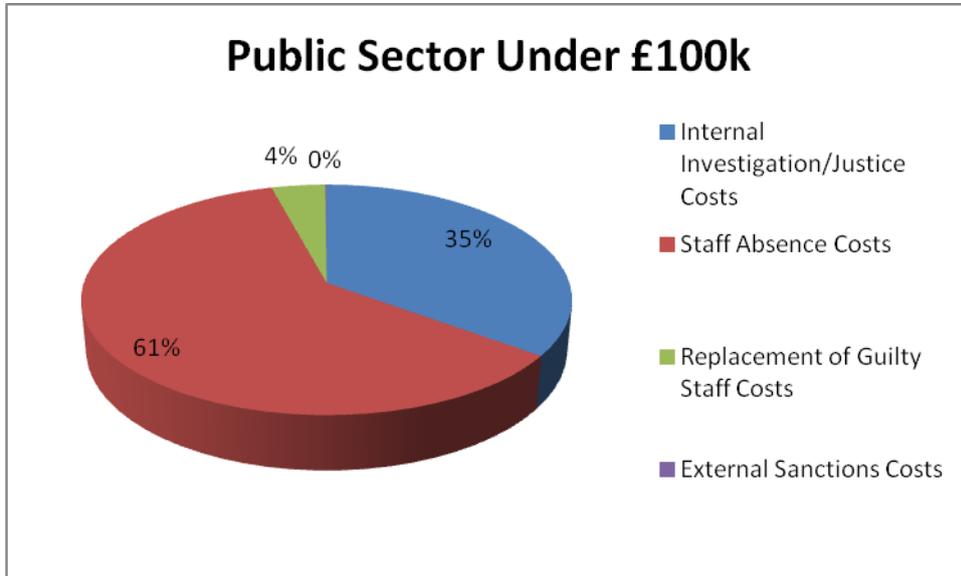


Figure 8. Distribution of major costs of dealing with fraud for cases under £100k in the private sector



Case study 2 which was considered earlier illustrated how a relatively small fraud can ratchet up quite substantial costs with suspension and sickness costs playing a major part. Case study 3 below shows what could be considered a typical profile of costs for this size of fraud and particularly for the public sector.

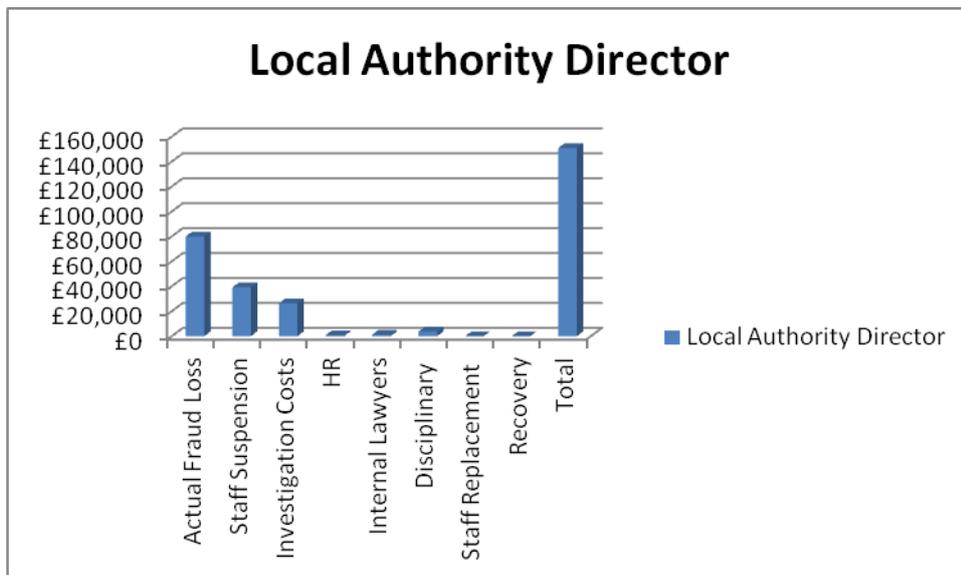
Case Study 3: The local authority director abusing his positions

In this case a Director in a local authority was also a Trustee for a charity to which he awarded grants to. Evidence emerged that the charity funds were been misused by the Director and another associated with the charity. The actual loss amounted to £80,000. The investigation took approximately 100 days and amounted to a cost of £26,315. During the investigation the Director was suspended on full-pay for 19 weeks amounting to a cost of £39,096. The cost of internal lawyers was £1120 and for human resources/occupational health was £702. The case resulted in a disciplinary hearing which cost a further £3684, culminating in the termination of his employment. The case was also referred for criminal prosecution resulting in him pleading guilty and receiving a sentence of 3 years 8 months. His department was reorganised which meant he was not replaced. The case in total therefore cost £150,917. There was a confiscation hearing following his trial, but no monies have so far been recovered.

Table 8. Case study 3

	Local authority director
Actual Fraud Loss	£80,000
Staff Suspension	£39,096
Investigation Costs	£26,315
HR	£702
Internal Lawyers	£1120
Disciplinary	£3684
Staff Replacement	£0
Recovery	£0
Total	£150,917

Figure 9. Case study 3



There was also evidence from some cases of relatively lean approaches to dealing with staff fraud. If the fraudster admits it and the evidence is simple, to put together the costs of dealing with the fraud can be fairly low. Case study 4 illustrates this.

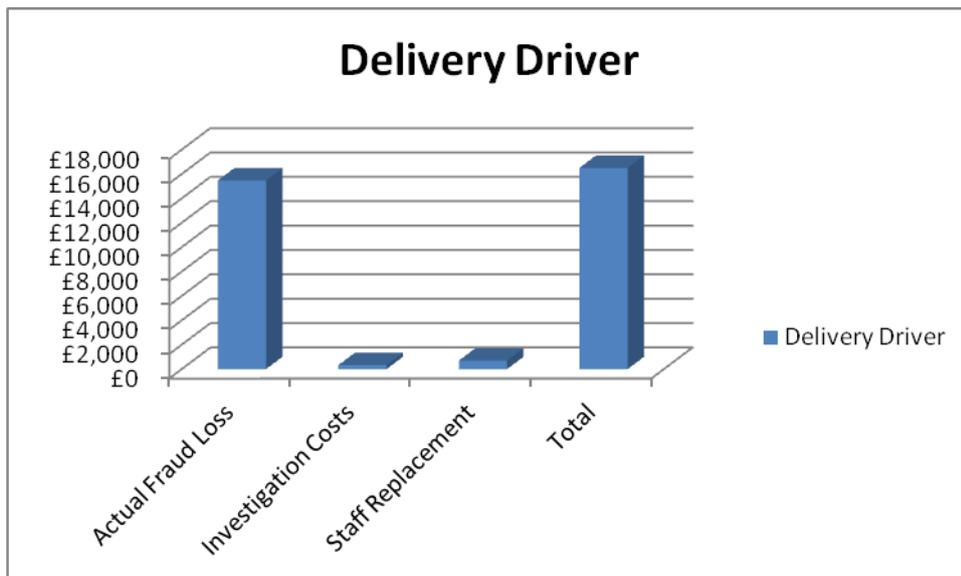
Case study 4. The corrupted delivery driver

In this case a delivery driver working for a large retail organisation was recruited by a fraudster. This fraudster had set up various accounts using a number of peoples' names and addresses within a given area. He would then order items to those accounts and inform the driver, either by text or telephone, of the goods ordered. For his trouble the driver would receive £15 from the fraudster per parcel. The actual stock loss due to this fraud amounted to £15,477 and suspicions arose when the fraud investigator telephoned a large number of those account holders where payments were outstanding to ascertain whether they had initially opened the accounts, or received any items, or not. It was then quite simply a case of identifying those deliveries to the allocated driver at that time. When questioned by the investigator, the driver confessed all, which resulted in his instant dismissal. Here the cost of the internal investigation was £329, along with an additional cost of £700 to replace him. The police took over the case and the CPS decided to prosecute. However, despite the case going to court and the driver receiving a five months prison sentence suspended for 12 months, no compensation was received owing to him having no funds and the loss itself was written off. Thus the total cost of fraud in this case amounted to £16,506.

Table 9. Case study 4

	Delivery Driver
Actual Fraud Loss	£15,477
Investigation Costs	£329
Staff Replacement	£700
Total	£16,506

Figure 10. Case study 4



More typical of lean investigations in the sample are case studies 5 and 6 below.

**Case Study 5. The store manager who faked a crime to try and cover his fraud**

In this case a store manager from a chain of convenience stores committed a robbery against his own store to try and cover his £3000 fraud. The manager had developed a gambling addiction and started making false returns to cover his thefts. Realising this would eventually be exposed he came to his store disguised and held up his colleagues. A £3000 robbery was reported. This secured police interest who uncovered the manager had left another store under shadowy circumstances. Investigations by the police and the internal investigators revealed it was the manager. The manager was suspended for two weeks on full pay amounting to costs of £1421 before losing his job. The internal investigation amounted to £631, with HR costs of £131. The involvement of managers and IT staff in the case was estimated at another £526. The employee tabled a grievance which cost another £131. The manager was replaced at a cost of £5000 (in reality the costs are likely to be higher for this group as there is a 16 week training course for managers. However, for consistency the £5000 has been applied). The group does not pursue civil claims as a matter of policy, although this might be reconsidered. The employee was prosecuted and given a 40 month prison sentence. There were no additional costs, not already accounted for. No monies have been returned, but the manager had run up substantial debts due to his gambling addiction. In total this cost the company £10,840. The case also highlighted the need for better vetting of staff, but no new policies have yet been introduced, although the interviewee thought this would be likely.

**Case Study 6. The bank teller withdrawing money from a client's account**

In the case a bank teller started to withdraw cash from a customer's account to fund drinking and socialising. In total around £20,000 was stolen from this customer. When this was discovered he confessed immediately. He was suspended for a week on full pay before being dismissed amounting to a cost of £493. The cost of the investigation for this case mounted to £7675 combined with £329 costs for human resource involvement. The disciplinary hearing amounted to £219 in costs. The case was referred for criminal prosecution which resulted in 12 months imprisonment, but no further costs not already accounted for. The fraudster had no assets so no money was recovered. One new member of staff was recruited to replace him at a cost of £1350 according to the CIPD scale. In addition to the £20,000 loss – which the bank had to refund the customer – this case cost a further £10,066 leading to a total cost of £30,066.

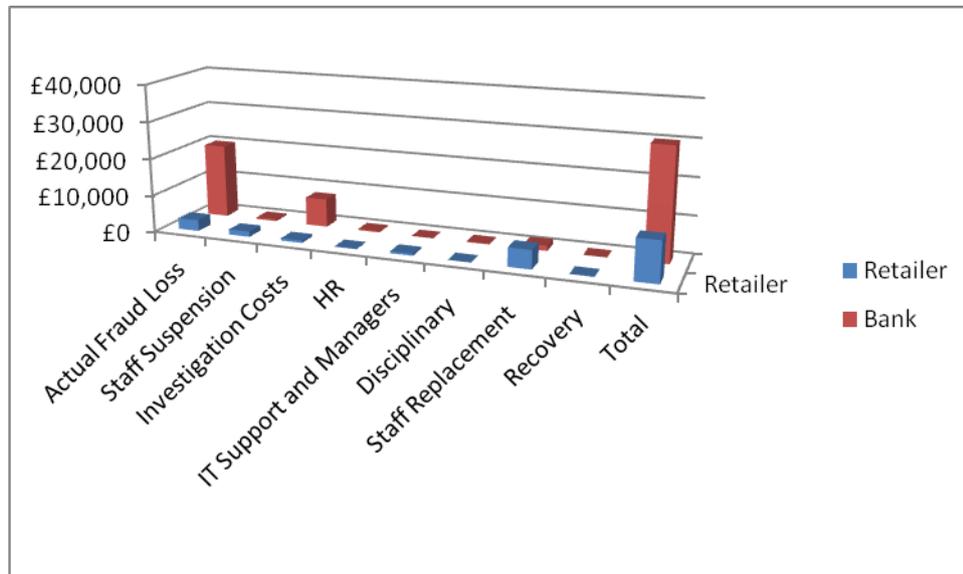
Table 10. Case studies 5 and 6 compared

	Retailer	Bank
Actual Fraud Loss	£3000	£20,000
Staff Suspension	£1421	£493
Investigation Costs	£631	£7675
HR	£131	£329
IT Support and Managers	£526	£0
Disciplinary	£0	£219
Staff Replacement	£5000	£1350
Recovery	£0	£0
Total	£10,840	£30,066

Note:

1. Disciplinary costs are included in IT Support and Managers

Figure 11. Case studies 5 and 6 compared



#### 5.4 Recoveries

In the cases where the initial fraud was over a £1 million no recoveries were achieved. For all cases under £100k the total recoveries were £21,481.27 and for those under a million £943,441.27. The mean recoveries per case for those cases with an initial fraud loss under £25k was £682, £692 for those under £100k and £23,010 for those cases under £1 million. In the smaller cases the private sector was marginally better than the public sector and in the under a £1 million the public sector was better.

Table 11. Mean recoveries by size of case

	All	Public	Private
Under £25k Frauds	£682	£683	£750
Under £100k Frauds	£692	£543	£815
Under £1million Frauds	£23,010	£29,598	£19,978

Note:

1. This table covers the average recoveries across all organisations in relevant groups. It does not focus upon only those with just recoveries. Also note the *All* includes the Voluntary sector too.

The interviews highlighted how in some cases where confiscation is sought after successful conviction it drags on and the victim organisation often receives no communication as to what is occurring. For example the local authority investigator in relation to case study 3 stated:

Well, we've had nothing through from...we should get something from the courts, if it's recovered, we've had nothing as yet, we've asked for £80,000 as part of the confiscation, in terms of...his confiscation was due on the 30/9/2011, there's been nothing through yet, they'd normally get six months to pay, so...and it takes some time for a court service to get the money over to us, but I would have suspected if there'd been anything paid, we'd have had it by now.

The interviews explored this issue in more depth and this revealed some interesting issues. Some organisations are successful in some cases at securing the return or most of the initial loss, but often this is drowned in the costs of dealing with it. Ultimately if the fraudster fights the fraud the costs can increase substantially, eating into any likely future recoveries as case study 7 reveals.

Case Study 7. The Senior Director on the take with colleagues who knew what he was doing

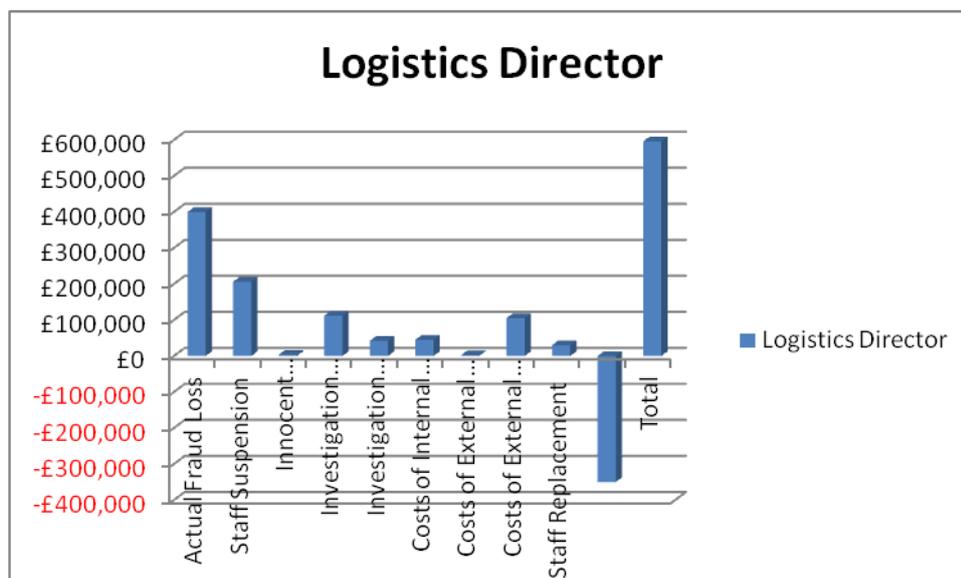
In this case a senior Director was found to be abusing his position to secure favours for awarding contracts. The international logistics company who were the victims, estimated the actual fraud cost them at least £400,000 in additional payments made as a result of the Director's action. When the fraud came to light the Director was suspended on full pay for 3 months. Four other staff suspected of involvement were also suspended for this period, amounting to costs of £206,332. Two further employees who were married to two of the four were also suspended for 3 weeks at a cost of £3462. Once it was determined they were not involved, they returned to work. The Director and two of the other senior managers resigned 40 minutes before the staff disciplinary hearing and submitted claims for constructive dismissal. The other 2 members were sacked. The costs of the internal staff

investigating amounted to £112,000 combined with a further £42,000 for external investigators to help on the case. Senior management time dealing with the case and disciplinary amounted to £45,000. Lawyers, including a barrister, were involved in this case at various stages at a cost of £105,000. A forensic accountant was also used at costs of £2000. The firm counter sued the three staff which resulted in the main Director coming to the table and negotiating a settlement. As a tactical measure the firm had also referred the matter to the police, who had declined to investigate because of the costs and resources it would have involved. The Director offered to pay £350,000 and further action was required to enforce this (included in legal costs above). The section was re-organised as a result of the fraud and only 3 staff were replaced, all at senior level, therefore adding a further £30k of costs. The total cost of this fraud was therefore £945,794, minus £350,000 recovered, meaning a grand total of £595,794.

Table 12. Case study 7

	Logistics Director
Actual Fraud Loss	£400,000
Staff Suspension	£206,332
Innocent Suspension	£3,462
Investigation Costs: In	£112,000
Investigation Costs: Ex	£42,000
Costs of Internal Staff	£45,000
Costs of External Accountants	£2,000
Costs of External Lawyers	£105,000
Staff Replacement	£30,000
Out of Court Settlement	-£350,000
Total	£595,794

Figure 12. Case study 7



Therefore in most cases where there are recoveries it usually fails to cover the additional costs of dealing with the fraud. Indeed in the 45 cases only 10 resulted in a recovery. None of these secured the total costs of the fraud back and in only 3 cases was the initial fraud loss recovered. So even where there is a success, the reality reveals the benefits as not as good. Often where there are recoveries investigators stumble across cash or the fraudsters make a voluntary payment. Case studies 8 and 9 illustrate this.

**Case Study 8. The Civil Servant and her drug dealing boyfriend**

Here a female employee with fourteen years service and working in a position of financial trust, was encouraged by her local drug dealing boyfriend to support his activities. She achieved this by generating fabricated payments. It is estimated with this case that around £265,000 was lost as a result of her fraudulent activities. However, the cost of internal investigators working on this case amounted to a £5,921, while the use of internal lawyers gave rise to a further cost of £886 and other internal staff reviewing this case was billed at an additional £424. An external organisation was commissioned to access the suspect's bank details at a cost of £118 for their time, along with a £3,500 payment applied here to all cases for costs when taking a case to court. In all, this amounts to a total cost of £275,849. During the police search of the house however, £23,000 was recovered in cash which was later reimbursed, leaving the final total for this case to be £252,849.

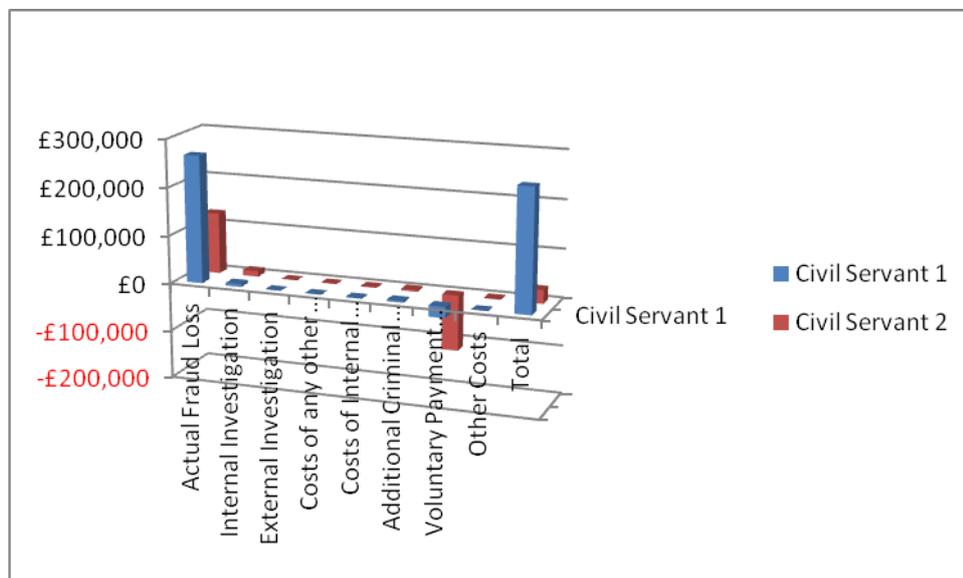
**Case study 9. The Civil Servant who abused his position of trust**

Over a fourteen month period a Civil Servant with twenty-two years experience of working in the Civil Service managed to defraud his organisation out of approximately £127,000. This he achieved through a complex expenses reimbursement scheme, which also involved friends. Here the cost of internal investigators examining this complex case was £11,408 for 42 days of work, along with an external agency who were used to examine the personal advisors bank details, costing a further £111. In addition to these costs criminal prosecution costs amounted to £3,500. Costs of any other nature' amounted to £1,154, thus giving a total of £143,173. In this case £115,000 was later retrieved from the accounts of the advisor and his friends, thus leaving a total fraud loss of £28,173.

Table 13. Case studies 8 and 9 compared

	Civil Servant 1	Civil Servant 2
Actual Fraud Loss	£265,000	£127,000
Investigation Costs: Internal	£5,921	£11,408
Investigation Costs: External	£118	£0
Costs of any other Internal Staff	£424	£111
Costs of Internal Lawyers	£886	£1,154
Additional Criminal Prosecution Costs	£3,500	£3,500
Voluntary Payment by Fraudster	-£23,000	-£115,000
Other Costs	£0	£1,154
Total	£252,849	£28,173

Figure 13. Case studies 8 and 9 compared



There was some evidence of comparative success, however. Case study 10 shows one case where an initial loss of £138,000, in addition to other costs, was turned into a loss of just under £20k.

#### Case Study 10. The building supplies manager and team who misappropriated stock

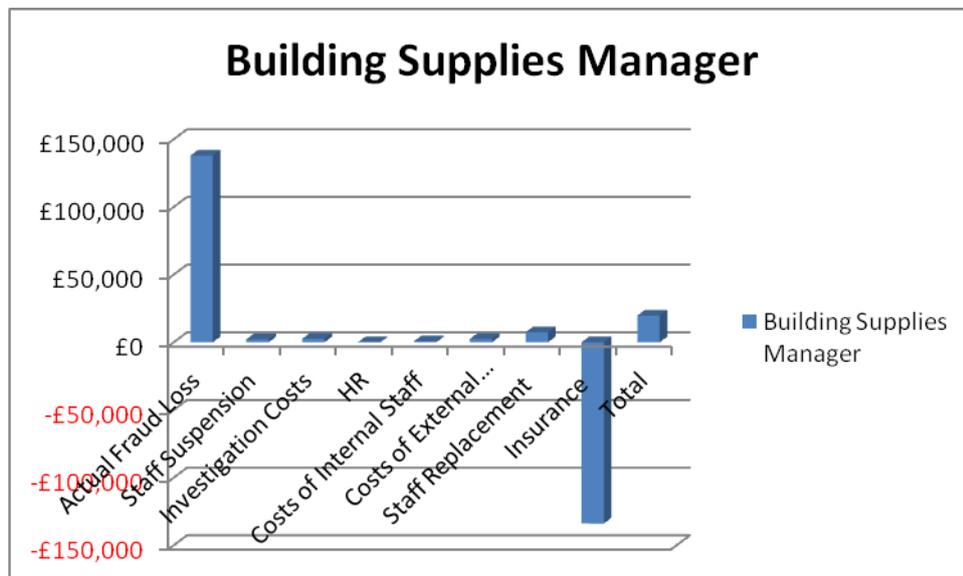
In this case, a manager for a building supplies company misappropriated stock by falsifying inventory records to a total of around £138,000. The assistant manager and warehouseman were also involved and all three employees were suspended on full-pay for 1 and a half weeks amounting to £2230, before being sacked at a disciplinary hearing. A fourth member of staff thought to be involved was given a final written warning. The internal investigation costs were £2585, internal HR costs were £151 and internal management costs amounted to £775. External lawyers were also used in this case costing £2500 to assess a civil claim, but this was considered not worth it due to fraudsters' lack of assets. The three staff were

reported to the police, but due to police failings the case collapsed. All three staff were replaced which amounted to costs of £7245 (1 manager at £5000, 1 assistant manager at £1545 and 1 warehouseman at £700). The total costs of this fraud therefore amounted to £153,486. The company was able to pursue an insurance claim for this, which was based upon the sales value of the goods £165,450 minus the excess of £31,540, meaning a return of £133,910. This meant overall this case resulted in a £19,756 loss. It is important to note that the use of insurance for fraud is unusual and in most cases this is not possible.

Table 14. Case study 10

	Building Supplies Manager
Actual Fraud Loss	£138,000
Staff Suspension	£2,230
Investigation Costs	£2,585
HR	£151
Costs of Internal Staff	£775
Costs of External Lawyers	£2,500
Staff Replacement	£7,425
Insurance	-£133,910
Total	£19,756

Figure 14. Case study 10



### 5.5 External sanctions

Previous research by CIFAS has suggested a low rate of criminal prosecution. Only 25 percent of cases are reported to the police of which 29 percent progress to court, meaning only 7.25 percent of staff fraud cases progress to court in the cases CIFAS become aware of.<sup>vi</sup> Amongst all 45 cases for this research, in four it was not known if a criminal prosecution was sought, in another 11 it wasn't and in the remaining 30 it was. However, in only 17 of the cases did a criminal trial occur, which represents just over a third. Case study 11 is a typical example of a staff fraud which does make it to the criminal courts.

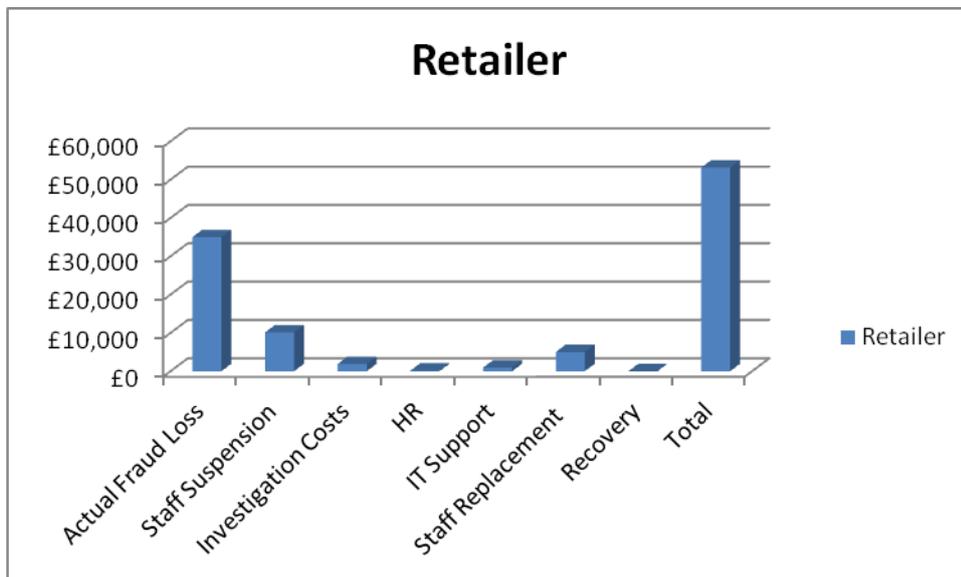
#### Case Study 11. The enterprising store manager

In this case a store manager of a chain of convenience stores created false accounts which enabled her to secure £35,000 over 10 months. The manager had recently become divorced and had sought the extra money to maintain her lifestyle. Auditing had been weak, which had enabled her to exploit these systems for her gain. She went off sick for around 3 months and was suspended on full-pay for four weeks creating staff absence costs of £10,132. The costs of investigating this case amounted to £1894, HR costs amounted to £158 and specialist IT staff time of £947. The case was referred to the police, which involved no further additional costs not already accounted for. The manager received a suspended sentence. The manager was replaced at a cost of £5000 (in reality the costs are likely to be higher for this group as there is a 16 week training course for managers. However, for consistency the £5000 has been applied). The company have contacted the CPS regarding any compensation, but to date have not received any and the CPS provide evasive answers according to the interviewee. In total the cost of this fraud amounted to £53,132.

Table 15. Case study 11

	Retailer
Actual Fraud Loss	£35,000
Staff Suspension	£10,132
Investigation Costs	£1895
HR	£158
IT Support	£947
Staff Replacement	£5000
Recovery	£0
Total	£53132

Figure 15. Case study 11



For civil cases only 3 in the sample engaged the civil courts. For an example where this did occur see case study 7 earlier. The reasons for the non-pursuit of criminal sanctions cover a wide range of reasons. First, many organisations cannot secure police interest and case study 12 illustrates this.

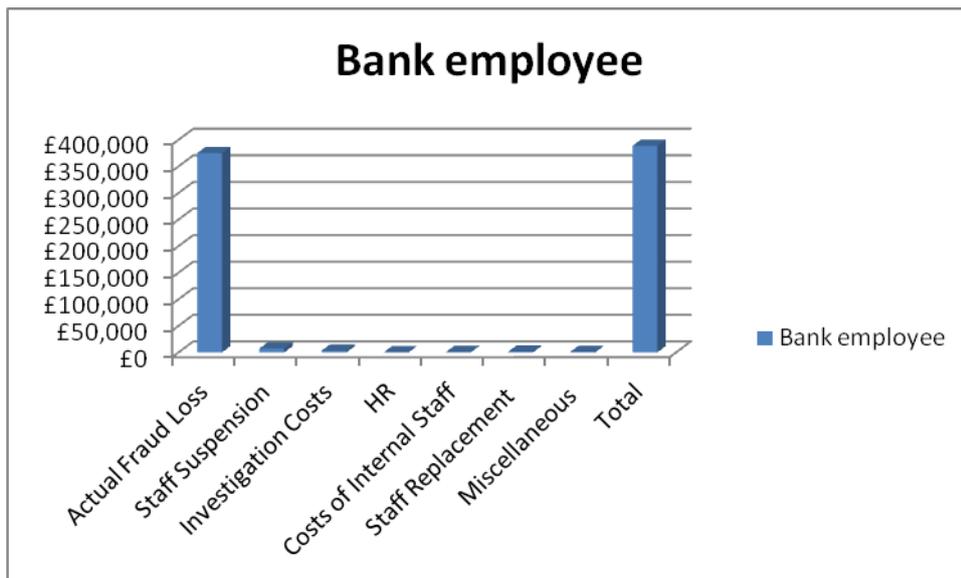
#### Case Study 12. The bank employee who liked to say 'yes'

In this case, a personal banking advisor authorised overdrafts for customers when there was no basis for doing so. He forged documents and signatures to help customers. Some of these customers disappeared. The member of staff was originally from a region in India, which was also where nearly all the unsafe overdrafts could be linked to. In total £375,000 was lost to the bank over a five year period. The member of staff was suspended for 3 months and then resigned. This amounted to costs of £7237. His duties were covered as for other normal absences such as sickness and holidays, so this involved no further costs. The investigation lasted 35 days, amounting to costs of £3224. The investigator also estimated another £1000 in costs could be attributed to travel and subsistence, couriers to transport documents, photocopying etc in this case. Human resources were also involved and given the time the estimate is £198, combined with the costs of senior staff considering the case amounted to another £666. The case has been referred to the police, but is in limbo because there is no evidence the member of staff gained personally. This would require investigators having to travel to India, which neither the bank or police are willing to do at present. The bank would like the prosecution to continue, but the statutory bodies are not yet convinced. The member of staff was replaced at a cost of £1350. No monies have been recovered from this case, so in total it amounts to £388,675.

Table 16. Case study 12

	Bank employee
Actual Fraud Loss	£375,000
Staff Suspension	£7237
Investigation Costs	£3224
HR	£198
Costs of Internal Staff	£666
Staff Replacement	£1350
Miscellaneous	£1000
Total	£388,675

Figure 16. Case study 12



Second, some also prefer to avoid negative publicity and pursue a policy of finding the quickest and most efficient means of removing the persons from the organisation.

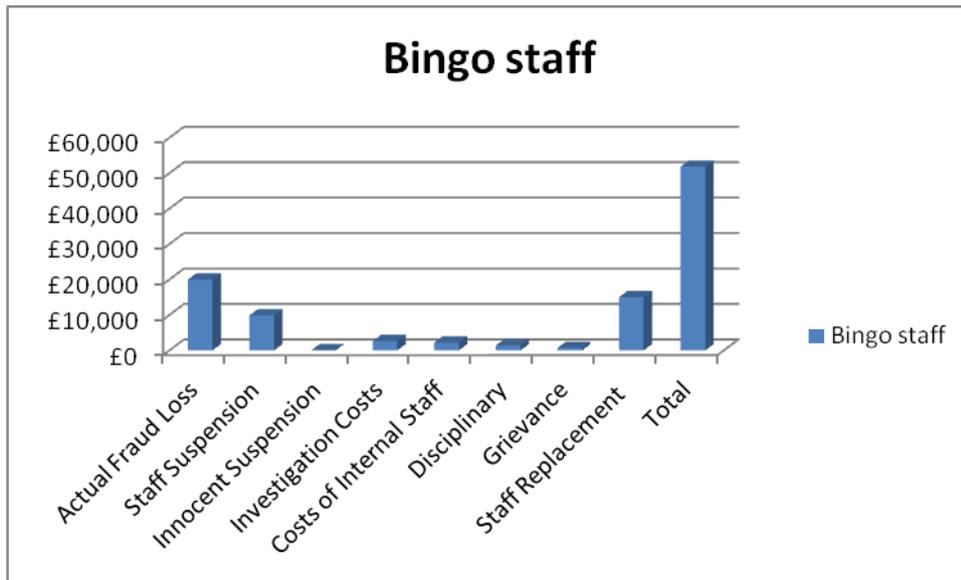
### Case Study 13. The bingo hall staff fiddling from the slot machines

In this case three bingo hall staff had regularly fiddled from the collection from slot machines to a total of around £20,000 (and could have been more), which involved false representations of takings. The investigation involved staff going down to count the money in the middle of the night to determine if any monies were lost from the entered reports the following day. Once discrepancies had been identified 3 staff were suspended on full-pay for six weeks at a cost of £9868. Their absences were covered by existing staff. The in-house investigation involved costs of £2632 to cover approximately 15 days of investigation. There was a staff disciplinary which involved the time of HR and other senior managers amounting to £2214. The actual disciplinary hearing also involved other senior staff and costs of £1404. During the investigation one of the suspects submitted a grievance against one of the investigators, which also had to be investigated at a further cost of £702. The three staff were dismissed, but not on grounds of fraud, rather for not following proper procedures, such as bringing a bag into the counting room. The rationale for this was that it was easier to dismiss them on these grounds. Pursuing any criminal action would involve many more hours of the in-house investigators time. There was also a risk because of the evidence requirements that they would not be able to prove a particular person had been on the fiddle. All three staff were replaced and given their status costs of £15,000 for this have been applied. No monies were recovered. This £20,000 fraud in total therefore cost £31,820 to deal with.

Table 17. Case study 13

	Bingo staff
Actual Fraud Loss	£20,000
Staff Suspension	£9868
Innocent Suspension	£0
Investigation Costs	£2632
Costs of Internal Staff	£2214
Disciplinary	£1404
Grievance	£702
Staff Replacement	£15,000
Total	£51,820

Figure 17. Case study 13



The sanctions pursued also raises interesting differences. Case studies 1 and 2 earlier showed two frauds under £500. The nurse faced paying back the initial loss, the sack, a police caution and the possibility of been struck off by the regulator. By contrast the civil servant who strung the case out for some time faced only the sack.

## 6. Intangible Costs

As discussed earlier there are also impacts from staff fraud which are very difficult to quantify. To try and gauge the impact of the fraud on the organisation respondents and interviewees were asked on a scale of 1 to 5 where 1 is no impact and 5 is very significant negative impact to rate the impact of the fraud on seven issues. In some cases the respondent did not answer. Table 18 shows the results. The most significant impact was upon the morale of colleagues of the fraudster at 4. Poor morale could have a significant impact on the performance of an organisation leading to more staff sickness and higher staff turnover, amongst others. Respondents and interviewees were asked to rate the impact on performance and this was rated at 3. The consequences for relationships with clients was rated at 2.48; the lower figure probably representing that in some cases details of the fraud do not become public and therefore the client does not even know there has been staff fraud. Reputation of the department and the management were considered to be damaged in most cases at 3.29 and 3.45. The damage in reputation to the outside world was not as high at 2.14, again probably representing the fact many cases do not reach the public domain and so there is no damage. The lowest ranking impact was upon the financial strength of the organisation at 1.59. Given the range of fraud losses in the cases considered and the size of organisations, this is not surprising. Ultimately the impact of staff fraud on

the intangible issues was not as high largely due to organisations minimising the publicity of the staff fraud.

Table 18. Estimated impact of fraud on intangible issues

<b>Impact</b>	<b>Score</b>	<b>Number</b>
The morale of the colleagues of the fraudster	4.00	31
The performance of the colleagues of the fraudster while the case was ongoing	3.00	30
Relationships with clients	2.48	27
The reputation of the dept within the organisation	3.29	31
The reputation of the dept's management	3.45	31
The reputation of the organisation to the outside world	2.14	28
The financial strength of the organisation	1.59	27

Note:

1. Respondents and interviewees were asked to rate on a scale of 1 to 5 where 1 is no impact and 5 is very significant negative impact

In one of the cases poor morale related to pay freezes and the consequent targeting of a complete department for investigation had a significant impact on morale. Details of case 14 illustrate this.

#### Case Study 14. The corrupt local authority department feeling the pinch in the recession

In this case the anti-fraud group of a large metropolitan local authority received an anonymous letter claiming a whole service delivery group of 20 staff were falsifying time sheets. This triggered an investigation which suggested losses of £50,000 over a 9 month period. Evidence was found for 5 relatively easily who were suspended for 12 weeks and 2 others were suspended for a lesser period, which amounted to £19,000 staff absence costs. The costs of the investigation amounted to £6000 for internal staff, £366 for internal lawyers, £5490 for HR costs and £10440 for managers and audit staff time involved in the case. The 7 staff were disciplined or are still in the process of been disciplined. One member of staff has been dismissed (with more likely) who also submitted an Employment Tribunal claim, which was subsequently withdrawn. The costs of this are included in the above. 5 invoices have been issued to the staff with only 1 agreeing to pay some money back, although none received as yet. The intention is to pursue a criminal prosecution where evidence is appropriate, but no such referral has been made in this case yet. The case led to a restructuring with no replacements so far and new procedures for time-sheets. One interesting facet in this case identified by the investigators was the justification for their fraud was rooted in feelings of not being paid enough as a result of the general climate of austerity and pay freezes. Given such pressures are common across all local government this may be happening elsewhere.

Table 19. Case study 14

	Local authority staff
Actual Fraud Loss	£50,000
Staff Suspension	£19,000
Investigation Costs	£6000
Costs of HR	£5490
Lawyers	£366
Costs of Internal staff/Audit	£10440
Total	£91,296

Figure 18. Case study 14



Information was also sought on the coverage in the media. Only 13 cases offered an answer on this with a score of 2.46 where they were asked on a scale of 1 to 5 where 1 is very positive and 5 is very negative to rate the coverage. The low number of cases reflects first of all some cases do not find their way into the public domain and second those that do, don't always secure coverage or if they do often this is not negative. In many cases where staff fraud does find its way into the media it does not result in sensational coverage on a large scale. This only tends to happen in a minority of cases. For those cases which do get covered, it is generally the local press and a very factual based coverage identifying the nature of the fraud, the organisation, the finding of guilt and the sentence. Indeed on some of the case studies media coverage was searched for and it was very factual in local media which did not reflect badly upon the organisation. This is clearly an area which requires further research.

## 7. Conclusions and Recommendations

Investigating the real costs of staff fraud has led to a number of interesting findings. Clearly staff fraud is a very sensitive topic for many organisations, many of whom are often reluctant to reveal the details of such cases to outsiders. Set against this, however, was a finding that when staff fraud does find its way into the media the coverage is not necessarily that bad. The case studies have also highlighted that in many cases even when organisations want to pursue external sanctions they often do not get the support from statutory bodies that is required. Most importantly, however, the report has highlighted the extensive costs which must be added to the initial fraud loss.

The costs of investigation, fraudster suspension/sickness, the costs of internal justice, the costs of external sanctions and the costs of replacing sacked staff are some of the many tangible costs to be added. There are also the intangible costs related to staff morale, reputation etc to be considered. Low level frauds under £1k, even if dealt with efficiently can cost much more the initial loss, four-times more or greater would not be unusual. This report has shown the percentage increase from initial fraud loss to final costs (including recoveries) for cases with an initial fraud loss under £25k to be 265 percent, for those under £100k to be 117 percent and for those under a 31 million to be 45 percent. Just considering the costs of dealing with a fraud (ignoring any recoveries) for cases under £25k was £23k, for cases under £100k it was £29k and for those under £1 million it was £63k. The public sector had higher costs of dealing with fraud and this was largely attributed to higher staff suspension/sickness costs. The fruits of investigations do not generally secure a significant return from the fraudster with £682 for cases under £25k, £692 the mean for cases under £100k and £23k for those under a £1 million. In the cases considered, most used the criminal justice system and there was little use of the civil system. Successful external sanctions only occurred in a minority of the 45 cases. There was also evidence that some frauds had impacts on staff morale, performance and reputation, which are difficult to cost.

The report did identify some areas where organisations can reduce costs, which will shortly be outlined. It is, however, important to note that most of these costs are *unavoidable*. Once an organisation detects a staff fraud there are processes they need to go through and there are rights the employee can exercise and defend. Some of the procedures can be made more efficient and reduced, but most cannot be avoided. In this context it is also important to note doing nothing is not a cheaper option. If a member of staff commits fraud, but faces no sanction, this will have other financial implications. It will give the green light to other staff to engage in fraud and ultimately will increase the costs of fraud to the organisation adding further costs to the bottom line. Crime is said to be likely if there is an opportunity, a motivated offender and the lack of a capable guardian.<sup>vii</sup> Not doing anything creates the lack of a capable guardian making the ingredients for further fraud more likely. Tackling staff fraud requires investment in prevention, but the detection and investigation of it should also not be neglected. The costs of staff fraud are an inevitable consequence of employing staff, all organisations can do is reduce the risk to a minimum by investing in prevention and effectively tackling it when it does arise. Organisations can, nevertheless, learn from others in the most efficient way to deal with it.

The report shows the costs of dealing with a fraud are substantial and recommendations are made, divided between those for organisations to consider and for further research.

*Recommendations to organisations*

Recommendation 1. Such are the costs of dealing with a staff fraud and prospects for the return of money the priority for any organisation should be to avoid it in the first place and do all that is possible to prevent staff fraud. A comprehensive staff fraud prevention strategy should be a priority for any organisation involving measures to prevent those who are higher risk of dishonesty from entering an organisation and minimising the opportunities for those already working.

Recommendation 2. HR procedures of an organisation are vital to fraud prevention. One important aspect of some internal frauds was that recruitment involved no criminal record or character checks on applicants. Although such checks can be time-consuming, far more can be lost in fraud if someone with inappropriate character is recruited.

Recommendation 3. A further significant cost is staff suspension/sickness relating to the fraudster, a major issue for some public sector bodies. More consideration should therefore be given in some organisations to policies that enable faster termination of employment of fraudsters or continued employment in roles with very low risk for fraud.

Recommendation 4. More importance could be given, within organisations, to actions taken as a result of cases of fraud which had come to light. This could include: changing procedures where internal fraud had flourished: and giving publicity to the effectiveness of the organisation in catching such fraudsters, eg in initial training of new staff.

*Recommendations for further research*

Recommendation 5. The 45 cases in this study generally showed no or very low recoveries of fraud losses. Most of these utilised the criminal justice system. There were not many cases involving the civil justice system to judge effectiveness here. Further research on cases where civil remedies have been used would be useful to compare effectiveness and costs.

Recommendation 6. This research has covered internal fraud. It would be interesting to research the costs of dealing with external fraud too, so comparisons could be made to this research on the costs involved.

## End Notes

- <sup>i</sup> National Fraud Authority (2012) *Annual Fraud Indicator*. London: NFA
- <sup>ii</sup> Gee, J., Button, M. and Brooks, G. (2011) *The Financial Cost of Fraud*. What the data from around the world shows. London: PKF/CCFS.
- <sup>iii</sup> CIFAS (2013) Fraud by Insiders Increases by Over 40 percent. Retrieved 13 March 2013 from [http://www.cifas.org.uk/stafffraud\\_annual\\_janthirteen](http://www.cifas.org.uk/stafffraud_annual_janthirteen)
- <sup>iv</sup> CIFAS/CIPD (n.d.) Tackling Staff Fraud and Dishonesty: Managing and Mitigating the Risks. P15.
- <sup>v</sup> CIPD (2009) Annual Survey Report 2009. London: CIPD. P 11.
- <sup>vi</sup> CIFAS (2013) Staff Fraudscape. London: CIFAS; and personal communication.
- <sup>vii</sup> Felson M (2002) *Crime and Everyday Life: Insights and Implications for Society*. Thousand Oaks, UK: Pine.