



Fraud and corruption in the construction sector

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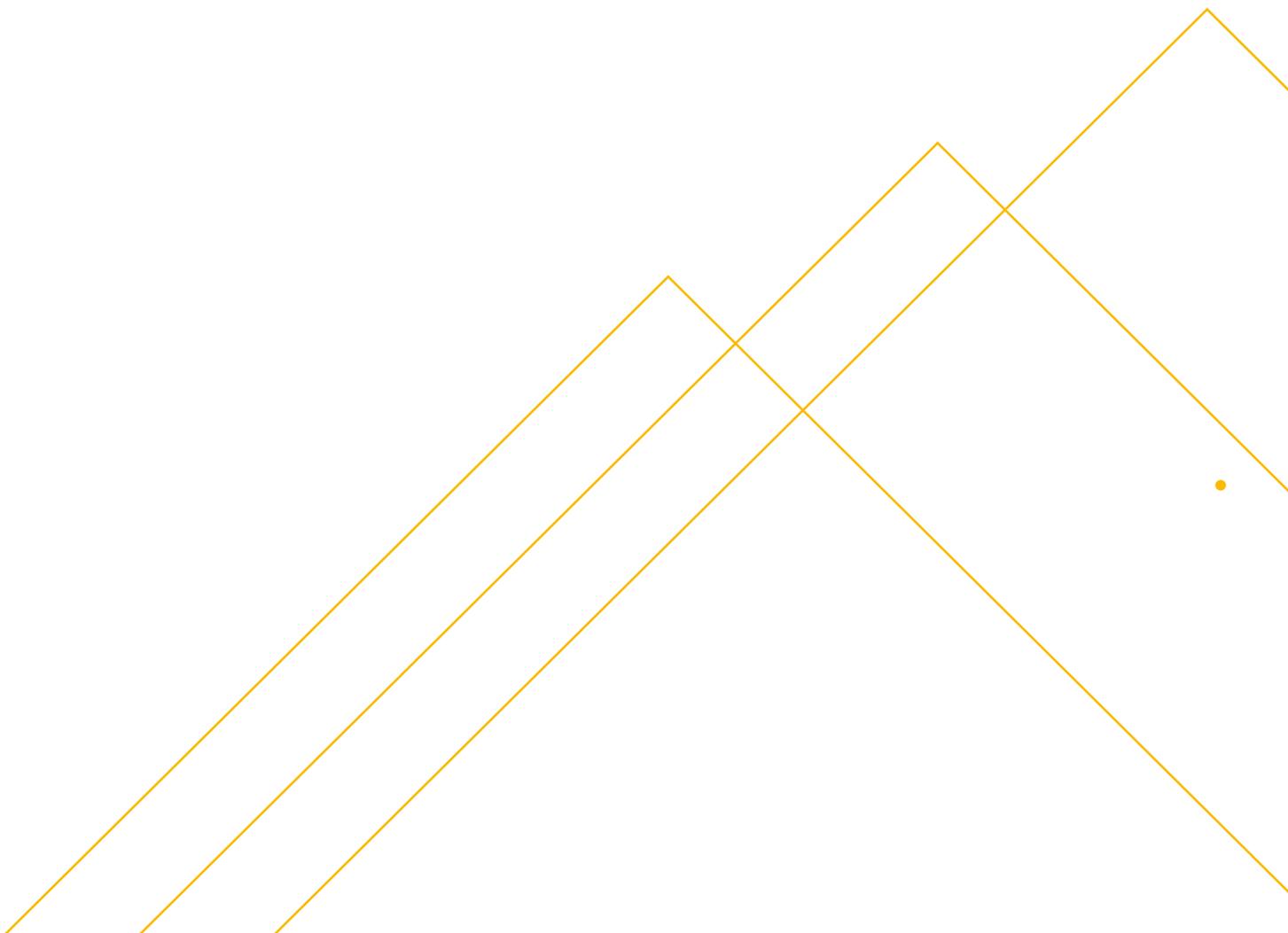


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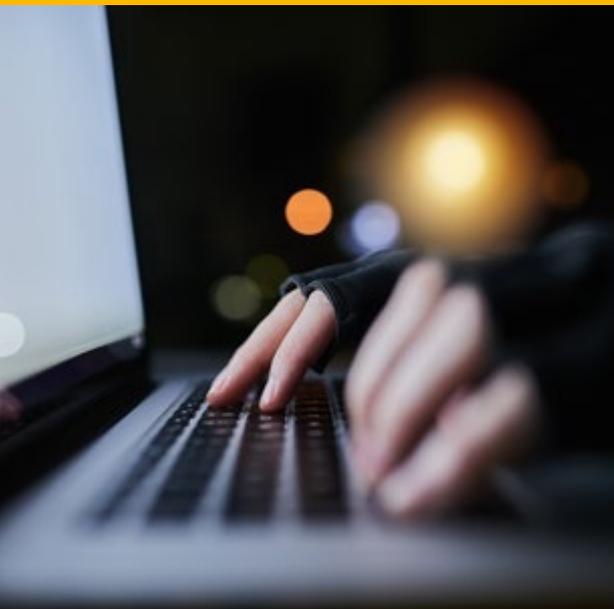
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Understanding the impact of fraud and corruption in the construction sector

Fraud and corruption in large public construction projects results in taxpayers not getting value for money. It can also undermine the profitability of legitimate construction companies and enrich dishonest individuals and organised crime.



This report cites numerous examples of fraud and corruption in construction, with a particular focus on the construction of railways. While it is never possible to eliminate such behaviour, it is possible to reduce it if the right approach is adopted.

As the United Kingdom (UK) embarks on a major investment in new infrastructure, it needs to put in place arrangements which can achieve this impact. This is important both to get the maximum value from public funds but also to ensure that public confidence in such spending is retained.

What we found and how to fight back

This report presents the findings from research considering both the problem and potential solutions to tackle fraud.

Having looked at the options to do this effectively, it is clear that a purely law enforcement – investigate and prosecute – approach will only address the problem after it has already happened. This is necessary where fraud is suspected or detected but a more proactive approach is needed, if we are to minimise it and the consequential losses to public funds.

Equally, while discussions are currently taking place about the role of audit in respect of fraud; auditors, by their professional training and purpose, focus on looking at financial accounts relating to past periods and for individual organisations, not across the totality of the organisations involved in major projects. Similar to law enforcement, audit has an important role, but on its own, or even in combination, it can often be insufficient.

Can we learn from others?

The approach adopted successfully in the United States over many years, appeals to us. Integrity Monitors bringing together a range of professional skills (including those of investigators, accountants and the many different construction-related skills) and when well-funded, with a specific proportion of intended expenditure set aside for their work, have a good track record.

Most importantly, Integrity Monitors have been given a role looking across the totality of a project, from inception and contract letting to completion. They also work proactively to strengthen a culture of integrity and grow and mobilise the honest majority and to deter and shrink the dishonest minority.

Changing the balance of human behaviour so that less fraud and corruption is attempted in the first place, while recognising that work will always be needed to tackle it where it does still occur, is a sensible approach; and one designed to minimise the extent to which public funds are diverted from their intended purpose.



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1 UK infrastructure spending and risks

- 1.1 The current UK government was elected in 2019 on a manifesto which included investing in new infra-structure projects and a desire to continue with the High Speed 2 (HS2) rail line at a forecast price of £106 billion¹.
- 1.2 In addition to this, the government revealed in the March 2020 Budget plans to spend £600 billion on infrastructure projects over the next five years². It is well known construction projects run the risks of escalating costs. They also are very high risk for fraud and corruption.

1.3 This report will explore the potential risks to this funding by:

- examining the unique structural and cultural factors that make fraud and corruption in construction a particularly high risk
- exploring some of the fraud and corruption risks to construction using real examples from past projects in the UK and comparable projects abroad
- providing some recommendations the government should consider to safeguard this funding.

1 BBC News
2 BBC News

2 Construction: a 'building site' for fraud and corruption

2.1 There are a wide range of structural and cultural factors which make the construction sector prone to fraud and corruption, particularly when large projects are concerned.

Political imperative to get the project done

2.2 In all construction projects there will be an imperative to complete them on time, but in public funded projects, where there are political benefits linked to the success of the project, this imperative is likely to be stronger. Uncovering waste, fraud and corruption are sometimes wrongly perceived as likely to frustrate the delivery of the project by slowing it down, and that can lead to measures to uncover it not being prioritised.

No two projects are the same

2.3 Large scale projects are rarely the same, making comparisons and predictions about costs more difficult. For example, building a new railway line through a previously uncovered area will rarely have an easy comparator. This means the estimate of potential costs is likely to change. It also means it is very difficult to compare costings between projects, which might open up the potential for spotting excessive costs and therefore potential fraud. Fraud and corruption can also be hidden by costs that are increasing anyway.

Delays and overruns

2.4 The unique nature of many construction projects can lead to unforeseen challenges, which lead to delays in the project. These can result in additional charges, which can be exploited by the unscrupulous.



Complex supply chains

2.5 Large scale construction projects invariably use long and diverse supply chains, involving multiple contractors and professionals, and frequently involving several countries. This complexity breeds opportunities which can be exploited by fraudsters. Each sub-part of the chain invariably involves some form of tendering below the main contract, increasing the number of opportunities for fraud and corruption. For those leading the entire project it can be very hard to obtain a view of the totality of those undertaking the work and the related expenditure.

Lowest bid award encourages bidders to find other ways to make profit

2.6 The desire of public sector bodies to safeguard taxpayers' money frequently leads to the award of contracts to lowest bidders. This encourages some companies to bid low on the basis that once awarded the contract they will find means to grow the revenue from it to maximise profit opportunities. In some cases this might involve fraudulent measures.

Large costs allow frauds/waste to be hidden

2.7 The very large costs of many construction projects also allow fraud and waste to be more easily hidden. There is much more scope for fraud on a £100 billion project, compared to a £25 million one.

The quality of the work undertaken can be concealed

2.8 The nature of many construction projects means that work undertaken can often be concealed. Specifications for particular qualities of concrete, piping, wiring etc can be ignored to lower costs without this being apparent, as the wiring is hidden in walls and pipes buried underground. Additionally, the work may also have to be undertaken in remote, highly inaccessible or dangerous areas, making checks more difficult.

Local autonomy of site managers

2.9 Site managers often have autonomy in certain areas to ensure work continues on schedule. Therefore, to complete on time, they often have discretion to agree changes and make additional purchases. This provides opportunities to exploit for fraud either by the managers in collusion with contractors or the latter simply exploiting that pressure to get things done. Performance data for the contracts is also often held locally at the site, which also provides for opportunities for the manipulation of data.



Inadequate project management (buyer)

2.10 Some sponsors and managers of construction projects have no, or limited, experience of previous large-scale projects and the wide range of specialist skills required. They are often placed in challenging positions to monitor and regulate the contracts placed. Supervision of some projects is not always adequate, leading to opportunities for the unscrupulous to exploit. Some of the areas which can be inadequate and exploited include:

- a lack of competence and resources to manage a project
- standards, specifications and contracts which are unclear and open to exploitation
- inadequate due diligence of suppliers (past experience, qualifications, suspicions of fraud and corruption etc)
- the complexity of contracts/ plans which does not make accountability clear (one company designs while another implements, but who is responsible if plans don't work?).



Location of projects

2.11 Some government funded projects form part of overseas aid and these often take place in countries where there is evidence of much greater risk of fraud and corruption. For example, building a road in a remote area in Afghanistan is likely to be much higher risk than in Surrey.

Multiple regulators causing 'red tape'

2.12 A construction site may be subject to multiple regulators with oversight, some of which have the potential to pursue actions to slow down the project. In the UK this could include planners, building regulations approvals, health and safety and immigration inspectors, to name a few. For projects which are under time pressure, this may lead individuals to pursue corrupt practices to smooth over any potential breaches of regulations and allow quicker construction.

The culture of the construction sector

2.13 Linked to the multiple opportunities for fraud and corruption there is also extensive evidence of a culture in the sector which is prone to fraud and corruption. For example, in the 2011 Transparency International Bribe Payers Index³, different sectors were rated on their perceptions of bribe paying. Of the 19 sectors listed, 'public works contracts and construction' was rated the most corrupt. A report published by PwC in 2014 found of all sectors experiencing economic crime, engineering and construction had the highest rate of bribery and corruption⁴.

2.14 A report by the Chartered Institute of Building published in 2013⁵ based upon a survey of its members found that:

- 49% thought corruption in the sector was common
- 38% had come across cartel activity at least once
- 35% admitted they had been offered a bribe or incentive at least once
- just over 50% thought levels of fraud and corruption had increased or stayed the same over the previous five years.

2.15 The construction sector therefore presents structures that facilitate fraud and corruption and is exacerbated further by a culture prone to fraud and corruption, which is much higher than other sectors.

³ [Transparency International \(2011\) Bribe Payers Index 2011.](#)

⁴ [PWC \(2014\) Fighting corruption and bribery in the construction industry.](#)

⁵ [Chartered Institute of Building \(2013\) A report exploring corruption in the UK construction industry.](#)

3 The grey zone of fraud and corruption in construction

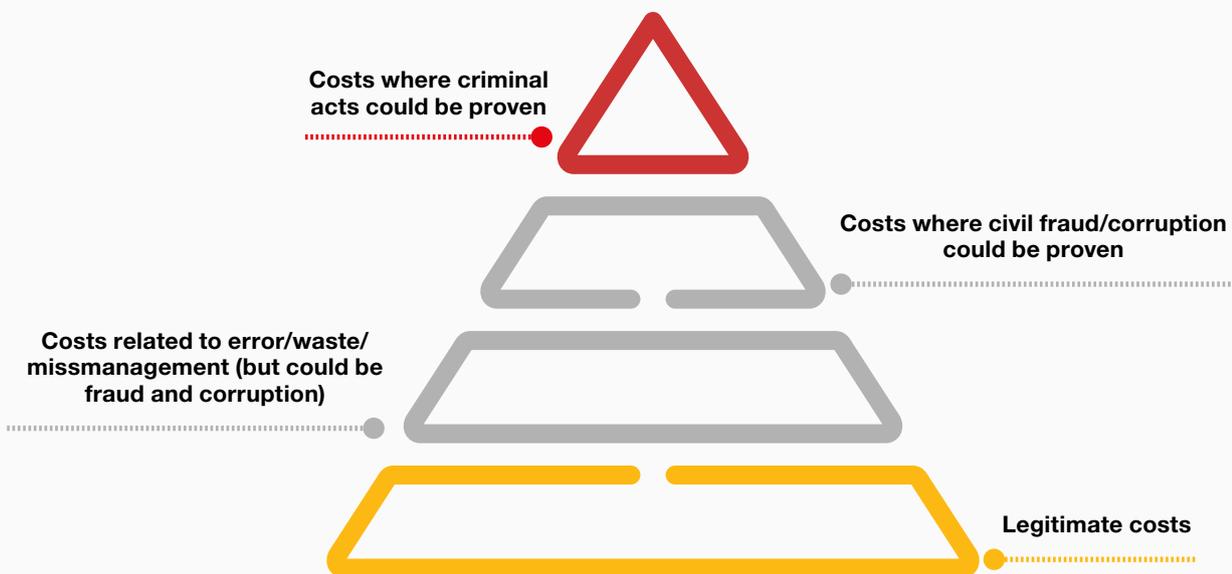
3.1 Fraud and corruption might seem fairly simple for most individuals to define. However, the complexity of construction and procurement opens up a substantial grey zone where proving acts are fraudulent or corrupt to criminal, and even civil, standards are often challenging. For example, the use of a different specification of work, which is justified on the grounds of the challenging construction environment (which wasn't envisaged), that leads to higher costs, could be legitimate or mismanagement or designed to be fraud of a civil or criminal kind.

3.2 The peculiarities of legal tests to prove fraud and/or corruption, the precision or imprecision of contracts and the facts of what occurred, create a mix where a case to prove the ultimate offences is often very difficult. This does not mean, however, if fraud and corruption cannot be proved that the costs were legitimate. Therefore, any analysis of a large scale construction project will show a preponderance of legitimate costs, clear fraud costs and a grey zone of costs which could be frauds, but might also be errors, waste or mismanagement.

3.3 As was noted by the New York Organised Crime Task Force⁶:

“The line between criminal fraud and noncriminal waste and abuse is difficult to draw, especially in a business environment rich in puffery, corner cutting, contract violations and disputes. Clear cases of fraud are also difficult to identify because unscrupulous contractors can often give at least a colorably plausible explanation for dubious costs and poor job performance. Often these explanations take the form of counterclaims against the City for alleged design errors, delays, and/or explicit or tacit City approvals. Therefore, it is useful to think in terms of fraud, waste and abuse, rather than in terms of fraud alone.”

Figure 1. The grey zone of costs in construction



⁶ New York Organised Crime Task Force (1989) Corruption and Racketeering in the New York Construction Industry.

4 Types of fraud and corruption in the construction sector

- 4.1 Some of the most common forms of fraud and corruption in the construction sector are described in this section, using real examples from construction to illustrate where possible. As already noted, some of the behaviours described, depending upon the facts of the case and the legal context, could be classified as criminal acts or civil legal torts through a spectrum to mismanagement and waste. It is important to understand from the project sponsor and funder's perspectives that these are all potential issues that can lead to higher costs, irrelevant to whether they can be legally proven to be.



Corruption in the bidding process

Collusion

- 4.2 One form of corruption is collusion between bidders in the tendering process. Rival firms put aside differences to rig the process and some parties put in artificially high bids or don't bid, thereby enabling a rival to win the contract on a higher price than if there had been open competition. The extent of the problem was revealed in 2009 when the Office of Fair Trading (OFT) fined 103 construction firms a total of £129.2 million for colluding with competitors⁷.
- 4.4 In another case from the UK, relating to the upgrade of Farringdon railway station, four people were convicted of corruption related offences. At the centre of the scam was a manager for one of the construction firms who had received £140,000 in bribes to supply inside information to enable another firm to win a sub-contract. The initial contract of £2.1 million rose to £5.2 million as a consequence⁹.
- 4.5 The extension of the Jubilee line on the London Underground resulted in a failed attempt to prosecute six men involved in one corrupt scheme which had been estimated to have cost £200 million because of the inflated contracts. The project as a whole eventually cost £3.5 billion¹⁰.

Bribery

- 4.3 Another common form of corruption in the bidding process is bribery by firms to win construction contracts. In 2016 Sweett Group Plc was fined £2.25 million after it had been found, through a subsidiary company, to have made corrupt payments to secure a contract to build a hotel in Abu Dhabi⁸.

7 [Gov.uk \(2009\) Construction industry in England: bid-rigging.](#)

8 [Serious Fraud Office \(2016\) Sweett Group PLC sentenced and ordered to pay £2.25 million after Bribery Act conviction.](#)

9 [Transport Network \(2017\) Rail firm employees jailed after 'complex and prolonged' £5m fraud.](#)

10 [Chartered Institute of Building \(2013\) A report exploring corruption in the UK construction industry.](#)

Corruption in the construction phase

4.6 As was noted earlier in the report, building sites in most jurisdictions are subject to extensive regulation and oversight by public officials as well as clients. The work of these 'regulators' could expose poor work or potentially slow down the

project. Therefore, there is also a risk that these persons could be subjected to corrupt influences not to undertake their roles diligently. For example, there have been many scandals in New York in the past concerning such corrupt officials¹¹.

Invoice related fraud

False invoices

4.7 The complexity of many construction projects makes for large numbers of invoices from a multiplicity of suppliers. These provide for multiple opportunities for fraud to occur. Those responsible for setting up and paying suppliers have opportunities, if controls are weak, to commit fraud by submitting false invoices. In one such case, a contracts manager for a local authority in the UK conspired with existing building contractors to submit invoices for false work for over £1 million from which he was able to syphon off money to a subsidiary company he had set up¹².

Overcharging

- 4.8 Overcharging in some projects can be substantial. In 2016 in Spain, 14 people were arrested on suspicion of fraud involving the construction of the high-speed rail route between Madrid and Barcelona, with allegations that the state had been overcharged by €82 million¹³.
- 4.9 On a smaller scale, an investigation into three construction projects commissioned by Stoke-on-Trent City Council found 'on the balance of probabilities' evidence of significant fraud. This included falsification of procurement documents to simply increase the cost, invoicing for work three months before it was complete, and the submission of an invoice for work from another project wrongly charged to the council¹⁴.

¹¹ New York Organised Crime Task Force (1989) Corruption and Racketeering in the New York Construction Industry.

¹² Lancashire Telegraph (2017) Lancashire County Council con artist told to pay back a sixth of the £1m stolen.

¹³ Reuters (2016) Spain arrests 14 suspected of fraud at high speed rail project.

¹⁴ BBC News (2013) 'Fraud probable' at Stoke-on-Trent City Council, report finds.

4.10 Sometimes the inflating of invoices occurs to cover the costs of bribery. For example, in one case from the US involving Bloomberg LLP and tens of millions of dollars, it was alleged a corrupt employee conspired with the main contractor and sub-contractor to secure bribes which were paid for by the 'padding' of the main bill¹⁵.

4.11 Another means for fraud to occur in construction is billing for inadequate work or the use of lower quality materials, products or designs which are cheaper than those that were specified in the contract. In one case from the USA a supplier for the construction of the Dulles Metrorail Project settled a civil law suit for \$1 million after it was found staff had falsified test results on the quality of the concrete panels that had been installed¹⁶.

4.12 In another case in Hong Kong, relating to a HK\$97.1 billion rail expansion project, an approved design was signed off by inspectors as having been completed, which involved 23,500 couplers. It was subsequently discovered that there were 2,000 fewer couplers and the walls had been shortened, with the company citing 'difficulty in construction' for the change¹⁷.

4.13 Another way in which fraud can occur is by adding 'ghost employees' to the payroll. This can vary from outright criminal fraud to behaviours that are probably unethical, certainly wasteful and mismanagement, but not necessarily meeting the standards of either civil or criminal fraud. In one example of the former, a construction manager for Balfour Beatty was convicted of a £165,000 fraud after adding two bogus workers to the payroll with the wages paid directly in to the fraudster's account¹⁸.



¹⁵ [Mailonline \(2018\) 'More than a dozen ex-executives at Bloomberg and construction firms to be arrested in bribery scheme which overbilled the company by tens of millions of dollars'](#).

¹⁶ [ENR \(2018\) Ex-Employee Pleads Guilty in Dulles Rail Concrete Fraud Case.](#)

¹⁷ [South China Morning Post \(2018\) Stamp out 'organised fraud' in MTR rail projects, lawmaker demands amid HK\\$97.1 billion link scandal.](#)

¹⁸ [Gainsborough Standard \(2012\) Construction manager jailed after wages scam.](#)

4. Types of fraud and corruption in the construction sector

4.14 An example of a more opaque case, is the extension of the New York subway under Grand Central Terminal where 900 employees were on the payroll, but an accountant could only identify 700 jobs that needed to be done and these employees were being paid \$1,000 a day. This, among other factors, led to one of the most expensive rail projects in New York's history at a cost of \$3.5 billion per mile, when compared to other extensions in the city, which averaged \$2.5 billion (Second Avenue) and \$1.5 billion (Hudson Yards). It also compares to an average for other projects in the US and other countries of \$500 million per mile¹⁹.

Theft of assets

4.15 Crime in construction can also involve simple theft. The purchase of large numbers of items such as bricks, timber, pipes, wiring etc can be tempting for some corrupt employees to steal to sell or use in other projects that they are being paid for. Such items are also, along with plant equipment, the target of external criminals too. In one report on the UK, construction sector site thefts were estimated to cost £800 million per year²⁰.

Unqualified employees

4.16 The construction industry is full of trades where specialist qualifications are required, from electricians, plumbers, and engineers to surveyors, just to name a few. Some frauds occur when people either apply on their own initiative, fabricating qualifications or contractors facilitate the use of unqualified staff. In an example of the latter, in the rebuilding of the World Trade Centre, New York, a trio of contractors were found to have paid bribes to officials to enable contracts to be secured where family and friends were employed as electricians without formal qualifications. They had collected over \$1 million in wages and benefits before being discovered²¹.

Illegal employees

4.17 Labour costs are high in many construction projects and for the unscrupulous, the use of cheaper illegal immigrants is an option. In one case in 2020, an employer working on the construction of the Midland Metropolitan Hospital was jailed after a raid by Immigration Enforcement Officers found 38 illegal workers working on the project, all from India²².

¹⁹ [New York Times \(2017\) The Most Expensive Mile of Subway Track on Earth.](#)

²⁰ [Logic Fire and Security \(2017\) UK Construction Site Theft Costs £800 Million a Year.](#)

²¹ [Real Estate Weekly \(2019\) Corrupt contractors hired pals to rebuild WTC.](#)

²² [Express and Star \(2020\) Construction boss jailed after illegal migrants found working on Midland Metropolitan Hospital.](#)

Abuse of compensation funds

4.18 Some construction projects involve the provision of compensation for the compulsory purchase of land and/or reduced value of property. In China there has been evidence of fraud in the funds used for compensation and there has also been evidence of problems in a rail project in Kenya²⁴. In the HS2 project there have already been allegations – so far unproven – of homeowners and businesses being ‘swindled out of large sums of money’ by being forced to sell up for low prices²⁵.

Extortion and racketeering

4.19 In some countries organised crime groups are significant and construction is often a sector targeted by such groups. With the imperative for projects to proceed and the multiple opportunities to slow them down, the threat of organised crime intervening to slow down progress provides pressure to pay the criminals²⁶.



4.20 China has rapidly expanded its high speed rail network and in doing so has experienced a wide range of fraud and corruption highlighted in the following case study.

²⁵ [Mailonline \(2018\) Serious Fraud Office probes HS2 contracts: Troubled rail scheme in new crisis over whistleblower's 'lethal' dossier.](#)

²⁶ [New York Organised Crime Task Force \(1989\) Corruption and Racketeering in the New York Construction Industry.](#)

Case study

China's construction of railways

China has created the largest high-speed rail network in the world at over 29,000 km, largely built (or being built) over the last two decades. In 2018 alone it spent over \$116.8 billion on such projects²⁷. With such large sums of money and the structures and culture of construction, there have been numerous examples of fraud and corruption.

In one of the largest bribery scandals relating to railways, the former Minister of Railways in China, Liu Zhijun, who had presided over the massive expansion of high speed rail, was convicted of accepting £6 million in bribes²⁸.

In 2011 investigators found a misappropriation of \$30 million of funds in the construction of the Beijing-Shanghai high-speed railway in just a three month period. According to the report, "...numerous cases of flawed procurement procedures, overcharging, unexplained costs and fake receipts related to the project" were identified²⁹.

In 2012, the Chinese National Audit Office found further evidence of fraud in the Beijing-Shanghai high-speed railway. Monies set aside for compensation were abused, with false documents used to secure it and over 196 billion yuan spent on expropriation when the budget was 163.8 billion yuan. It also found over 834 million yuan (\$134 million) of purchases not undertaken through the appropriate procedures³⁰.



²⁷ [China Daily \(2019\) Investment in high-speed rail continues.](#)

²⁸ [The Guardian \(2013\) Liu Zhijun, China's ex-railway minister, sentenced to death for corruption.](#)

²⁹ [CNBC \(2011\) Corruption Hits China's High-Speed Railway.](#)

³⁰ [China Daily \(2012\) Audit shows fraud on high-speed rail project.](#)

In 2013, eight people employed at a state-owned rail construction firm were punished by the Communist Party after it was found they had spent over \$100 million on hospitality with auditors finding problems with invoices and accounts for the expenditure³¹. For example, the China Railway Corporation punished a number of subsidiary companies following an inspection of the Shanghai-Kunming route of the high speed network, which had shown shoddy work and fraudulent practices including: not following designs, poor supervision of projects and poor workmanship³².

The World Bank has debarred several Chinese railway construction companies for fraud and corruption in construction projects.

In 2019, China Railway Construction Ltd was debarred for nine months for misconduct in the East-West Highway Corridor Improvement Project in Georgia after it was found to have submitted misrepresented information which was considered a fraudulent practice under the World Bank Procurement Guidelines³³.

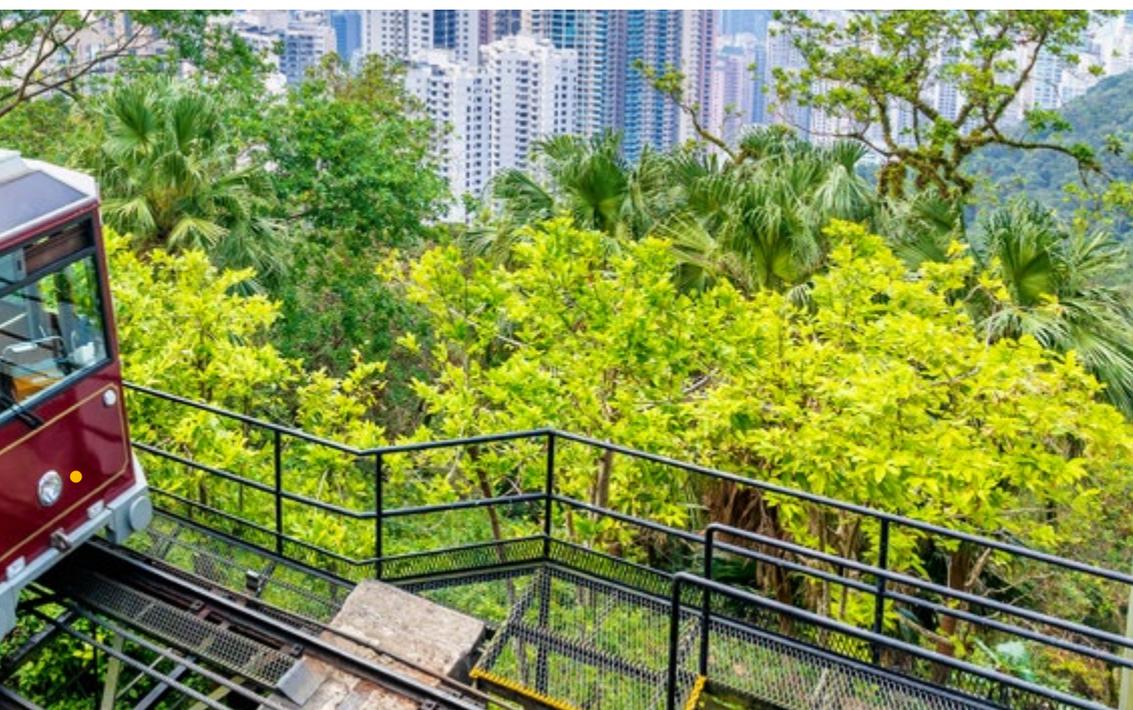
Also, in 2019 China Railway First Group was debarred following evidence of fraudulent practices in connection with the Dasu Hydropower Stage I Project in Pakistan³⁴.

³¹ [Reuters \(2013\) China punishes eight in railway corruption case.](#)

³² [Global Construction Review \(2017\) Probe reveals cost-cutting, jerry building and fraud on Shanghai high-speed rail line.](#)

³³ [World Bank \(2019a\) World Bank Group Debars China Railway Construction Corporation Ltd. and two subsidiaries.](#)

³⁴ [World Bank \(2019b\) World Bank Group Debars China Railway First Group Co. Ltd.](#)



5 The potential cost of fraud and corruption in the construction sector

5.1 It is often assumed that certain acts, such as corruption, are hard to quantify financially, compared to fraud. However, in many cases, corruption is ultimately paid for by fraud. For example, the bribe to an official to secure a contract or to 'turn a blind eye' to a regulatory transgression will ultimately find its way on to an invoice hidden

as some form of other cost. Certain corruption, however, is very hard to measure. For example collusion between bidders to inflate contract prices will lead to a higher priced contract, which unless collusion can be proved, will be very hard to detect and therefore measure the cost of.

Figure 2. Fraud as the culmination of crime, waste and error



5.2 This does not make the estimation of fraud in construction projects any easier. History provides some very useful examples of the costs of fraud and corruption. For example, in New York in 1858, \$250,000 was allocated for the construction of a Courthouse. Four years into the project a William Tweed seized control of the project and 10 years later it was completed at a cost of \$13 million, with \$9 million siphoned off by Tweed and his associates — a 52 fold increase in price and at least a 70% fraud and corruption cost³⁵.

5.3 Table 1 shows more recent examples of varying quality, of the estimates of fraud/ corruption costs. The quality of the estimate is judged by the methodology used and the extent to which it could be applied to the wider sector.

- 35 New York Organised Crime Task Force, 1989, p85
- 36 de Jong, M., Henry, W. P., & Stansbury, N. (2009). Eliminating corruption in our engineering/ construction industry. *Leadership and Management in Engineering*, 9(3), 105-111
- 37 Sohail, M., & Cavill, S. (2008). Accountability to prevent corruption in construction projects. *Journal of Construction Engineering and management*, 134(9), 729-738
- 38 [World Economic Forum \(2016\) This is why construction is so corrupt.](#)
- 39 From University of Portsmouth / Crowe UK loss measurement exercise
- 40 [Evening Standard \(2005\) A £260m Jubilee line farce.](#)
- 41 [PWC/ECORYS \(2013\) Identifying and Reducing Corruption in Public Procurement in the EU.](#)

Table 1: Estimates of costs of fraud and corruption in construction

Author	Estimate	Quality of Estimate
de Jong et al (2009) ³⁵ . Based upon industry estimates globally.	10%	Low
Sohail and Cavill (2008) ³⁷ . Based upon estimates from American Society of Civil Engineers globally.	10.6%	Low
World Economic Forum (2016) ³⁸ . Based upon industry estimates globally.	10%-30%	Low
Grant Thornton (2013) Based upon industry report in the UK.	10%	Low
Procurement fraud loss measurement exercise (fraud and error) ³⁹ .	7.8%	Medium
London Underground Jubilee Extension. One corrupt scheme estimated to have cost £200 million because of the inflated contracts that were eventually awarded on the £3.5 billion project ⁴⁰ . (Evening Standard, 2005)	5.7%	Medium
PWC/ECORYS ⁴¹ . Based upon detailed investigation of costs of corruption in public procurement in 8 member states.	1.9% - 2.9%	High

5. The potential cost of fraud and corruption in the construction sector

The percentage estimate of fraud and corruption in construction

5.4 Based upon the above table, fraud and corruption in construction is likely to be at a low end of 1.9%, through to 10% (although some estimates were even higher). If we use these two extremes and a mid-point of 5.95% we can use this figure to estimate what the costs of fraud and corruption could be.

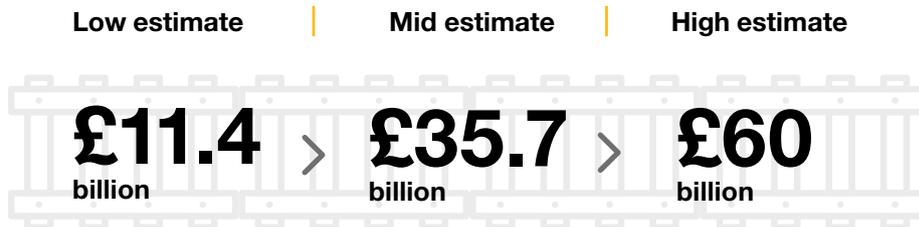
Potential losses when using HS2 as an example

5.5 The escalating costs of HS2 have been well documented in the media. Approval for the scheme to go ahead has been given on the basis it could cost between £72 billion and £110 billion. On that basis, in this project alone, fraud and corruption could be, using the lower estimate of total costs of £72 billion, and applying the above percentages:



Potential losses on future UK government projects

5.6 Over the next five years the government plans to spend a total of £600 billion on infrastructure projects involving roads, rail, broadband and housing⁴². Again applying the low, mid-point and high rates to these figures would produce losses over five years of:



5.7 To put these in context, social security fraud is seen as a major problem by the government with several thousand staff dedicated to the fight against it. According to recent estimates, which are largely built upon high quality data, in 2018-19 it was £2.3 billion⁴³.

⁴² BBC News (2020b) Summary of Budget 2020: Key points at-a-glance.

⁴³ DWP (2019) Fraud and Error in the Benefit System.



6 Options for the combatting of fraud and corruption in the construction sector

6.1 This next section briefly sets out and assesses some of the options that could be considered to combat the problem of fraud and corruption in construction procurement.

These options relate to:

- law enforcement
- internal management of public spending
- external oversight.

Law enforcement

6.2 The most obvious assumption some might make would be to invest in greater police resources to investigate and prosecute perpetrators of fraud and corruption in this sector. After all, the UK adopted the Bribery Act 2010 that has been increasingly enforced. Moreover, the UK has adopted a set of EU Public Procurement Directives that include additional assurance against fraud and corruption.

6.3 However, looking at the issue of corruption and fraud purely from the perspective of enforcement would be a flawed response. Corruption related investigations are very time consuming, costly and prone to failure. For example, the investigation into the London Underground Jubilee Line extension by the Serious Fraud Office, which largely failed (one person pleaded guilty) cost an estimated £60 million to pursue⁴⁴.

⁴⁴ [Evening Standard \(2005\) A £260m Jubilee line farce.](#)

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- 6.4 Furthermore, fraud and corruption can only be investigated where it is detected or suspected and detection rates, especially in respect of high volume, low value fraud, are very low.
 - 6.5 The pursuit of criminal prosecution by the police or Serious Fraud Office should therefore not be the centre of a strategy to combat fraud and corruption, although clearly it should be a part. Neither do other justice mechanisms seem to be very effective. For example, remedies for public procurement and the public procurement regulation are very narrow in their scope. They are predominantly focused on the actual procurement cycle. The problem is that corruption and fraud often takes part outside of this cycle, before the actual bidding process and during the delivery stage of the project.
 - 6.6 This is the reason that we have to go beyond the law enforcement perspective and focus on internal management and external assurance that public money is well spent.



Internal Management of Public Spending

- 6.7 The complexity of construction projects and their large scale require effective management of public resources. This management is characterised by significant discretion of those in charge of public spending. On the one hand, complex projects require managerial discretion and should allow for a flexible decision-making process. On the other hand, the control and accountability of those that spend public money is critical.
- 6.8 To ensure effective public spending, academics and policy-makers across the world have discussed appropriate procurement measures. These measures are both general and corruption specific.
- 6.9 Consider, for example, a public procurement report of the European Court Auditors (2016) indicates that while EU institutions manage to keep the number of errors and fraud low, they need to do more to encourage the participation of the private sector. More participation also means more competition and better offers from the private sector. A more competitive market might be also associated with lower levels of corruption.
- One such measure can be a preliminary market consultation, which can increase the accessibility of procurement for small and medium sized enterprises⁴⁵.
- 6.10 While some of these measures are not corruption-specific, they cover many corruption and fraud-related grey zones discussed in previous sections of this report. For example, an obligation for the EU Member States to ensure the protection of whistleblowers of corruption, fraud, and other crimes is relatively new and has its value beyond public procurement. Similarly, large construction companies need to have a whistleblowing policy and effective measures to protect whistleblowers. Inspired by the US whistleblowing laws, the discussion in the UK and in other European countries has been whether whistleblowers should, or should not, be rewarded. This is a necessary discussion, considering the fact that hundreds of non-US citizens have been rewarded for tips provided to the US authorities.

⁴⁵ European Court of Auditors (2016) The EU institutions can do more to facilitate access to their public procurement. Special Report 17/2016.

External Oversight: The US Integrity Monitor model

6.11 One of the most attractive options is the US Integrity Monitor model, whose antecedents can be traced to the US Inspector General Act of 1978, which provided a framework for integrity monitoring. The potential of the role, however, was boosted by the New York Organised Crime Task Force, which published an extensive report in 1989 concerning the endemic fraud and corruption in the New York construction industry. This report exposed the nature and extent of the problem in the sector, but most significantly set out a model for the prevention of this problem. Many tools were advocated, but the most important was advocating Certified Investigative Auditing Firms (CIAF).

The report noted these would:

“be independent firms, licensed by DOI (New York City Department of Investigations), with the investigative, auditing, loss prevention, engineering and other skills necessary to oversee on-site construction activity and record-keeping practices. The principal contractor on public works projects in excess of \$5 million would be required to employ a CIAF, with a minimum of two percent of the project cost dedicated to funding the CIAFs’ operations. The use of CIAFs should produce savings sufficient to justify their cost.”⁴⁶

46 New York Organised Crime Task Force, 1989, p139



6.12 The report went on to argue the imperative of cleaning up the sector meant that:

“even if the legitimate savings were less than two percent of the project price, the social benefit derived from the reduction of corruption and racketeering would justify the expenditure (Ibid).”

6.13 The role has developed over the years into ‘Integrity Monitors’, the ‘Independent Private Sector Inspector General’ (IPSIG) and ‘compliance’ concepts to name some. It has also been used in areas beyond construction, particularly in relation to deferred prosecution agreements⁴⁷.

6.14 In construction projects these ‘Integrity Monitors’ have evolved – the procuring public authority sets aside a percentage of the funds for the contract for the ‘Integrity Monitor’ and a contractor is then hired through a procurement process. The ‘Integrity Monitor’ will consist of a team with relevant expertise, such as accounting, auditing, investigation, engineering etc. They will begin their work with the procurement process, to ensure it is a fair and transparent process; through the construction phase to the end of the project.

They are based upon site and share information with one another. Investigators might be on site looking for evidence of corruption and other transgressions (such as being drunk, stealing materials etc). Engineers will be checking the work is completed as specified with the appropriate materials. Auditors/ accountants will be checking the invoices reflect works done or products supplied.

6.15 This is a model the government in the UK could consider adopting. It is also important to emphasise that ‘Integrity Monitoring’ goes well beyond a traditional external audit, as some might think all that is required to protect public money is stronger audit. Indeed as was revealed by the Chief Executive of Grant Thornton to a House of Commons Committee exploring the role of external audit in combatting fraud:

“We are not looking for fraud and we are not looking at the future and we are not giving a statement that the accounts are correct. We are saying they are reasonable, we are looking at the past, and we are not set up to look for fraud.”⁴⁸

47 Cohn Reznick (2014) Integrity Monitors: A Strategy for Preventing, Detecting and Remediating Fraud, Waste and Abuse.

48 Accounting Web (2019) Grant Thornton chief: Auditors aren't 'looking for fraud'.



7 Conclusion and recommendation

- 7.1 The construction sector is prone to fraud and corruption compared to many other sectors. There are both structural and cultural reasons for this and a wide range of common types of fraud and corruption that occur have been illustrated in this report.
- 7.2 The government's commitment to an increasing number of major construction projects is very much to be welcomed, but these projects come with significant risks of fraud and corruption. Scarce public resources should not be put at undue risk and if the cost of fraud and corruption can be reduced then those resources can be devoted to other important purposes.
- 7.3 There is much to learn from other countries, who have experienced and sought to address much more significant problems in this sector. Law enforcement does not provide the solution alone. The US experience of Integrity Monitors provides for a very interesting option to reduce fraud and waste. The government should therefore actively consider exploring the option of setting aside a minimum percentage of a budget of a project for such a function to be created. This would be likely not only to reduce the extent of fraud and corruption, but also reduce waste and the likelihood of unreasonable escalating costs.





8 About the authors



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Jim is a Partner and National Head of Forensic Services at Crowe UK. He is also Visiting Professor at the University of Portsmouth and Chair of the Centre for Counter Fraud Studies (Europe's leading centre for research into fraud and related issues) and Chair of the UK Fraud Costs Measurement Committee (a cross-sector body) which, each year, develops and publishes the UK Annual Fraud Indicator.

During more than 25 years as a forensic specialist, Jim has advised Ministers, Parliamentary Select Committees and the Attorney-General, as well as national and multi-national companies, major public sector organisations and some of the most prominent charities. To date he has worked with clients from 41 countries.

Jim specialises in helping organisations to reduce the cost and incidence of fraud through strengthening the resilience to fraud of relevant processes and systems.



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Mark is Director of the Centre for Counter Fraud Studies at the Institute of Criminal Justice Studies, University of Portsmouth. Mark has written extensively on counter fraud and private policing issues, publishing many articles, chapters and completing eight books with one forthcoming.

Some of Mark's most significant research projects include leading the research on behalf of the National Fraud Authority and ACPO on fraud victims, the Nuffield Foundation on alternatives to criminal prosecution, the Department for International Development on fraud measurement, Acromas (AA and Saga) on 'Cash-for-Crash fraudsters', the Midlands Fraud Forum and Eversheds on 'Sanctioning Fraudsters'.

Mark has also acted as a consultant for the United Nations Office on Drugs and Crime and on Civilian Private Security Services. He also holds the position of Head of Secretariat of the Counter Fraud Professional Accreditation Board. Mark is a former director of the Security Institute. Before joining the University of Portsmouth he was a Research Assistant to the Rt. Hon. Bruce George MP specialising in policing, security and home affairs issues. Mark completed his undergraduate studies at the University of Exeter, his Masters at the University of Warwick and his Doctorate at the London School of Economics.



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Branislav has been involved in a broad range of research activities, many have been related to Transnational Economic Crime, Anti-Corruption, and Compliance. Branislav is the founding member of the European Compliance Center. He also worked for a law firm where he was advising on various compliance issues. Prior to joining Portsmouth Branislav worked as a researcher at the Tilburg Law and Economics Center (TILEC), where he completed a PhD in anti-corruption law. Branislav was also involved in various other projects: for example, he worked in the Private Office of the Dutch Member of the European Court of Auditors on a performance audit measuring the effectiveness of public procurement of European Union Institutions.



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Formerly a senior researcher at the University of Portsmouth, David is now a senior lecturer in the School of Criminology and Criminal Justice Studies at Portsmouth, focusing on economic crime.

David has worked extensively with Professor Button researching measurement methods and the extent of fraud in the UK, organisational resilience and ethical climates, and access to justice for victims. David was educated at Portsmouth, obtaining both his first degree (BSc) and PhD.

8 Crowe's Forensic Services and the Centre for Counter Fraud Studies



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The Centre for Counter Fraud Studies, University of Portsmouth

The Centre for Counter Fraud Studies (CCFS) is one of the specialist research centres of the Institute of Criminal Justice Studies, formed in 2009 to accommodate the growing interest in counter fraud that has occurred within the Institute over the last 10 years.

The Centre aims to collate and present the widest possible range of information regarding fraud and the solutions applied to it, and to undertake and publish further research where needed. Additionally, the Centre's Fraud and Corruption Hub gathers the latest thinking, publications, news and research in one central resource for counter fraud professionals.



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Start the conversation

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