FRAUD: A TAX THAT UK CITIZENS CAN'T AFFORD

Government organisations are losing hundreds of millions to fraudsters every year. AI and data analytics can help prevent fraud, protect public services, maintain trust, and ensure taxpayers get value for money.

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WHY FRAUD MATTERS

Statistics for the UK

As our society becomes more digital, new types of fraud are constantly emerging. For example, current trends show a 42% year-on-year increase in digital and mobile transactions; at the same time, there has been a 48% increase in fraud attacks on mobile devices.[1]

Similarly, as the adoption of online services has increased, **UK government figures show a 32% rise in identity fraud**.[2] And according to government estimates, fraud costs the public sector up to £53 billion per year.[3]

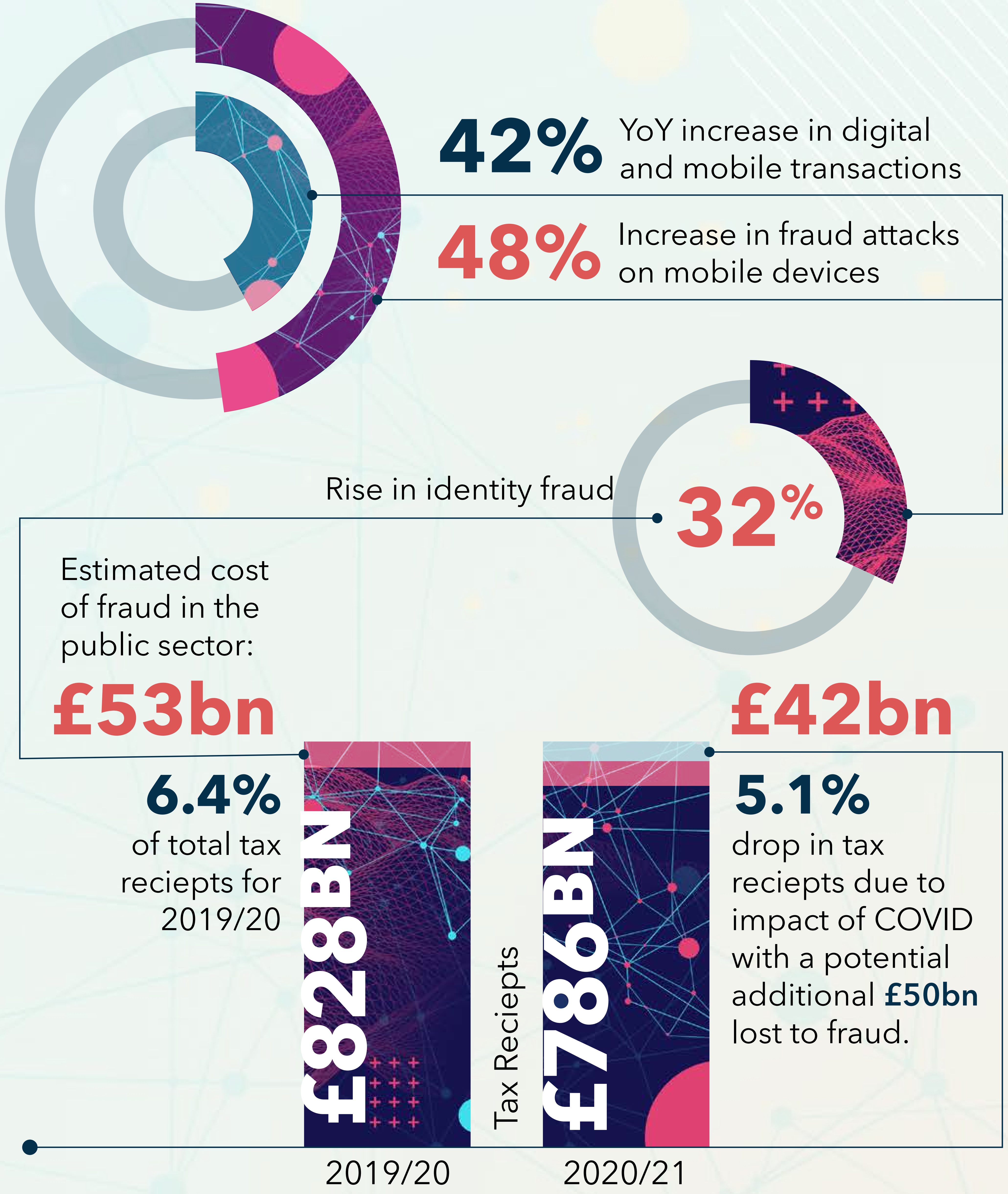
When you work in government, big numbers are everywhere and it's easy to become blasé. But £53 billion is a vast sum. According to a recent House of Commons Research Briefing, the government's total receipts for 2019/20 were £828 billion, which puts the percentage of public money lost to fraud at 6.4%.[4]

That's especially troubling when you consider that **the Office for Budget Responsibility forecasts that tax receipts for 2020/21 could fall by 5.1% (£41.8 billion) due to the impact of the COVID pandemic**.[5] That will put even greater pressure on frontline services such as the NHS, the emergency services, and social care.

More than **30 million taxpayers** fund these services, and more than **66 million people** depend on them. If government departments are struggling to find the budget to maintain service delivery, it is even more important not to allow hard-earned public money to slip into fraudsters' hands.

Fortunately, while fraud may be widespread, it is not inevitable. Given the right technologies, it's almost always possible to detect fraudulent activity. And once you can detect it, you can find ways to prevent it.

In this eBook, we'll show you how.



42% YoY increase in digital and mobile transactions

48% Increase in fraud attacks on mobile devices

Rise in identity fraud **32%**

Estimated cost of fraud in the public sector: **£53bn**

£42bn

6.4% of total tax reciepts for 2019/20

5.1% drop in tax reciepts due to impact of COVID with a potential additional **£50bn** lost to fraud.

[1] "Fraud Trends to Watch in 2021", https://risk.lexisnexis.com/insights-resources/infographic/fraud-trends-to-watch-in-2021
[2] "Trend Deck 2021: Technology", page 4. https://www.gov.uk/government/publications/trend-deck-2021-technology
[3] "Government Functional Standard GovS 013: Counter Fraud", page 4. https://www.gov.uk/government/publications/government-functional-standard-govs-013-counter-fraud
[4] "Tax statistics: an overview", House of Commons Library. https://commonslibrary.parliament.uk/research-briefings/cbp-8513/
[5] "Economic and fiscal outlook, March 2021", Office for Budget Responsibility, page 96. https://obr.uk/efo/economic-and-fiscal-outlook-march-2021/

Key Focus Areas for Fraud in Government

TARGETING VULNERABILITIES

The work of government often involves complex projects with large budgets, which are commissioned at short notice and must be delivered within tight timelines. Significant responsibility is delegated to key employees, often with limited oversight.

These factors combine to create vulnerabilities that both organised and opportunistic criminals can exploit, and make government a tempting target for fraudsters.

Fraud often originates externally, when cybercriminals hack into networks, suppliers exploit weaknesses in financial controls, or companies and citizens make fraudulent tax returns or benefit claims.

But governments must also guard against insider threats, where government employees abuse their position to misappropriate funds or collude with external agents to subvert government activities for their own gain. According to the ACFE, 84% of occupational fraud cases in government involve asset misappropriation, 51% involve corruption, and 7% involve financial statement fraud.[6]

PROCUREMENT

Governments spend billions each year, especially in areas such as payroll, defence, transport, and public infrastructure. With thousands of employees and suppliers to manage and millions of payments to process, it is easy for fraudulent invoices and other irregularities to slip through the system unchallenged.

TAX

There is a thin line between legitimate tax avoidance and illegal tax evasion, which makes tax fraud a particularly complex problem. With limited investigation resources available, it's vital to prioritise cases where government can recoup significant amounts of tax from the most serious offenders.

SOCIAL BENEFITS

In addition to long-standing concerns about fraudulent claims for healthcare, unemployment and other benefits, the government sector has spent billions on COVID relief schemes. In many cases, businesses have defrauded these schemes—for example, by claiming furlough payments for employees who continued to work through lockdowns. Fraud is also likely to limit the repayment of COVID loans, which could have a significant impact on public finances.

ORGANISED CRIME

While many frauds are opportunistic and committed by individuals working alone, recent trends indicate a growing proportion of larger scale, much more complex frauds perpetrated by international criminal networks. Agencies tasked with combatting serious and organised crime must work together with other government departments to detect and investigate such cases.

[6] Report to the Nations: 2020 Global Study on Occupational Fraud and Abuse, Government Edition", page 5. https://www.acfe.com/report-to-the-nations/2020/docs/RTTN-Government.pdf

A PROBLEM WORTH SOLVING

The financial cost of fraud alone should be sufficient motivation for governments to reconsider whether their current counter-fraud strategy is fit for purpose. With annual losses in the billions or tens of billions, governments cannot afford to let the current state of affairs continue, particularly as they must now work together to rebuild the global economy post-pandemic.

Yet fraud has more than just financial implications. Public trust in the value and honesty of government can be irreparably damaged if taxpayers come to believe that their money is being wasted, stolen, or misused through fraud, bribery or corruption.

Then there's the increasing involvement of organised crime in fraud, which is connected to international money laundering, the drug trade, and human trafficking. By allowing fraud to continue, governments are inadvertently bankrolling the very same criminal organisations that their law enforcement agencies are trying to dismantle.

Investing in counter-fraud technologies can help to address other types of financial mismanagement too. By detecting anomalies in payments and process flows throughout government, these tools can also highlight errors, waste and non-compliant processes, enabling departments and agencies to optimise spend and make better use of taxpayers' money. Furthermore, these solutions put governments in a stronger reputational position, by demonstrating a commitment to fairness and equity.

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KEY ALLIES IN THE FIGHT AGAINST FRAUD

DIGITAL

As government becomes more digital, fraudsters are moving online too. Converting paper-based, face-to-face processes into digital experiences is a complex task, and cybersecurity is difficult to get right. Departments involved in digital transformation initiatives must be careful to build appropriate countermeasures into their new systems to combat identity fraud and other types of cybercrime.

HEALTH AND SOCIAL CARE

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LAW ENFORCEMENT AND JUSTICE

Law enforcement and justice ministries are actively involved in the development of counter-fraud measures and security intelligence, as well as running large-scale investigations and prosecutions of fraudsters and organized criminal networks.

DEFENCE

The armed forces of all nations rely on high-tech equipment and materiel, which must be sourced through contracts managed by defence ministries. As with health and social care, the sums of money involved are large, so fraudsters are always looking for vulnerabilities in defence procurement processes.

EMPLOYMENT AND BUSINESS

In addition to long-standing concerns about fraudulent claims for healthcare, unemployment and other benefits, the government sector has spent billions on COVID relief schemes. In many cases, businesses have defrauded these schemes—for example, by claiming furlough payments for employees who continued to work through lockdowns. Fraud is also likely to limit the repayment of COVID loans, which could have a significant impact on public finances.

FINANCE AND TAX

Government departments and ministries responsible for financial management, public sector budgets and tax collection have a central role to play in fraud detection and prevention by setting regulations, standards and best practices, as well as allocating appropriate funding for counter-fraud efforts.

BUILDING A CASE FOR CHANGE

Traditional fraud detection and investigation methods are reactive. They don't come into action until a fraud has already been committed, and they depend heavily on the expertise of forensic accountants, fraud analysts, and investigators. These human-intensive processes cannot easily scale to analyse the millions of transactions that large government departments and agencies process every year.

Instead, governments must adopt a smarter approach, applying artificial intelligence and machine learning (AI/ML) to their data. Building models that can identify patterns and spot anomalies will enable government organisations to detect both individual fraud cases and systemic vulnerabilities in their processes—from duplicate invoices and mismatched purchase orders to sophisticated frauds backed by organised crime networks.

Today, governments typically rely on teams within each department or ministry developing models independently for their individual use cases. However, a smarter approach is to establish a central fraud analysis and investigation platform that integrates with finance and procurement systems and online services across the whole organisation.

This not only helps to set a common standard for counter-fraud activities—it also enables investigators to join the dots between seemingly unrelated pieces of information, which can help to uncover larger and more sophisticated fraud networks.

> As a former police commissioner, I can testify that fraud is a global problem. A smarter approach to fraud detection and prevention is the best option to stop public money from slipping through governments' fingers, and bring fraudsters to justice.

STEPHANE GODDÉ
Head of EMEA Fraud & Security Intelligence in Government, SAS

WHAT TO LOOK FOR IN A SOLUTION

Many of the fraud detection solutions available on the market focus on addressing basic requirements, such as:

- Identifying suspicious behaviour that may indicate fraud, error, or abuse
- Automating the detection of high risk transactions and anomalies
- Providing a complete record of financial activities and transactions
- Accelerating deployment with a suite of pre-built detection algorithms
- Integrating natively with existing financial and operational systems

These capabilities can be useful in detecting simple fraudulent activity, but may not be enough to protect government organisations from today's increasingly sophisticated fraud networks.

SAS takes fraud analytics to the next level, helping you:

- Analyse aggregated patterns of behavior, rather than just isolated events and anomalies
- Detect evidence of collusion between government employees, suppliers and citizens
- Connect siloed data sources to provide a single view of key entities such as departments, companies, people, accounts and addresses
- Streamline workflows with an integrated case management and investigation environment
- Facilitate ad-hoc search and discovery across key datasets
- Configure specific data models to support any aspect of counterfraud activities

TACKLING FRAUD WITH SAS

TAX AND CUSTOMS BOARD
Eastern Europe

- Boost tax audit success rates: over **80%** of investigations now reveal fraud or errors
- Cut false positives by more than **50%**, avoiding audits of law-abiding taxpayers
- Identify new fraud types more quickly, enabling a faster response to close loopholes

MINISTRY OF FINANCE
Europe

- Automatically identify anomalies in accounts filed by companies
- Alert audit officials when investigations are necessary
- Detect 130% more fraud than traditional random checkss

SECURITIES & EXCHANGE BOARD
South Asia

- Mitigate risk in capital markets with high-performance analytics
- Enable real-time fraud detection for more than 200 million transactions per day
- Streamline the adjudication of fraud cases and increase conviction rates

DEPT. OF HEALTH & FAMILY
United States

- Identify Medicaid overpayments and prevent further improper payments
- Spot insider collusion and uncover fraudulent providers and criminal networks
- Save $220 million through fraud preventions

DEPT OF SOCIAL SECURITY,
Europe

- Detect fraud and irregularities across numerous internal institutions
- Identify 16,000 companies and 118,000 workers with irregularities
- Increase effective inspection by 50% using AI models

DANISH FISHERIES AGENCY
Denmark

- Automate eligibility assessments for claimants of EU fishing subsidies
- Investigation on ownership structures reduced from up to 5 hours to 2 minutes
- Significant reduction of workload on required continuous monitoring over five years

WHAT CAN SAS DO FOR YOU?

According to analysts such as Chartis, IDC and Aite Group, SAS is a category leader in counter-fraud solutions.7 By working with SAS, government organisations are able to detect, prevent and manage fraud enterprise-wide and in real time, from a single central platform.

SAS solutions give fraud analysts and investigators the insight they need to detect anomalies, recognise patterns, and make connections between entities to map out complex networks of collusion.

Using predictive analytics techniques based on state-of-the-art machine learning algorithms, the solution can detect almost any type of fraud, from individual, opportunistic attempts to large-scale operations directed by organised crime.

Whether your chief concern is the integrity of your procurement processes, the evaluation of benefits claimants, or the best way to investigate tax evasion, SAS can help your analysts build the right models to assess each case quickly and accurately, and alert your investigators immediately when further action is needed.

In partnership with SAS, governments can ensure that a much larger percentage of taxpayers' hard-earned money can be spent on public services that enrich the community, rather than lining fraudsters' pockets.

Learn more about how SAS is working with Government search SAS UK Gov or visit **sas.com/uk/gov**

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