Government
Counter Fraud
Function

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MINISTER OF STATE LORD AGNEW OF OULTON
COVID-19 FRAUD UPDATE

Issue

1.   This submission provides an update on the fraud threats identified during COVID-19, and some specific details on the six areas we have assessed as being the highest risk. These are included in **Annex A**. In addition we have also provided a more detailed briefing relating to a particular fraud typology in the BEIS Business Support Grants that was previously raised in your meeting with Lyn Mcdonald on 8/6/20. I&S are included as **Annex B**.

2.   We have included additional details (following our earlier briefings to you in April and May) of what those in the COVID-19 Fraud Response team (part of the Government Counter Fraud Function) are doing to mitigate the risks as far as possible.

3.   This submission does not contain an update on the Ministerial Implementation Group actions (**Annex C**). We will be updating you on this later this week in a separate note.

Recommendation

4.   That you note this briefing and ask for any clarifications or provide any steer as you feel is necessary.

Background - Fraud Against the Public Sector

5.   The role of the Counter Fraud Function is to increasingly understand fraud against the public sector and to develop capability across government to understand, find and, where possible, stop fraud. The Function consists of c.16,000 working across government - mostly in departments and mostly in HMRC and DWP. The Function is coordinated by the Centre of Expertise for Counter Fraud - a small team based in the Cabinet Office.

6.   Within the Function, capability is mixed. There are some areas, like HMRC, who have fraud management running through their organisation and have significant expertise in managing a variety of fraud risks. In other departments, where countering fraud is not a core part of their purpose and they perceive the fraud threat to be low in comparison to other risks, there is little expertise for dealing with fraud, both proactively and when it happens.

7.   The fundamental challenge that public bodies face with fraud is that it is a hidden crime - those committing it actively try to conceal it. In order to find fraud, you have to make an effort to look for it.

8.   Those with a low perceived threat struggle to justify spending resources to look for it in the first place. As such, they struggle to find fraud, and in turn cannot make the case for investing in counter fraud capability. This is compounded by the perception that if fraud is found this is a sign of failure in the system - rather than understanding that finding fraud early shows the system is working.

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9.   The Counter Fraud Centre of Expertise and the Counter Fraud Function work across government to:
    a. Help public bodies accept that fraud will be present in large systems, and that finding it is a success not a failure;
    b. Once fraud is accepted, help them deal with it as a business issue - one that should have standards, capability development and targets.

10.   The Counter Fraud Functional Standard, and Counter Fraud Profession (the first in the world) are our cross system activities to transform the capability of the public sector to deal with fraud. In addition, we undertake data and analytics programmes to use data to find fraud and help public bodies to increasingly do this themselves.

Background - Response to Covid-19

11.   In response to COVID-19, the Centre of Expertise has stood up expert resources (the COVID-19 Counter Fraud Response Team) to support public bodies and the wider function. We have focussed on government stimulus spend packages and other areas of investment and increased demand as part of the COVD-19 response.

12.   We see our role as:
    a. Bringing the Counter Fraud Function together to tackle C-19 fraud threat;
    b. Supporting public bodies to understand the risks of fraud in their spending and bringing this picture together across the system;
    c. Advising public bodies on potential counter measures that could reduce fraud risk, and helping to implement these where there is appetite;
    d. Ensuring the rest of the system understands the remaining high residual risk of fraud, and influencing for their to be activity to find fraud (the Post Event Assurance workstream - which was agreed at the MIG);
    e. Providing ad-hoc support where our expertise can unlock challenges.

13.   We have carried out high level fraud risk assessments of ~120 government stimulus schemes and placed expert resources to provide direct support in 6 departments that we have identified as administering high risk stimulus.

14.   There has been a continued increase in intelligence reporting about fraud in the public sector and particularly in the financial support schemes. We are supporting in some areas (outside of DWP and HMRC) where referrals are starting to enter the investigation stage. Investigations must conclude to confirm fraud, but our current assessment is that the level of fraud in the stimulus schemes will be high.

15.   Where there is a high risk of fraud, we provide advice on potential countermeasures. To date, we have made 73 specific recommendations of countermeasures. We are working with departments to support the adoption of these countermeasures. At present 31% have been accepted of which 6 have been fully implemented (8%). 4 have been fully rejected (5%) with the others still under consideration/development.

16.

I&S

17. Through bringing the Counter Fraud Function together during the C-19 pandemic, we have unlocked police conviction data, and intelligence from a number of sources including from banking. This data is providing insights into risks around companies bidding for government contracts - particularly around PPE and ventilators. This intelligence has led to identification and cancellation of high risk contracts, and prevented new high risk contracts being entered into. Overall, this work has led to a saving of circa **£18m** and is likely to grow further still.

18. As a Function, we do not have controls to mandate that public bodies adopt specific countermeasures - or even undertake the risk assessments. Departments are individually accountable to parliament through their Accounting Officers. We advise and use the expertise from around government to make the best case we can.

Update on Key Areas with high Fraud Risk

19. We have identified the key fraud risk areas are below. The attached slide deck provides additional detail:
    1. Universal Credit (DWP);
    2. Job Retention Scheme (HMRC);
    3. PPE and medical supplies (DHSC, NHS);
    4. Business Support Grants (BEIS);
    5. Bounce Back Loans (BEIS/British Business Bank) and
    6. Test and Trace (NHSX)

20. In areas 1 and 2, the departments have significant counter fraud capability and are taking action to reduce the risk of fraud, and deal with the high residual risk. In both departments this is having an identifiable financial impact. There are still significant challenges, and the scale of the issue is not clear (although DWP have an estimate). Ongoing work planned by both departments will make this more clear - although there may be funding challenges in the future.

21. In the other areas, departmental capability is not as strong. As such, the COVID-19 Counter Fraud Response Team is more actively assisting the departments to implement counter measures and build intelligence flows to identify potential fraud. Again, in these areas the residual risk remains high. We will be working with the departments through the Post Event Assurance activity agreed at the Ministerial Implementation Group to undertake activity to understand the extent of irregularity in the schemes and to find and recover loss where possible.