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NR
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**MINISTER OF STATE LORD AGNEW OF OULTON**

**COVID-19 STIMULUS FRAUD THREAT AND THE COUNTER FRAUD FUNCTION**

**Issue**

1. At the daily press conference on the 8 April, the Chancellor was asked about comments made by the Chief Executive of HMRC that the Job Retention Scheme would be a target for fraudsters. The transcript of this is attached at **Annex A**.

2. This submission provides a briefing on the whole of the stimulus package for COVID-19, the threat from fraud and what those working in the Government Counter Fraud Function are doing to reduce that threat as far as possible.

**Recommendation**

3. That you note this briefing and ask for any clarification or provide any steers you feel are necessary.

4. That you consider whether you would like us to work up a proposal for the introduction of more far reaching data sharing powers (19) to increase government's ability to find and recover fraud and irregular payments made as part of the stimulus.

**Summary**

5. The threat of fraud against the public sector has inherently risen as a result of the COVID-19 pandemic. There is a need to spend money quickly, with less control than usual. Historically, fraudsters have taken advantage of crisis situations. We must accept that there will be fraud and irregularity in the stimulus spending.

6. To date, the government has committed to spending up to **£420bn** across **48 programmes** through 12 government departments and hundreds of other public bodies including Local Authorities. The Job Retention Scheme, being delivered from HMRC, is one of those programmes. **Across all of these programmes the risk of fraud and irregularity is high.**

7. The Government Counter Fraud Function (further information in **Annex B**) is bringing together those working on fraud and irregularity across the public sector to have a cohesive response to the COVID-19. We have retooled the central team that oversees the Function and created the COVID-19 Counter Fraud Response Team.

8. The team is monitoring all stimulus spending and maintains a global risk assessment of the highest risk areas, which is updated daily. Currently the highest risks are:
    a. The likely rise in **Universal Credit** fraud and irregularity (DWP);
    b. **Business Interruption Scheme** (BEIS/British Business Bank)

c. **NHS Procurement of Medical Supplies** (DHSC/NHS)
d. **Large Business Interruption Loan Scheme** (BEIS/British Business Bank)
e. **Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund** (BEIS/MHCLG)

9. Whilst not on this list, the Job Retention Scheme is seen as an area at high risk of fraud and irregularity. However, as this is being delivered from HMRC (which has the best counter fraud capability in government) we have assurance that the risk will be managed as effectively as possible. We will continue to engage to monitor this area.

10. In the highest risk areas, the Government Counter Fraud Function is **embedding expert support**, drawing on both the central team and areas of expertise across the rest of government. This expert support is:
    a. Helping the departments c**omprehensively understand the fraud risks**;
    b. Build in **low friction countermeasures** up front where possible;
    c. **Design post event assurance** programmes to deal with the residual risk.

11. The final part of this (c) is critical. As we are spending money quickly, managing the heightened risk of fraud and irregularity will largely be done post event.

12. Some key initiatives to date are:
    a. With the Grants Management Function, **implementation of the SPOTLIGHT tool into 228 Local Authorities** to check company status before payments are made (not previously possible);
    b. Creation and trialing of a **new tool tool to match business names to bank accounts** before payments are made (not previously possible);
    c. **Sharing of intelligence on organised crime** activity into DHSC to enable them to identify where in their supply chain organised crime is a threat (examples in **Annex C**) (not previously done);
    d. Implementation of upfront counter fraud messaging into stimulus spend to dissuade fraud using Behavioural Insights;
    e. Introduced cross sector governance to ensure a flow of new intelligence to the public sector for COVID-19, including intelligence from NCA, NCSC, NTS and JIO;
    f. **Creation of a minimum data specification** for stimulus payments (this will enable the critical post event assurance).

13. Across the other stimulus areas, we are **providing guidance on leading practice** (6 guidance documents have been released to date) and **one off support**.

14. Finally, the Function is monitoring performance across the Function. The business as usual fraud risks have not stopped and the resourcing in the Function is reducing as staff are reprioritised onto COVID-19 priorities. For instance, in DWP the resourcing for managing fraud and irregularity has been reduced by 59%.

**International Perspective and Principles**

15. Through the International Public Sector Fraud Forum (which the UK leads), we have **shared threats and responses to public sector fraud** with our colleagues in the Five Eyes. I&S

Irrelevant & Sensitive

16. The International Public Sector Fraud Forum released a guide to managing fraud in emergency situations in February 2020. The principles in this guide, which the Government Counter Fraud Function is following in this response, are at **Annex D**.

***Post Event Assurance***

17. The government will have to do **significant post event assurance activity** if it is to deal with the level of irregularity in stimulus payments. The Function is starting to work with departments to design this post event assurance activity.

18. We need effective mechanisms to recover money paid out incorrectly. The Debt Management Function has put mechanisms in place to ensure money can be recovered as effectively as possible in the context of our current powers.

***Potential Further Action***

19. One of the main barriers to effectively identifying fraud and error is the limitations on data sharing across government and between sectors. In line with the approach in New Zealand, there is an opportunity to introduce more open data sharing powers to enable increasingly efficient and effective post event activity in emergency contexts. This could also enable more effective administration of the stimulus packages.

20. One of the main challenges to recovering irregular spending is that different departments have different debt recovery powers. This means, for instance, that BEIS will find it harder to recover debt than HMRC. The Debt Management Function is exploring where there is an opportunity to move towards a 'level playing field' on debt recovery powers to make debt recovery on irregular stimulus spending more efficient and effective. You will receive a separate submission on this from the DMF.

**Cc: Chancellor of the Exchequer,** NR **Sir John Manzoni, Lyn McDonald,** NR

**ANNEX A - Daily Press Briefing - Transcript**

**Macer Hall:** The Daily Express: Yes, thank you Chancellor. Just back to your job retention scheme, the head of Revenue and Customs has today warned that the scheme is open to fraud and abuse*. Have you had any evidence that is happening and would you urge employees to blow the whistle on firms that may be abusing this scheme?

**RS:** Yep, thanks. Look, what I would say is that we are obviously designing schemes at pace which haven't been done before. And part of the reason that we have made some of the decisions we have made in the design, whether it's the job retention scheme or the self-employed, are deliberately to counter fraud. Because obviously we want to make them as simple as possible and as accessible to as many people as possible whilst protecting the taxpayer because obviously this is all of our money which will need to be paid back at some point, so we want to make sure it is targeted on people who really need it and that has actually influenced some of the design choices we have made and that means that some people might fall between the cracks. It means there are people who are saying can you not do it this way, can you include us, and the reason we have not been able to do that, is to protect against exactly that. Exactly the risk of fraud, or spurious claims that we won't be able to verify, or only verify with a very cumbersome manual process, which will delay the scheme's implementation which is not the right thing. So, you know, I am confident that the decisions we have made will minimise the risk of fraud. Obviously, you know, the team are hard at work at the moment getting these schemes up and running and we will have as robust verification and auditing processes as possible to ensure that there isn't fraud and that we can go and tackle it. But, you know, that's why we have made some of the choices we have made and hopefully people will understand that and they hopefully have been reasonable about that when I have explained, well this is why you have to have been employed on this particular day. Because if you weren't, then obviously there is the risk that you could create a brand-new employment for someone whom we have never heard of before and suddenly start getting money from the taxpayer for not a genuine case. So that's for example, one of the reasons we picked a cut-off date of February 28 for that particular scheme. A big part of that was preventing fraud. So, you know, hopefully that is clear. And Jim and HMRC and the team are doing a fantastic job getting these things up and running. I think he talked a little bit about timing, and we are on track to deliver against the timelines that I outlined earlier which is pleasing because this is a, you know, this is a huge challenge for them and they're doing a great job. I hope that, does that answer what you wanted?

**MH:** Thank you.

* Note: The comments made by the Head of HMRC (Jim Harra) were made at the Treasury Select Committee earlier in the day.

**ANNEX B - The Government Counter Fraud Function**

The government's functional agenda has brought together those working in common areas across departments and public bodies to increase the efficiency and effectiveness of government through common standards and ensuring access to skilled, expert resources and advice. The Counter Fraud Function is one of the government's 14 functions. It brings together c.16,000 people working to combat fraud in the public sector.

The government has invested in a Centre of Expertise for Counter Fraud in the Cabinet Office, which leads this function. This is a small team of experts in counter fraud who draw on wider expertise from across government and other sectors to advise and shape the agenda in fighting fraud against the public sector.

Some of the key achievements of the Government Counter Fraud Function are:

- Increased detected fraud across government by 253% in the last three years;
- Central government departments and agencies have detected **£779m of fraud and error losses in the last 5 years.** An additional **£1.26bn** has been detected in the Welfare & Health systems and **£8.6bn** in Tax;
- The National Fraud Initiative (run by the Cabinet Office) identified over **£170m in fraud and error in 2019/20** including local government through data matching.
- Launched the world's first **Counter Fraud Profession,** which now has over 6,000 members, with representation from policing, central government and local authorities;
- **Increased the use of data across government to find fraud**, running new pilots and producing training and guidance that has led to an increase in data pilots of 20%.
- Launched government's **first apprenticeship** level 4 for Counter Fraud Investigators, including a pathway into the Profession;
- Developed and delivered the world's first professional **Fraud Risk Assessment training** across 14 departments and 8 ALBs, and 2 local authorities, providing a professional qualification and route into the Profession;
- Introduced **Counter Fraud Function Standards** - outlining the key activity departments should do to manage fraud. **90% compliance** has been achieved by the 18 core departments;
- Published annually a **Fraud Landscape Report** - including the globally recognised authoritative evidence base for public sector fraud loss.
- Led the public sector to complete **53 fraud loss measurement exercises**, covering expenditure of £3.9bn and finding fraud in a range of government schemes.
- Led the development of the **5 eyes International Public Sector Fraud Forum**, working together to understand, stop and find fraud - publishing 5 guidance documents over the past two years.
- Supported the **Australian Attorney General's Department** to successfully establish a Centre of Expertise for Counter fraud, based on the UK model, and embedded expert resources to establish their fraud centre.

Government
Counter Fraud
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**ANNEX C - Example of Intelligence Flow into Health Procurement**

**Irrelevant & Sensitive**

**ANNEX D - International Best Practice**

The following are the principles for controlling fraud levels in an Emergency Management as published in by the International Public Sector Fraud Forum in February 2020. The IPSFF is made up of experts on public sector fraud management from across the Five Eyes.

1. Accept that there is an inherently high risk of fraud, and it is very likely to happen.

2. Integrate fraud control resources (personnel) into the policy and process design to build awareness of fraud risks

3. The business and fraud control should work together to implement low friction counter-measures to prevent fraud risk where possible

4. Carry out targeted post-event assurance to look for fraud, ensuring access to fraud investigation resource

5. Be mindful of the shift from emergency payments into longer term services and revisit the control framework – especially where large sums are invested

In doing all of this we must be mindful of the fundamental purpose of the emergency context – getting payments and services to those in need is the priority.