

# Public Accounts Committee

## Oral evidence: Fraud and Error, HC 1290

Thursday 29 April 2021

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Members present: Meg Hillier (Chair); Shaun Bailey; Olivia Blake; Dan Carden; Sir Geoffrey Clifton-Brown; Peter Grant; Sarah Olney; James Wild.

Gareth Davies, Comptroller and Auditor General, Joshua Reddaway, Director, National Audit Office, and David Fairbrother, Treasury Officer of Accounts, Her Majesty's Treasury, were in attendance.

Questions 1-93

### Witnesses

[I](#): Jim Harra, First Permanent Secretary and Chief Executive, Her Majesty's Revenue and Customs, Peter Schofield, Permanent Secretary, Department for Work and Pensions, Sarah Munby, Permanent Secretary, Department for Business, Energy and Industrial Strategy, Cat Little, Director General Public Spending and Head of the Government Finance Function, Her Majesty's Treasury, and Mark Cheeseman, Cabinet Office, Counter-fraud function.

## Examination of witnesses

Witnesses: Jim Harra, Peter Schofield, Sarah Munby, Cat Little and Mark Cheeseman.

Q1 **Chair:** Welcome to the Public Accounts Committee on Thursday 29 April 2021. This is Parliament's last day before Prorogation and we have in front of us a number of permanent secretaries to discuss a very important issue: fraud and error across Government, which this Committee has looked at repeatedly.

However, we are now trying to draw out lessons about how different Departments learn from each other about how to tackle fraud and error, which is estimated to amount to between £29 billion and £52 billion annually. Of course, those figures have been affected by the pandemic, with many Government Departments developing new schemes to get money out of the door quickly to taxpayers, employers, employees and businesses, and in doing so a number of checks and balances have been dropped all together, while others have been watered down in order to meet those important deadlines.

We recognise that those schemes are important, but we are very keen to watch out for fraud and to tackle it—as you would expect from the Public Accounts Committee, and as we hope our witnesses are also keen to do. We will hear from them how they will do this, but we also want to draw wider lessons for Government generally about tackling fraud and error, which, as I say, has been an abiding concern for this Committee.

I will introduce our witnesses. We have Jim Harra, who is the first permanent secretary and chief executive of Her Majesty's Revenue and Customs, which we will refer to as HMRC, and Peter Schofield, the permanent secretary at the Department for Work and Pensions. Of course, both those witnesses have been responsible for very large schemes during covid. We also have Sarah Munby, permanent secretary at the Department for Business, Energy and Industrial Strategy, which is the Department responsible for a lot of the policy and money for businesses; Cat Little, director-general for public spending and head of the Government finance function at Her Majesty's Treasury; and Mark Cheeseman, director for the counter-fraud function, which means he is the professional responsible overall for watching how Government deals with fraud, and he also tries to ensure that Government Departments improve their professional skills in this area.

Before we get into the main questioning, I will ask each of the permanent secretaries what they discovered when they went to find out—at the Cabinet Secretary's behest—about any of their officials who hold second jobs while working in the civil service. I would like you to tell me what returns you received and what you are doing about it. Jim Harra, may I start with you, please?

**Jim Harra:** We have standing procedures in HMRC for recording any potential conflicts of interest and also for business appointments after



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leaving. What we found was that there is a good level of compliance with those requirements and we did not find any cases of concern.

There were a small number of senior civil servants who have appointments outside HMRC of the kind that you would expect. For example, they are on the committee of the company that administers their block of flats, or they are on the school governors panel. I think we have one person who earns money as a martial arts instructor outside work. Those had all been declared.

We are looking at whether there is any best practice that we could improve. In particular, one step that we will take is that our records are not kept centrally—they are kept by the directors in their directorates—so we will take a step, obviously, to keep those centrally in future.

Q2 **Chair:** Thank you. It is really good that you have acted and learned something. However, I think we are all rather interested to know whether martial arts will now be a way in which HMRC starts tackling tax fraud. We will leave you to think about that for another day, perhaps.

Next I will go to Peter Schofield at DWP. Mr Schofield, what have you found?

**Peter Schofield:** We went through a similar process to the one that Jim has described. We have our own processes here in DWP. We already require a central declaration for those officials who are on the departmental board—members of the executive team—as part of the annual report and accounts process. However, we went through and looked at all the senior civil service across DWP and also anyone involved in significant commercial roles. Again, we found high levels of compliance with our arrangements.

There were a few areas where we looked a bit further and we are happy with what we found. Like Jim, we are interested to see the number of people who are involved in their communities in lots of really positive ways, with people involved as reservists, or involved in their local church—all sorts of different community-level engagement, which I think is a really positive thing to find. But like Jim, we will make sure that we do this on an annual basis and have it centrally recorded.

Q3 **Chair:** Thank you. Sarah Munby?

**Sarah Munby:** It is a very similar story for us. We have carried out a full and systematic review. We found three people who had second jobs: one a pilates instructor, one a painter and one a military reservist. I don't think we found anything concerning, and actually it was a comforting result, because it suggested that our existing processes for checking these things were working really well. Like other Departments, we will be continuing to look at how we do this, to make sure we have even more robust processes in the future, but we have no concerns through the work that we have done to date.

Q4 **Chair:** Thank you. Ms Munby, you kindly wrote to us on 7 April, I think, about the vaccine programme. When you were in front of us last time, we



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asked you about an annual vaccine programme. You said that there were no plans for that at the moment, but that you were well ahead with an autumn programme. Can you update us on the autumn vaccine programme? How far have you got with it? What are the logistical issues, and what still needs to be tackled in order for that to be delivered?

**Sarah Munby:** There is relatively little to add to what was in my letter. Decisions about an annual vaccination programme still haven't been made. The details of an autumn vaccination programme will obviously depend on the prevailing mix of variants at the time and the efficacy of our vaccine portfolio against those variants. At the moment, we are very confident in the efficacy of both the Pfizer and the AZ vaccines against the portfolio of variants that we are currently managing in the UK. We have more than enough doses to manage whatever autumn vaccination programme we think will be required. Currently we have no concerns, but clearly it is an ever-evolving picture on the side of vaccine spread, and indeed variant spread.

Q5 **Chair:** Presumably discussions were underway with the Department of Health and Social Care and the NHS about delivering that vaccine programme.

**Sarah Munby:** Absolutely, although I should say that it is a DHSC responsibility. I think it is fair to say that, as with all these things, the machine is now operating smoothly, so the level of concern about a repeat process is obviously less than the level of concern about it at the start.

Q6 **Chair:** To be clear, for us as citizens, all the big vaccine centres—there is one over the road from us here in Westminster, at St Thomas', and they are all around the country—are going to be pretty much staying open through the current vaccine programme and into the autumn for the boosters.

**Sarah Munby:** I think the best answer to that is that DHSC is working out the details of the autumn campaign and will be making an announcement soon that will include what we can expect operationally about how those vaccines will be delivered.

Q7 **Chair:** Certainly there are a lot of questions for them about the annual programme and who will administer it. I just want to check something. In the letter, you also talk about new variants and say that you are assessing "our existing vaccine portfolio against current variants, working closely with vaccine manufacturers and Public Health England to understand the efficacy against new variants." Is there anything that you want to add there? Obviously, we have seen lots of challenges around the world. Are you confident that we are going to be okay in the UK, in terms of the number of vaccines that we have, tackling different variants and access to those vaccines?

**Sarah Munby:** At the moment, we have a good level of confidence, but it is an ever-evolving picture, as I say, because the variants that are out there will continue to evolve. I would not want to give any cast-iron assurances, certainly not without some scientists next to me.



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Q8 **Chair:** I know you do not have any scientists here, so tell me if you cannot answer this. How quickly are you expecting the vaccine taskforce to be able to identify and commission a vaccine against a new variant? If a new variant emerges, how quickly can the vaccine be in people's arms?

**Sarah Munby:** I think I would prefer to come back in writing with the details on that, but it is fair to say that we have made quite a lot of investment in capability to be able to identify and sequence rapidly. I am confident that we have a good answer on that, but let me come back in writing with the detail.

**Chair:** Thank you very much indeed.

Q9 **Sarah Olney:** I would like to speak to Mr Harra about IR35, which, as you know, is a matter of perennial interest to this Committee. I want to ask about a recent case that has had a lot of interest in the press: broadcaster Kaye Adams. HMRC lost to Ms Adams in the upper-tier tribunal in February. The case basically revolved around whether she was an employee of the BBC and therefore subject to IR35, or whether she was actually a contractor and owning a business on her account. She won the case because she was able to demonstrate that, although she does have a contract with the BBC, she also undertakes a number of other contracts through her business.

In the course of pursuing that, Ms Adams has had to pay considerable amounts of money to instruct lawyers and barristers to represent her. She has had to risk her own money in order to get clarification on the law. My question to you, Mr Harra, is: why aren't the rules clear? Why do individual taxpayers have to put up their own money to get clarification on how the law applies to their tax affairs?

**Jim Harra:** I think for the vast majority of people the rules about whether they are employed or self-employed are clear, and they know where they stand. There are always cases at the edge, or there may be cases where people wish to dispute it, or where we wish to dispute it, but they are relatively small, given the number of people. It is generally the case that if someone wishes to pursue a dispute with HMRC, they have to bear the costs of that, but if we lose at tribunal or in court then of course costs can be awarded in the normal way. I cannot comment on Ms Adams's case specifically, but it would—*[Inaudible]*—a case in court that we would end up paying costs. Similarly, if we won then the other party would have to pay the costs. It is a bit different at tribunal. I am not an expert on how costs work at tribunal. We do sometimes fund the costs of litigation if we think it is in the public interest—for example, if there is a point where we agree it is uncertain, and it needs to be tested—but that is generally not the case with employment status.

Q10 **Sarah Olney:** Do you know whether you paid Ms Adams's costs or not?

**Jim Harra:** I don't know. If I did, I am not sure I could disclose it, but costs awarded in court are a matter of public record. I can check whether that is in the public record or whether I am able to disclose that to you.

Q11 **Sarah Olney:** If you are able to disclose it, I would be very interested to



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hear, because my information was that HMRC refused to pay Ms Adams's full costs, despite an award against you. Can I just ask: why did you pursue this particular case to the upper tier when you lost in the lower tier?

**Jim Harra:** I think we have to decide whether there is a point of law that we think requires clarification. Normally, if the case turns on its facts it will be decided at the lower tier and that will be the end of the matter, but if when the lower-tier tribunal makes its decision either party thinks there is a matter of law that the tribunal judge has erred in, then both parties have a right to appeal that, and that is what we will have tested. Obviously, that is both a step to ensure that the particular taxpayer's affairs are right and an opportunity to test and develop the understanding of the law around the edges of employment status. You do get clarification, from time to time, from judgments. What I can do is write to you in general terms about when we do and do not accept costs. If you wanted me to look into Ms Adams's case specifically, then obviously if you have got her consent for me to do that I can write to you privately about that.

Q12 **Sarah Olney:** I will try and get in touch with Ms Adams and ask her, because I would be very interested to know what point of law you needed to clarify at the upper-tier tribunal that meant that Ms Adams had to go to all this additional expense, not to mention stress, of having to defend herself a second time.

Finally, Ms Adams is quite a well-known broadcaster. Was there perhaps an unwillingness to give up in her case because you knew it would be high-profile, you knew it would be reported in the press, and you didn't want to admit failure at the lower tier, after the lower-tier judgment?

**Jim Harra:** No, that is not the case. First of all, these employment status cases are not in any way disputes in which we are trying to make an example of someone or trying to leverage anyone's celebrity status. They are technical disputes about the facts and the law applying to that particular person's appointment. We make judgments and we pursue, obviously, many thousands of cases every year of people who are not in the public eye. We would just make those decisions in the normal way. Clearly there have been a number of cases where there has been a dispute between HMRC and a broadcaster, where we have had to test both the facts of their case and the law on employment status, to determine their tax affairs, and this is one of them.

Q13 **Sarah Olney:** Do you think the result of the upper-tier tribunal decision will help you to clarify the law in future so that other taxpayers don't have to go through the same thing?

**Jim Harra:** I am not close enough to the particular case to be able to answer that—I will certainly pick it up in correspondence—but where we do go to the upper tribunal, it is because we believe that there is a point of law that has been referred to in the lower tribunal decision that does need to be clarified or tested.



- Q14 **Sir Geoffrey Clifton-Brown:** Good morning, Mr Harra. As the Chair has already indicated, Northern Ireland affairs are always complicated and they have just got more complicated in the last day or so. In relation to the Northern Ireland protocol and customs and excise matters, could you just give the Committee an update of where you are, please?

**Jim Harra:** We continue to implement the Northern Ireland protocol and to help businesses in Northern Ireland and in Great Britain to comply with their obligations. We are doing that in a way that ensures that there is both unfettered access for Northern Ireland goods to the Great Britain market, and also that the flow of trade from Great Britain to Northern Ireland is able to move smoothly. We have introduced easements and administrative procedures, where we can, to make sure that that is not disrupted, but it is my responsibility to implement the protocol, and that is what we are doing, as carefully as we possibly can. It is a process and it is going to take businesses some time to fully change their contractual arrangements and their procedures to comply with it and we are working with them. I think that is the right approach—to support them and help them make the changes they need to make.

- Q15 **Sir Geoffrey Clifton-Brown:** So in relation to the word you just used—“easements”—which is effectively just loosening compliance, and this inquiry into fraud, what sort of assessment have you made of the risk to Government revenues of applying those easements?

**Jim Harra:** Not specifically about the Northern Ireland protocol, but overall in relation to EU exit, it is the case that we are gradually implementing procedures over time and that does mean that there is some fiscal risk attached. The Office for Budget Responsibility made an assessment of that some time ago. For example, I think it estimated that there might be £200 million-worth of customs duties lost because of the time we are taking to implement full import controls. They have not made a revised estimate yet to take account of more recent policy decisions, but that is likely to slightly increase that.

In relation to the Northern Ireland protocol itself, I don't think there is a material fiscal risk that we are worried about. Of course, while we do have less than full procedures, we use our intelligence sources to watch out for anyone who could be abusing that, because the easements are there to help genuine traders to take the time they need to get ready. Obviously, they are not there to be abused.

- Q16 **Sir Geoffrey Clifton-Brown:** You have said that HMRC is working with businesses to try to help them understand their obligations in relation to the regulations. Can you just tell us how that process is going? How well are businesses coping with the regulation in terms of exports and imports into Northern Ireland?

**Jim Harra:** Very large numbers of them have accessed the guidance. They have also accessed our webinars. We now have a grant scheme running for small businesses, called the Brexit support fund, which opened for applications last month. We have already received and approved—I can't remember the exact figure, but certainly well over 1,000 applications



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under that scheme. So there is both practical support and assistance from us, as well as funding to help them to do whatever they need to do within their own organisations or with advisers.

Of course, in relation to the Northern Ireland protocol, we have the trader support service, which is a free-to-use service, which not only provides guidance and support, but will actually carry out procedures on behalf of the trader.

**Q17 Chair:** We now want to move into the main session. I am delighted to welcome Mark Cheeseman to the Committee, who has responsibility for overseeing fraud and risk management across the Government. Could you give us an overview of whether you think there is a proper and universal understanding of risks and different levels of fraud across the entirety of the Government? Are you able to tell us which bits are doing well and which have something to learn? Can I tempt you to do that? It would be very helpful to give us a steer on what we are dealing with here.

**Mark Cheeseman:** It is a privilege to be here. First, all areas would recognise that we could do more, whether that is the centre of the function, where I sit, or the individual Departments and public bodies.

I want to set out a bit of context on fraud. I try to remind myself that fraud is a large problem across the UK. The latest crime survey showed there were 4.4 million acts and that is 40% of all crime. So, this is not just a public sector challenge; it is one that the whole UK looks at in total.

When we move to the public sector, if you are asking about how much of a handle we have on all the risks, the diversity of risks is very, very large, because we spend £850 billion and collect around £800 billion in income. That covers all the different grants, procurement, the services that are offered and the internal element as well. There is a range of different frauds and fraud risks across those.

I sit at the centre of the function. The function is the 16,000 people who work in all the Departments. We have a small team at the centre that brings those together and looks for common learning. As a function, we are quite new. It was formally announced in 2018 that we were to come together.

We have set out guidance on how to understand fraud risks. I see the Departments increasingly understanding those. Over the last couple of years, it has gone from 21% of Departments having what we would recognise as a formal fraud risk assessment to 71%. We have not assessed that this year; I would expect it to have increased again. So, I see the system getting more and more, as we increase the capability across the system and Departments take action on that too.

**Q18 Chair:** Cat Little, at the Treasury you are keeping an eye on the money very tightly. How much do the levels of fraud across Government worry you? How much more needs to be done to tackle this as an attitude across Government Departments as a whole, notwithstanding what Mr



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Cheeseman is attempting to do in his role?

**Cat Little:** Of course fraud risk is a significant concern for us, as is the fact that we know that fraud risk is increasing. Despite the fantastic efforts and the progress that has been made, there is much more that we need to do. The point about culture is critical, because time and again we know that having a mindset that is focused on preventing and understanding fraud risk ultimately has one of the biggest impacts on the overall controlled environment and how Departments respond to fraud risk. So, the more we can educate and use the excellent tools, guidance and expertise that we have across Government, the better.

To add to what Mark said, other functions have a critical role in helping with fraud risk as well. In particular, my own function in finance and the commercial function have to operate as an effective second line of defence in advising and supporting fraud risk overall. It is that combination of functions, operating under the expert of guidance of Mark's team, that ultimately has the bigger impact.

Q19 **Chair:** Do you have any concerns about Departments or areas of activity across Government where you are not convinced that fraud is being measured effectively and therefore risk mitigation is not working as effectively as it should be?

**Cat Little:** Of course, every year the Treasury goes through a process of assuring ourselves that the overall controlled environment and the way in which Departments and accounting officers are approaching the mitigation and management of fraud risk are in line with our expectations. We are going through the year-end process. Everything we have seen to date shows that there is a very good understanding of the inherent increase in fraud risk and, through our ongoing work with Departments, we can see that good progress has been made across the board.

Q20 **Chair:** Mr Cheeseman, are there any particular areas of fraud that have been growing? It was startling when you said that 40% of crime, across all sectors, is fraud. Are there any areas that are of real concern to you? Are we learning lessons from the private sector or are they learning lessons from the public sector?

**Mark Cheeseman:** Both, absolutely. In terms of growing, Covid-19 has obviously put us into a different threat landscape, so that has increased the threat that Government faces. That has been widely recognised and discussed. Indeed, this Committee has looked at a number of areas where that threat has increased. In dealing with emergency management, you talk about the other sectors; one of the pieces we have done is reaching out to other countries. The UK is part of the International Public Sector Fraud Forum, which has released guidance on managing fraud and emergency management, which at the very start said that we need to accept that the fraud threat goes up in emergency management situations. I think in those emergency management areas we have certainly seen the threat increase.

Q21 **Chair:** One of the things the Committee has looked at is the level of



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preparation for Covid. In evidence to us, CIFAS suggests that there should have been better planning for risk, because, as you said, in an emergency, things happen quickly and move fast. Do you think that is a fair criticism? Looking back, what would you have liked to have seen done differently so that Departments were prepared and ready for risk management in the situations we know took place in March through to the summer, and are even continuing now?

**Mark Cheeseman:** I think we were in a better position than we would have been if this had happened three years ago, because this Government is one of the first to have a single standard for how to do fraud risk assessment. That was launched in 2018. In fact, we have 41 professional fraud risk assessors and 141 people trained in fraud risk assessment. So, I think in grappling with that risk and being placed to deal with it, we were better than we would have been.

From where I sit, would we like more of that capability across the system? Yes. If we were a further two years on and we had had more people trained in understanding risk and being able to be prepared, we could absolutely be in a better place if we continued that process.

Q22 **Chair:** We will come to the Covid schemes a little later. You talk about the 141 people. Where are they based? Are they only in particular Departments? Do they work across Departments? Who are they and what are they doing?

**Mark Cheeseman:** The 141 are trained in fraud and risk assessment. There are 1,600 who deal with counter-fraud as a whole. We have launched the counter-fraud profession, which sets standards—

Q23 **Chair:** Which Departments? I imagine HMRC and DWP have quite a high percentage of those—that is part of the reason they are here today—but can you give us a breakdown of where those people are?

**Mark Cheeseman:** Of course. If we talk about the resource as a whole, putting the profession to the side for a moment, 91% are in HMRC and DWP—the vast majority. If we look at the profession, 77% of those recognised professionals who meet the standard of the counter-fraud profession are in DWP and HMRC.

Chair, if it is okay, I want to touch on a piece you mentioned in your last question that slipped my mind: learning from other sectors. One of the things that the counter-fraud function does have is a cross-sector advisory group, which helps advise us. We do reach out to experts from banking, CIFAS and the charity sector to ask what they are seeing. The piece I was emphasising with the international element is that we do not limit it to the UK; we go to experts in the Five Eyes to ask for their views and counsel, too.

Q24 **Chair:** How many people do you have in, for instance, the passport office in the Home Office? That is a small service relatively, but there are counter-fraud experts there.



**Mark Cheeseman:** I will write back to you on that if that's okay. In terms of profession members in the Home Office, we have 162 in the passport office and 22 in the Home Office. There are also people working in the function who have not yet been tested against the capability standards.

Q25 **Peter Grant:** Good morning, Mr Cheeseman. Can I look at the different responses that different Government Departments have to what on the face of it looks like a similar, deliberately fraudulent action? If someone fraudulently conceals their earnings to claim benefit, there is a good chance that, when they get caught, they will be prosecuted and end up with a criminal record. If they do it to avoid VAT or income tax, they will probably face financial penalties, but are less likely to be publicly branded a criminal. If they do it to dodge their responsibilities to their children through the Child Maintenance Service, the experience of many of my constituents who are the resident parent is that the absent parent can get away with it for years and years. How do you explain or justify the very different responses of different Government Departments to what is effectively the same kind of behaviour?

**Mark Cheeseman:** I will pass to Peter and Jim to pick up the tax and welfare approaches to dealing with fraud. Traditionally, we have dealt with fraud in the individual Government Departments. They have developed their own approaches and capabilities, and have thought about the best way to deal with it. One advantage of creating a function is that we can start to look across the piece at those elements. One of the lessons learned from Covid is how we actually share out those approaches and powers, and make redress more evenly across the entire system, so that they are available when public bodies need them. DWP and HMRC call on them more frequently, because they have more volume of fraud attacks, hence their capacity.

**Jim Harra:** We use a wide range of civil and criminal responses to tackle tax fraud. Last year, for example, we had 1,200 civil investigations into fraud by our fraud investigation service, and there were 600 criminal investigations. Those secured about £4.2 billion in tax revenues. When we use a civil approach towards tackling fraud, we can impose penalties of up to 200% of the defrauded tax. We can also take other actions, including insolvency and the disqualification of people to act as directors, and we also have a power to publish the names of deliberate defaulters, even if they have not been subject to a criminal conviction.

While we reserve the right to use criminal investigation in any fraud case, we have a policy of using that in the most serious cases, where it is the necessary response and where it will have a real deterrent effect, or where the taxpayer has taken certain actions that only criminal investigation will enable us to get to the bottom of, such as when they have information beyond the reach of our civil powers. We use it quite selectively. In recent years, we have increasingly focused our criminal investigations on the higher end of the fraud market—the more wealthy, sophisticated and complex frauds—rather than what I would call mass-market frauds, where we tend to use civil investigation procedures.



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**Peter Schofield:** We are in a similar place. In 2017, we increased the threshold for fraud that we would pursue through the criminal process as opposed to the civil process. We increasingly use administrative penalties, rather than full-scale prosecution, because we want to focus, much as Jim said, on serious organised fraud, which we are seeing more of. We do another thing quite actively. If there is someone that both we and HMRC are pursuing, we join up in that process. Mr Grant also mentioned child maintenance cases. We are increasingly seeing high-profile cases where we are bringing significant amounts of money back to the receiving parent and pursuing those cases quite vigorously. We have more powers—for example, in being able to hold someone's passport until they pay. We have a really active focus on that, and I think we are making a big difference in collections for those families who need the money.

Q26 **Peter Grant:** I should make it clear that I am talking about the process of using sanctions against somebody, rather than the processes used to get the money out of them once their liability has been established. I think we have to differentiate between those two.

I will come back to Mr Cheeseman, but I will briefly ask Mr Harra to clarify one point. When you talk about publishing the names of people who have been found to default—I think that was the phrase you used—does that appear on their criminal record in the same way a prosecution would? Does it come up if there is a check on somebody's suitability for employment, for example, in the same way it would if they had been prosecuted for benefit fraud?

**Jim Harra:** It is obviously not a criminal conviction and therefore would not feature in a criminal record. It is obviously a public document, so it would be open to employers to check that document in the same way they can check any other public source. It is not a criminal record; it is a record of people who have deliberately defaulted on their tax above a certain level, but against whom we have not taken criminal proceedings.

Q27 **Peter Grant:** To come back to Mr Cheeseman, you mentioned the steps that the Government have taken to give a uniform standard of fraud risk assessment across different Government Departments. Is it the intention to move to a position where different Government Departments have a consistent approach to the enforcement of action against fraud? There have clearly been circumstances in which frauds are committed and there will be different ways by which any financial penalties can be enforced, for example, but is it your intention that eventually we will see a time where somebody who effectively is stealing from their own children through child maintenance fraud will face the same severity of sanctions and the same likelihood of being sanctioned as somebody who is defrauding the DWP through a false benefits claim?

**Mark Cheeseman:** Before I move on, I would like to correct a number that I accidentally gave earlier. I said that there were 1,600 members of the counter fraud function. It is 16,000, as it says in the NAO Report.

On that aspect, interestingly, we have talked about the fraud risk assessment standard. The Government Counter Fraud Profession has a

sanctions, redress and punishment standard in it as well, which talks about the expertise that we would expect of those in the profession in understanding those sanctions, so we have already started making moves towards increasing that commonality.

It is not my role to decide the total arrangements across Government, but I think we have an aspiration to move steadily towards opening up powers and sanctions to other parts of Government, at least so that they can access them as and when they see fit in their counter-fraud arrangements.

**Q28 Dan Carden:** As we have Mr Harra here from HMRC and Mr Schofield from the DWP, could I run through some of the recent figures from the last few years? Tax fraud cost the Treasury an estimated £20 billion in 2018-19—nine times more than benefit fraud at £2.2 billion. The DWP employs three and a half times more staff in compliance than HMRC, adjusted for size in relation to tax and benefits gaps.

Over the last 11 years, there have been 85,745 criminal prosecutions for benefits crimes. That is 23 times more prosecutions than for tax crimes of all types. We have eight and a half times more suspended or immediate custodial sentences handed down for benefit crimes versus tax crimes over the last 11 years, and the number of criminal prosecutions relating to tax crime of all kinds has decreased by 39% since 2015. Mr Harra, wouldn't you like the same resources that Mr Schofield has at the DWP?

**Jim Harra:** First, I do not recognise the figures that you have given. I can certainly write to you with the Department's figures. The tax gap in particular is published as an official statistic. We estimate that the fraud that is included in that tax gap is about £10 billion, not the £20 billion that you quoted.

Nevertheless, it is the case that there are differences between the experience of people who defraud the DWP and people who defraud HMRC. I have explained that we use a selective approach to criminal investigation and seeking prosecution. We tend to focus that on the most serious end of fraud involving sophisticated fraud by wealthier people, and we do not tend to apply it to the mass of our customers, even if they have deliberately evaded their tax. We usually use civil procedures against them, and that includes recovering a financial penalty.

On the sentences that people receive, obviously sentencing is a matter for the courts; it is not a matter for HMRC. There are certainly some areas of tax fraud where we have been concerned that the sentences that the courts sometimes give are not sufficient to have a deterrent effect, and we have worked on trying to make sure that we bring to the courts all the circumstances, so that we get the kinds of sentence that we believe we need.

My job is not just to arrest fraudsters, because I cannot arrest my way out of the fraud problem in the tax system; it is to bear down constantly on fraud, from designing opportunities for it out of the system to preventing it. Particularly in the case of organised crime, our experience is that once you are defrauded, it is extremely difficult either to bring the fraudsters to



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justice or to recover your money, so we put a lot of effort into thwarting them up front; obviously, we also respond to it using civil and criminal procedures.

- Q29 **Dan Carden:** Thank you, Mr Harra. Obviously, there was a sharp fall in tax investigations in 2020 compared with 2019. We all understand the need to move staff to assist with Covid projects. I just wonder what additional resources you were asking for at that time. Were you able to secure the additional resources that you requested?

**Jim Harra:** HMRC frequently goes to the Treasury with what we call spend-to-raise measures. If we can demonstrate that we can deploy additional resources to close the tax gap and get in tax revenues that more than pay for the cost of those resources, we will make the case for that. In fiscal event after fiscal event, the Treasury do give us additional resources for that. You are right that last year we had to deploy our resources over a much-increased landscape, because we had to manage the fraud risks in the Covid schemes, and we were given additional funding for that. In particular, in the March Budget the Chancellor announced £100 million additional funding for HMRC, which will fund a taxpayer protection taskforce consisting of 1,265 people. It will also fund the Department for the opportunity cost involved in redeploying existing resources into that, so that there is no net loss on the tax fraud side over time. We already have about 760 people on that taskforce, and we expect it to be up to full strength by June.

- Q30 **Dan Carden:** There is some research that suggests that compliance and audit work can bring in up to six times the amount that is spent on it. What is the optimal spending? Has the Treasury ever turned down requests you have put to them?

**Jim Harra:** There is no rule about the rate of return. It is not just monetary return that we look at; we need to make sure that we cover the whole landscape, and that we are looking at the seriousness of the social and economic effect of the non-compliance, as well as the monetary loss to the Exchequer. We sometimes deploy resources in areas that have a lower rate of return than others for those reasons. If I went to the Treasury and said, "Can every other person in the UK be a tax inspector, please, because I have got to have a tax gap of zero?" they are likely to say, "No." In practice, I find that if we make a good case and we can demonstrate that there is a good rate of return financially and good effect in terms of achieving policy objectives, the Treasury are amenable.

- Q31 **Olivia Blake:** I would like to get a little more understanding of the skills across Government, how confident you are in the level of skills across Government and whether those skills and people are in the correct place at the moment? Are they working where they are most needed?

**Mark Cheeseman:** Let me share a bit of context on this. Counter-fraud is quite a new area in terms of structures. Traditionally, Departments and public bodies have decided individually what level of capability and what skills they need, but fraud is a very quickly evolving and complex crime, and the Government has recognised that that approach is a non-optimal



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one. Now, we have the function and, since 2018, the profession to set standards. That is the first counter-fraud profession for a Government in the world, and we are pushing ahead on that.

On the assessment of whether the skills are in the right place, we are relatively new in having these structures. A lot of the members of the profession come from the big units like Revenue and Customs, the DWP and policing, where they have traditionally had large learning environments to develop hundreds of people into that capability. Other public bodies do not have those structures, and the profession does not have a structure to assess people individually, so I am not yet able to give a view on whether the capabilities are all in the right place. What I am confident in is that we are developing the structures to show, both to the centre of the function and to accounting officers and the Treasury, where the different types of capability that you would have to deal with fraud are.

**Q32 Olivia Blake:** Before we move to Cat Little, do you feel that the function is working well? Does it have enough resources at this stage? What would you like to see improved as it develops?

**Mark Cheeseman:** I am going to be biased on this because I look after the function. Is the function working well? By and large, yes. There are lots of things we could learn and do differently, and lots of things where we are learning as we go along. I am content, but we always strive to do more.

A quick thing to say on the function itself is that I have a small team in the centre—we are currently 60 people. That has grown from around four about six years ago. The function activity—creating a standard for risk assessment and for measurement, which we may move on to later—is not just in that small central team; it is reaching out to those experts across the system to develop those capabilities. When I think about resources, it is not just that team; it is about how the rest of the capability comes together, and I am satisfied with that. Would I always ask for more resources? If I can see benefit, yes; we would continue to make cases and have them considered alongside all the other risks and the things the Government is trying to achieve.

**Q33 Olivia Blake:** I do not mean to put it like this, but are any Departments a little bit like black holes at the moment? Are there any that you think could be more proactive in their approach to fraud, and where you would like to see improvements with the function and communication?

**Mark Cheeseman:** The function is keen to be incredibly transparent about how we deal with fraud, so one of the things we do is publish the fraud landscape report every year. We published a bulletin back in February with the detected fraud levels across Government. The one we published prior to that had transparent assessments against the functional standard—again, that was created by experts—of where Departments are and of where they meet that standard and where they do not. We will continue to do that.



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I have seen excellent engagement from accounting officers, permanent secretaries and people looking to improve. I obviously do it through a fraud lens, and they view the broader range of risk and policy objectives of their Departments and organisations when considering how far they can develop their counter-fraud capability.

**Cat Little:** It might be helpful to say a little bit about the Treasury's role in assessing overall resources for fraud activity. "Managing Public Money" sets out the requirement for accounting officers to design cost-effective control environments best suited to manage fraud risk within their Departments. We also set out the guidance around the balance of preventive and detective controls that Departments will need to consider.

That means that we have quite an ongoing dialogue with Departments about their views. We expect for policy to be developed with fraud risk considered at the development and design stage, so quite regularly, as big policies are designed, we are having discussions about how different risks manifest. Of course, major fiscal events are an opportunity for us to have a much more active conversation, both with the function in the Cabinet Office and with Departments, about the resources they need to manage fraud risk.

As Mr Harra says, we have provided quite a lot of additional funding over the last year. I expect, as part of spending review '21, for us to have a discussions with the Cabinet Office function about its overall assessment of resources and what it needs to discharge central functional responsibilities, and also for accounting officers to tell us if they think that there are resources they need, having gone through a year-end cycle in the annual Government accounts process. I expect more to come to us.

Q34 **Olivia Blake:** And on skills specifically?

**Cat Little:** On skills specifically, I will very much defer to Mark, as the expert here. The other thing that I would say, going back to my reference earlier, is that lots of other functions, including internal audit and risk management teams across Government, which sit in the finance function, have fraud experience and expertise. Across those functions they are fairly immature compared with some of the older functions, so it is important we keep up the professionalism and assessment work that is under way.

Q35 **Olivia Blake:** I want to go back to the Child Maintenance Service if that's okay, Chair, and the interconnectability of Departments where the evidence that is provided to CMS, for example, is universal credit or HMRC-related. If they suspect fraud, I am aware that sometimes the response from frontline staff in CMS is that they are not investigatory services. What is your view of that? Do you feel that frontline staff are confident in assessing fraud versus error and reporting? Do you feel that there are adequate escalation routes for services such as the Child Maintenance Service where they rely on evidence from different Departments?

**Peter Schofield:** I think that is right. There really are investigatory skills in the Child Maintenance Service, but the key point, as you say, is



connecting it up with other skills across the Department and beyond. We absolutely do use data to share across the piece. We have in more recent times created central enhanced checking services. We have that particularly for universal credit, but it applies across other benefit lines as well. That is an opportunity for colleagues. Where they are worried, see a risk of fraud or are concerned about something, that then is a very quick escalation route to skilled professionals who sit centrally, who are able to have access to a range of data sources to then decide how to take things forward.

**Q36 Peter Grant:** Can I come back briefly to Mr Harra? I just want some clarification on one of your earlier answers to me. You used the word "default" in this context. Are you using that purely to describe people who have an assessed liability to pay and then failed to pay it, or are you also using the word "default" to describe actions that are potentially criminal and involve the deliberate concealment of earnings or falsification of information?

**Jim Harra:** I am sorry, it is a jargony term, but it is used in the legislation: deliberate defaulters. These are people who have deliberately evaded their tax either by under-declaring it or by deliberately not paying it, whom we have penalised as a result of their deliberate behaviour and where the amount on which they have defaulted is above a certain level. In those cases we have a power to publish their names, and we look to do that. I can set out for you separately in writing, if you like, the circumstances.

**Q37 Chair:** The key word is "deliberate". I want to come back quickly to Mr Schofield. You talked about changes in 2017 at DWP, but fraud and error in benefits was rising before the onset of Covid-19. Why do you think that was?

**Peter Schofield:** You are right that fraud and error was rising. It rose from '18-'19 to '19-'20, when it reached 22.4%. At one level we always expected that fraud and error would rise as we rolled out and migrated people from tax credits to universal credit, but we did think that that would deliver a net saving to welfare overpayments. We have shared that and discussed that with the Committee before. Indeed, the NAO's Report in July suggested that some of those net savings were coming through, so there is some of that going on in that migration of people of working age from tax credits to universal credit.

What we have also seen, particularly in universal credit, is some pressure in particular areas. A couple of areas that we discussed a little when I was in front of the Committee in September are really important areas. One is around capital, where there is a non-declaration of capital. Of course, you do not have a capital limit in tax credits, but you do in universal credit. We have seen more of that—we think—through the course of the pandemic, because the case mix has changed. There seems to be a doubling of the number of people coming through who have capital. That is one element.



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The other element is non-reported earnings. Universal credit has been very effective where someone is paid through the PAYE system, because we have the direct feed from HMRC; but what we have discovered is that there are more people than we had maybe anticipated who are receiving their earnings through cash in hand, or who are self-employed and not declaring their earnings. That has required us to develop new techniques. I talked in September about what is almost like an arms race on fraud. We are improving our techniques all the time, but some of these pressures, particularly on capital and unreported earnings, are areas of particular challenge. Then there are also ID hijacks as well.

**Q38 Chair:** We are going to come to some of the bigger stuff. It is interesting that unreported earnings are always a problem for Government Departments.

to come back to you, Mr Cheeseman, you have talked about the counter-fraud function and you have given us some reassuring words that things are going okay, but what you do think needs to improve practically? What next steps are you going to take in the next year or two to improve the counter-fraud function across Government? Can you talk us through some specifics, please?

**Mark Cheeseman:** For us, it is continuing the plan we are on, which has been concentrated by the increasing threat from Covid-19. We mentioned the 1,600 people. The vast majority of those people across Government work in investigation and intelligence roles. We are increasing the capability, as we have started with the fraud risk assessment work, on counter-fraud—understanding risk, understanding how to use data and analytics, and understanding prevention. Cat talked about the importance of culture. We need to understand culture and how we actually do culture change across the system—in our supply chains, as well as in the public sector. We are increasing the capability across the system to do that by bringing together all that best practice from both the experts—

**Q39 Chair:** That is very broad brush, but we know culture change takes quite some time to achieve. You are not responsible for each Department. Each Department has its own culture that you have to work through as well, so can you give us some milestones—some practical things that you will do over the next 12 or 24 months to see some of those changes come into place?

**Mark Cheeseman:** We will be doing more training in fraud measurement. One of things we may talk about is the measurement of the—*[Inaudible.]*—in Covid-19. Some Departments, such as DWP and HMRC, have long histories of doing measurement; others do not, so we will be doing more training on that. We released a standard on that, and we will be building that into the profession. We will be bringing more people into the profession as well, so we will be assessing more people. We will be reassessing Departments against the functional standards. That is activity for this year. In addition, I talked about those counter-fraud skillsets, such as data pilots. We will be doing more data pilots this year—more pilots of sharing data between Departments. When I say “we”, the centre co-



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ordinates this activity, but it is the Departments and public bodies that are also working on things like data pilots.

- Q40 **Chair:** Candidly, have you had any pushback from Departments? They are dealing with Covid and all have their priorities. We know that, culturally, a lot of Departments do not want to worry about things that they do not consider to be their core functions—I am sure we can all think of examples of that. Have you had any challenges in establishing your position and the importance of counter-fraud across Government? If it is easier, don't name Departments, but just tell me what the challenges are, if you have faced them.

**Mark Cheeseman:** The counter-fraud function is a new function, so recognition of that in the big system of Whitehall is something that we are still growing. Everyone is aware of it, and it is there to call on. If we are creating a new scheme, do we go to the counter-fraud function and tie that in, as Cat said, with the other functions as well—finance and commercial—to build that awareness? Certainly, where I have seen that people are aware of the function, they use it and they lean on it, so there is a job for us to do to increase the awareness of that function.

- Q41 **Chair:** So there are still schemes going ahead, but perhaps they have not thought of contacting you because they are not aware of it. We can think of a few here.

**Mark Cheeseman:** I could not comment on individual schemes.

- Q42 **Chair:** But that is still happening, so getting them aware is one thing. You talked about the people you have in places, but where do you need more people with counter-fraud skills? Maybe this is where you could name Departments, because it is not necessarily the fault of a Department. Presumably there are not all in the right place. Obviously, HMRC and DWP, as you have highlighted already, have the lion's share. Which other Departments do you think need more counter-fraud specialists?

**Mark Cheeseman:** Wherever there is a high risk, that is where we would encourage calling on those specialists.

**Mark Cheeseman:** Wherever there is a high risk, that is where we would encourage calling on those specialists. Sarah will perhaps talk about BEIS, but, for instance, I know that the risk level in BEIS has increased during Covid-19 and we are working with BEIS to put more fraud capability into BEIS—as I say, Sarah could touch on that.

Our role as the function is to increase that capability—so, the skills, knowledge and experience. It is then a decision for accounting officers as to what level of capability they feel is appropriate.

**Chair:** We will come to Ms Munby next, with my colleague, if that is okay, Ms Munby. However, I just wanted to ask you finally, Mr Cheeseman, if you could send us a letter about the breakdown of who—well, not who by name particularly, but what number of people are dealing with counter-



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fraud and in which Departments, just so we can make an assessment across different Whitehall Departments. Could you also explain what that means: have they gone on an online training course, or were they brought in as specialists from outside, or are they specialists already? So, could you provide just a little bit of an understanding, because the skills gap will obviously be something that we will want to look at?

I will now ask Shaun Bailey MP to come in. Mr Bailey, over to you.

**Q43 Shaun Bailey:** Ms Little, can I just ask why it took a year to establish some sort of funding to tackle fraud as a result of Covid-19?

**Cat Little:** Thank you, Mr Bailey. The reality is that we were still trying to assess what resources were necessary. As you would imagine, the Treasury considers significant investments, such as the one that we have just provided to HMRC of £100 million, which is a large amount of taxpayers' money, and we want to have the evidence and to see the assessment of the benefits that accrue for that funding. We also want to be assured that the money is going to be directed in the right place. However, just because the money was announced a year after Covid doesn't mean that there wasn't active discussion and consideration of the funding required.

**Q44 Shaun Bailey:** Okay, thank you. Can I just drill into that point around the benefits? How did you model what the success would be from this funding? I mean, what was your analysis of the benefits? In particular, I would be interested to know what your targets are with this funding. Have you set any specific targets in terms of what the outcomes will be as a result of this funding?

**Cat Little:** If I set out some of the principles of the benefits, perhaps Mr Harra might want to talk about some of the specific outcomes intended. But the sorts of things that we considered were user and public confidence, information from how we would go about trying new approaches, the deterrent effect—the fact that the public know that we are investing heavily in this sort of activity—and of course the expected reduction in fraud and error. And we consider those sorts of benefits across the board whenever we think about the cost-effectiveness of investment in counter-fraud activity. However, as I say, Mr Harra might want to touch on some of the specific details.

**Jim Harra:** Yes. First of all, I'd like to say that HMRC clearly did not wait until we got that funding decision in March to deploy resources on this issue. We had already opened about 60,000 one-to-many inquiries and about 10,000 one-to-one inquiries in relation to Covid-19 schemes non-compliance. What this additional investment does is enable us to open a further 20,000 one-to-one investigations on top of the 10,000 that we had already opened, as well as more criminal investigations.

Obviously, we did some modelling based on what we think the financial return will be for every full-time equivalent person we put on that, and we also modelled what the opportunity cost will be, because we obviously have to redeploy experienced staff and then backfill behind that. And as I



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mentioned earlier, the funding that we got from Treasury not only funded the taskforce but also funded that opportunity cost, to make sure that there was not a net loss on the tax side while we investigated the Covid schemes.

I would expect our yield from tax investigations to be unaffected, and in the case of Covid schemes I would expect that it will enable us to close by perhaps up to £1 billion the gap that would otherwise have been there.

Q45 **Shaun Bailey:** That's really helpful. Just on that point you raised there, Mr Harra, around the financial return for every FTE, do you have that data to hand or could you provide to the Committee what that would be?

**Jim Harra:** We modelled that on the assumption that it would be about £375,000 per full-time equivalent. That is less than we would normally get on the tax side, which is why we needed backfilling for the opportunity cost, but that is what we would expect to get from deploying this resource on the Covid scheme.

Q46 **Shaun Bailey:** Okay, that's really useful. I had hoped to turn to Mr Schofield, but I don't know whether he is here.

**Cat Little:** Mr Schofield has lost his sound, so he can't hear anything at the moment. He is going to let us know when he can hear again.

Q47 **Chair:** Thank you, Ms Little, for that. If you can park that, Mr Bailey, we will come back to Mr Schofield shortly. In the letter that you kindly sent us on 19 March, Mr Harra, you talked about the completion of downstream compliance activity in bulk as a way of building a better picture of the issues around fraud. What is your timeframe for that? As you rightly highlight, compliance inquiries take time. How much time do you need, and when will you have a better idea of what the true level of fraud and error is in this area?

**Jim Harra:** We obviously made some initial assumptions, which we used for planning purposes. We discussed them with the Committee before. We are working to enhance those assumptions and turn them into an estimate in time for the accounts, because we will need to make an estimate for the accounts. That will then carry on, and I think it will be the end of this calendar year by the time we have done enough of the random inquiries to have a valid figure that has some statistical rigour to it. In the meantime, we will be improving that estimate over time as best we can. Certainly, we aim to do that.

**Chair:** So every time you are in front of us, we will ask the same questions to see how you are doing.

**Shaun Bailey:** I have quite a lot of stuff that I want to raise on the DWP point, but I am conscious that that probably needs to be addressed to Mr Schofield. If you are happy, I will park my questions for now. They are quite important points, and Mr Schofield probably needs to address them himself.



**Chair:** Absolutely. He will certainly be back. I am sure we will get him back one way or the other. I will alert colleagues when that happens. In which case, I will turn to Sarah Olney to pick up, if that's okay.

Q48 **Sarah Olney:** Yes, that's fine. Standing by. I wanted to ask some questions about what lessons you are learning. This is to all three permanent secretaries. What have you learned from tackling fraud and error over the last year, and how will you be sharing that across the rest of Government?

**Sarah Munby:** I wonder if I might just start by picking up the earlier point about resourcing levels, because it goes to the lessons learned and it is an important thing to understand. In BEIS, we have a small and growing team working on counter-fraud. It is certainly not my aspiration to get to a point where I have hundreds of people working on counter-fraud. Our set-up is very different. If you think about the major fraud risks that we have faced in the recent past—in particular, bounce back loans—the primary resource devoted to fraud and recoveries on bounce back loans belongs to the banks, so we are not operationally managing fraud; we are providing that strategic, central brain. We now have a dedicated member of the senior civil service in the Department working on fraud.

What are the lessons that we have learned? We have found ourselves in a new environment, doing a lot more work on fraud. We were probably okay before, because we were a relatively low-risk environment for fraud. Our portfolio of risks are the very traditional risks that everybody faces around procurement or insider threat, which we have always had pretty good controls around. We are audited through our internal processes and so on, and we were reasonably happy in that space. Then we had a constant turnover of new policy programmes, and the main action that we took to combat fraud was that, at the start of those programmes, we made sure they were designed in a way that minimised fraud. We know that we didn't always get that right. The renewable heat incentive is a good example, and it is featured in the NAO's work.

We are now much more in the space of having some large-scale programmes that require bigger interventions, more difficult measurement and so on. I hope that will soon fade. I am not expecting to be running tens of billions of pounds-worth of grant or loan programmes into the future, but it has been a great opportunity to raise awareness and consciousness across the Department, do more training and get in more talent. Thank you very much indeed to Mark and the function for help in doing that.

We are now at a point where we will be, in the eventual post-Covid environment, able to say that we are truly managing fraud in a proper, professional manner. It is the simple things: having enough people who are well trained, clear assessments across us and our partner organisations about whether we are meeting the functional standards, and better reporting and measurement across all our schemes. It is that sort of systematic, careful process, across the full picture, that I think we are now putting in place with the help of the central team.



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I would add one specific, which is, on both the bounce back loans and the local grants work, I think we have found cross-Whitehall collaboration incredibly useful—and particularly collaboration in the field of data and analytics. So, to give a small but concrete example, on bounce back loans we have been able to offer banks a turnover check, working with Jim's Department, to help them spot potentially fraudulent applications through data that HMRC hold. That is one example. There is much more to talk about in that space, but I think there is more for us all collectively to do there, to bring all of the resources of Government to bear, in the sense of data and analytics, as well as professionalisation, training, resourcing and all of those things.

- Q49 **Sarah Olney:** I will put the same question to Jim Harra, on lesson-sharing across the rest of Government about what you have learned from tackling fraud and error during Covid.

**Jim Harra:** *[Inaudible.]*

**Chair:** I think we have lost him again. Can you perhaps continue with another line of questioning, Ms Olney?

**Cat Little:** Mr Schofield can now hear. It looks like Mr Harra might not be able to.

**Peter Schofield:** I'm back. If you wanted to ask me a question along those lines—

- Q50 **Sarah Olney:** I'll ask you that question, then, as well. What lessons have you learned in your sharing across Government, and how are you more effectively working across Government as a result of your experiences in the last year?

**Peter Schofield:** I think there are some general lessons, which probably pick up on some of the points that Sarah was making, as well, around collaboration and professions working together, particularly at the design phase. I would emphasise the importance of design in terms of trying to avoid fraud and error coming into the system in the first place. That has certainly been true, in terms of our experience of universal credit in the past; but some of the plan for jobs schemes that we have been working on. And for that, it is all the professions. It isn't just fraud or counter-fraud people. It needs policy. It needs finance votes. Crucially, it needs risk capability as well.

The second thing is absolutely around data analytics and the opportunity to share across Departments. When we think about the lives of individual citizens or taxpayers, or whatever, they might have interactions with different parts of the state, so how do we make sure that we interact closely with them? To give an example of that, when we were unable to do initial evidence interviews because social distancing meant that people couldn't come into jobcentres, which is traditionally how we would check people's identity and where they would present their documents for children and their rent and suchlike, we were able to share data with the registrar, so we were able to check in terms of things like whether people



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actually had the number of children they said they had, and do that in real time. So that is another great example of that.

The third thing I would say would be around working together on other types of enablers. You have talked a lot about skills. When I was here in September we talked about maybe additional powers. We were thinking about that in terms of enabling us to have data sharing with the banks around capital, for example; but the key thing is that when we make the case for more powers we look at what you need across Government and how we would work and make the most effective use of those. There has been a lot of discussion with Mark and his team around making the case for that and what we would use them for: so a wider set of enablers.

**Q51 Sarah Olney:** Back to Mr Schofield again: to what extent do you think building in additional fraud checks—you talked about designing them in at the design stage—may have impeded you getting money out to people who needed it? I am just trying to kind of understand the balance, here.

**Peter Schofield:** Universal credit was a good example of that. We had a number of checks that relied on people coming into the jobcentre—around ID, and I talked about children and housing as well. Obviously that wasn't possible during the pandemic, so initially we had to find other ways, which were less satisfactory ways, of trying to get into that data.

I shared some of this when I was here in September, but over time we were able to find new techniques, using data and remote methods, that enabled us to claw back on that. For example, on ID, from June onwards we were able to use enhanced biographical questions. We picked out some quite sophisticated questions we could ask claimants over the phone, based on information that we had on them but, you would assume, only they would know outside of that. We saw referrals to an enhanced checking service around suspected fraud start to fall quite dramatically as some of those came in place.

I won't bore you, but another good example would be on rent. For social rented sector tenants, the landlord portal enables us to look up and consult with the landlord over whether the rent that the claimant is telling us is, in fact, their rent. For the private rented sector, we have introduced more recently a tenancy upload feature. The tenant will upload the tenancy agreement so that we can check that before we put them into payment. All of these are things we have done to reverse engineer, as the design assumed face-to-face working. We have not been able to do that, so we have found other ways of doing it.

One final thing is that we have marked all the cases that went through when we didn't have the full restrictions in place. We know where they are, we know the cases and we now have a team of 1,400 people methodically going through those cases, one by one, to put them right. Even if they got through and we were paying them when we shouldn't have been, we will get them in the end.

**Chair:** Very refreshingly honest.



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**Q52 Sarah Olney:** I have the same question for Sarah Munby. I have heard a lot from constituents who are trying to apply for various bounce back loans. Some of the anti-fraud measures that have been put in place prevented them from accessing loans and so on. To what extent do you think that some of the fraud measures that you designed in might have created a barrier?

**Sarah Munby:** On bounce back loans specifically, the up-front checks were very limited. We have discussed, in some depth, the difficult trade off that was made at the time between fraud risk and speed of getting money out. Effectively, in applying for a bounce back loan, you would have to pass your bank's "know your customer" and anti-money laundering checks. That is really a minimum level of fraud prevention.

Anybody who was picked up by that incorrectly had very bad luck, but any more liberalisation of the front end of the process would have been a substantial mistake. That trade off exists in other schemes, but in bounce back loans we were, by policy design, already at the most liberal possible end, in order to get money out within the next-day timeline.

**Sarah Olney:** I don't know if we have Mr Harra back?

**Jim Harra:** Yes, apologies.

**Q53 Sarah Olney:** That's all right. You have given evidence to the Treasury Committee that you are not expecting to get a formal estimate of fraud and error on your schemes until the end of 2021, at the earliest. Can you tell us your plans for developing those robust estimates for the furlough scheme, the self-employed income support scheme and the eat out to help out scheme?

**Jim Harra:** As I mentioned earlier, one of the ways of getting at a valid measure is to carry out a random inquiry programme. Those take time to complete and, in the case of the self-employed, may well require us looking into the tax return as well as the claim. That is to get to a statistically valid measure, but it does not stop us, in the meantime, from improving our estimates all the time and from putting that back into our planning processes. That is what we currently have under way.

I would aim to replace our current assumption with a more up-to-date estimate in time for the departmental accounts, which are published in the late summer or autumn. Currently, it is looking like that estimate will be in line with the assumptions that we have made.

In the furlough scheme, the assumptions are very sensitive to the level of working while furloughed. It requires intensive investigation to get to the bottom of that. That is one area we are focusing on. Beyond that, at the moment it looks like our assumptions were fairly good.

**Q54 Sarah Olney:** Can you confirm that you will be carrying out your random inquiry programme for all three of the schemes that I mentioned?

**Jim Harra:** Yes, that is our intention. We have already published our evaluation framework for the furlough scheme. That was published in



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December. That is really the most effective way of getting a valid measure of error and fraud in the schemes.

- Q55 **Sarah Olney:** For the self-employed income support scheme recipients, what work are you doing to identify how many people may have benefited from those schemes when they were not adversely affected in the pandemic?

**Jim Harra:** The rules for that have slightly changed during the different phases of the self-employed—

**Chair:** Just to be clear, Mr Harra, we have your letter from 19 March, so we do not need every detail of what you have done in phase 3, I think it is, of SEISS. You can then answer Ms Olney's more general point.

**Jim Harra:** Okay. We will have data of what they have returned, and we will be able to compare that with their previous returns in many cases, but obviously there are some limits to what we can really do to police that. Of course, it also depends on how firm the rules were. As I say, it changed over time.

- Q56 **Shaun Bailey:** Mr Schofield, do you now have targets for how you are going to handle fraud and error in the Department? If so, what are the targets in terms of prevention?

**Peter Schofield:** Morning, Mr Bailey. What we said in September was that we would need to look at what the data told us about the overall position for 2020-21. The official statistics come out in only two weeks' time, and in the light of those we will then look at what that tells us about the baseline for fraud and error in DWP benefits, and we will set a target off the back of that. We are aiming to be able to say more about that in our annual report and accounts, which hopefully will be at the end of June or the beginning of July.

- Q57 **Shaun Bailey:** But my understanding was that you were actually due to set a target last year. I think that got put on hold because of the pandemic. You must have some feel as to where that target needs to be. For example, how about the 10.5% error rate? Are we going to try to bring fraud and error below that?

**Peter Schofield:** My answer to that has not changed from what I said in September and what we said in the Treasury minute. We need to wait and see what the data tells us. I suspect, as I said in September and a moment ago, that fraud and error will have risen. We need to understand the causes for that in the light of the pandemic. We need to understand how much of that relates to the easements that were in place during the course of the year. As I say, we are now in the retroaction and securing getting the money back.

How much of this relates to the case mix that we are seeing? As I said in an answer to the Chair a bit earlier, we are seeing an increase in the proportion of the case numbers who are self-employed or who have capital, and that poses greater risk. That would suggest that there is greater pressure on the baseline. That is really what I want to do. When I



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get the data in two weeks' time, I want to go through it with a fine-toothed comb and really understand what it is telling us about the case mix and the baseline data, and what impact some of the ongoing easements like the continuation of the pause of the minimum income floor, for example, could have going into the financial year that we are in now.

I am sorry that it will take some time, but as I said previously to the Committee, I need to look at the baseline data to be able to set a target that will be meaningful. I am committed to setting a target, because I think that this is something of great public interest where we should be being very open about what the path of fraud and error is likely to be.

- Q58 **Shaun Bailey:** Okay, Mr Schofield, but do you not have some sort of measure of success of what this would look like in terms of prevention? As the permanent secretary, even if you are waiting on the data you must have some indication, as the lead civil servant in the Department, of what you would see the measure of success as being when it comes to tackling fraud and error.

**Peter Schofield:** Look, I would be very keen to get us, ultimately, down to the level of the business case for universal credit, which is where there is particular pressure on the business line, but what we have talked about is a target for the year that we are in now, so the year we are going into. I want it to be realistic. There would be no point in setting a target that, given where we have been with the pandemic and given the nature of the changing case mixes, is just going to be out of reach.

A target has to be realistic. It has to be stretching. As you say, as accounting officer, I do need it to push and challenge the team and be reasonably stretching, so that it is really something that can be motivating. But it has to be realistic. I am really sorry: I am not in a position to set that target ahead of seeing the data. But the data comes out on 13 May, so it is not long to wait now.

- Q59 **Shaun Bailey:** I assume that you will provide the Committee with that target once you have set it and analysed the data.

**Peter Schofield:** Yes. What we have said in our Treasury minute response to your Report—I think this was at the end of 2020—is that we will go through that and try to set out as much as we can in the annual report and accounts. Your recommendations from the Committee were to go into some detail and to analyse, for example, the extent to which what we were seeing was fraud and error that resulted from the pandemic, which may be temporary, or was that which is more baseline. We have agreed to do what you have recommended and, as I say, the next stage in that will be the annual report and accounts.

**Chair:** Can I just say that we are heartened that you agreed to that? We are all concerned as a Committee that normal day-to-day activity should not be swept up under Covid, with Covid as a blanket excuse for problems that are actually nothing to do with Covid, so we do appreciate your trying to separate those out. We will be watching that very closely.



**Q60 Shaun Bailey:** In terms of the split between universal credit and the legacy benefits, the landscape that is still there, how is the Department managing that? Historically, you have focused very heavily on UC, given that migration, but how are you ensuring that you are factoring in legacy benefits still, because they are still part of that social security landscape?

**Peter Schofield:** Very much so. I am glad to say we got some extra money from the Chancellor in the Budget, £45 million, to spend in this year. Some of that is to roll out more something called Verify Earnings and Pensions, which takes the real-time information that we use really effectively in universal credit to assess PAYE-related earnings and their impact on benefits, and to apply it to other benefits, so things like housing benefit with local authorities, and pension credit. So yes, investment is going on in the other benefit lines, but universal credit is where the main pressure is and so there is—understandably, I think—greater focus on that, given the dynamic nature of what we are seeing in universal credit.

**Q61 Shaun Bailey:** Thank you, Mr Schofield. Chair, if I may, I will just turn to Ms Munby very quickly. Ms Munby, in terms of the bounce back loans, I have had a few conversations with the banking sector and particularly UK Finance, and they have front-ended a lot of the delivery on this. What work are you doing? Given the expertise that is there around recovery and fraud prevention—I know Mr Cheeseman touched on the co-operational approach that Government are trying to take on this—how are you trying to utilise the expertise within that sector to ensure that, in your work of error prevention and recovery as well, you are able to effectively manage that for the benefit of the taxpayer?

**Sarah Munby:** It may be worth saying—as a very simple answer, of course—that in the first place it is the bank’s responsibility. When those loans were made, the bank, in, effectively, taking the payment to carry out this service for Government, committed in each case to carry out recoveries, in line with their usual processes, for 12 months, on any bounce back loan. So the first thing we are doing is actually using the capability of the banks, but secondly, we are working collectively with the banks, through a process of very regular meetings, including with me and the Secretary of State, to make sure that expertise is being shared and we understand and they understand what the other is doing, so that we can bring it together. We are also serving them and helping them with information.

A good example of that is the work on fraud analytics that Mark’s team have been supporting us on. That is about bringing together all sorts of information that we have and using that to support lenders in their recovery and fraud identification strategies.

So I would say that it is a close partnership between us and the banking sector, as it should be. It is also important to say that we, in the form of the British Business Bank, have quite extensive audit and assurance activities to make sure that banks really are putting their backs into this, because of course we do understand that they do not have an immediate



commercial incentive in the same way that they would if it was their money that was on the line.

- Q62 **Shaun Bailey:** That is helpful. One point I would raise is that, certainly from my conversations, many of the banks are redeploying staff, particularly given the 24-hour and eventually 48-hour required turnaround on these loans. Those staff have now gone back to fulfilling their BAU functions, so there is a concern about the recovery effort that is needed. Yes, real praise for the sharing of the data and the analytics work and some of the assurance work, but the logistical delivery of some of these recovery operations that the Government requires them to do and follow through is not necessarily going to be possible. So how is your Department—if it is not your Department, which Department?—ensuring that the banks can actually recover the money that they handed out in error?

**Sarah Munby:** Clearly, this is an ongoing conversation with the banks, but ultimately the banks have made the commitment that they will carry out those activities, and we retain the right to claw back funding and guarantees if those activities do not take place. It is absolutely on us to provide the maximum level of support in terms of data, best practice sharing and so on. Ultimately, the answer is that the banks have taken on an obligation to do that, and we would of course ask them to follow through.

- Q63 **Shaun Bailey:** So in terms of a logistical resource to ensure that that happens, I see what you are saying, which is that ultimately you want to hold the banks' feet to the fire to ensure that they fulfil those obligations. But, just thinking logistically in terms of actually getting this over the line and getting the money back, the Department at this stage does not have any plans to intervene if necessary to front-end that operation and effectively ensure that whatever happens we get that money back.

**Sarah Munby:** In general, no, because I don't think we should put public money into something that is contractually the banks' responsibility, but we are planning to layer on top of the banks' activities not only the work that we are already doing on criminal investigation and recoveries of serious fraud in partnership with NATIS<sup>1</sup>—the police force we are using—but also a potential civil recoveries programme that we would do on top of the banks' activities for the set of fraud that we are better able to identify and counter, because of the position that we have, for example, where it involves multiple cross-bank pieces of data or issues. Our job is to lean in really hard on our bits of the problem here and make sure we provide as much support as we can to the banks through that, but not to take over the banks' responsibilities.

- Q64 **Shaun Bailey:** How confident are you in terms of a recovery rate? Have you done any internal analysis as to what you are actually going to get back with that approach in terms of holding the banks' feet to the fire on

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<sup>1</sup> CORRECTION: BEIS has notified the Committee that NATIS is an investigation and enforcement body which works with police forces on arrests and seizures but is not one itself".



this?

**Sarah Munby:** It is important to say that the recovery rate is not primarily about fraud. The question of how much we recover is a question of how much credit loss there will be and how much fraud there will be. You can have instances where there is fraud, but you still recover, or where there is no fraud but you do not recover. The two are not the same. We have said that we cannot give an updated estimate on what the eventual rate of recovery will be on these loans, partly because it is deeply uncertain as it is primarily dependent on the performance of the economy. The healthier the economy, the more money we will get back. The less healthy the economy, the less money we will get back. That is why we gave such a broad range in our last annual report and accounts for the potential losses from the bounce back loan scheme.

**Shaun Bailey:** Thank you. I will leave that lying there for now.

Q65 **Sir Geoffrey Clifton-Brown:** Can I stick with you, Ms Munby, on this subject? You sought a ministerial direction before the scheme was introduced. Let us put it into context. It was at a time when the pandemic was just beginning. You needed to get a lot of money out to potentially save a lot of small businesses from going under. You sought a ministerial directive on a number of fronts, so you obviously had concerns before the scheme even came into existence. Not only did you no doubt have discussions with the British Business Bank, but what discussions did you have with Mr Cheeseman's Department in designing the scheme?

**Sarah Munby:** We did a full forward assessment of the scheme very early on. As you rightly point out, we knew from the beginning that this was going to have a higher risk of fraud than other schemes, because of what I have already talked about around a lack of up-front controls in order to enable money to be got out quickly for businesses who were at risk of imminent failure. I would have to go back and look at the record to understand exactly what the involvement of the central function is—Mark might be able to comment—but the assessment of the risk was very full. At the time, there was a clear decision that that risk was worth taking in order to get money out quickly to the full range of businesses that were suffering at that point. Because of the experience with CBILS, which was already running at the time—those are the slightly larger loans—we knew that with the standard level of fraud controls, it was not fast enough. That is why the decision was taken. We had a pretty clear understanding of the risks, even at that point.

Q66 **Sir Geoffrey Clifton-Brown:** Mr Cheeseman, there is a learning curve here. How closely was your Department involved in the design of the scheme? When new and untried schemes are introduced by Government, is there a more general issue as to how far and at what stage your Department is brought in to advise on fraud and error matters?

**Mark Cheeseman:** There were a lot of schemes being developed. With bounce back loans, as Sarah has said, there was an acceptance of a very high level of risk associated with that. The centre of the function, which is where I sit, was not involved right up front in the design phase, although



we have been involved quite closely with BEIS since. I would agree with you that the lesson—I think we have touched on it already—about how we increasingly get expertise in for the design phases of schemes has been a good lesson in general that we have all had.

**Sarah Munby:** I agree entirely with the point about getting more expertise in at the beginning of schemes. In this particular case, I do not think any additional expertise or analysis would have changed the answer. We had very good clarity on what the risks were. Through the process of getting a ministerial direction, we were clear about that risk. Ministers, for understandable reasons of public policy and to get the money out quickly, made the decision to tolerate the risk. It was not a lack of advice or expertise that led to that decision—I think it is worth putting that on the record.

**Q67 Sir Geoffrey Clifton-Brown:** That is helpful, Ms Munby. I will come back to you on the scheme, but I want to stick with Mr Cheeseman for a minute. I really want to understand how this works when a new scheme is brought in. Is it up to the individual Department to say, “We’re bringing in this, that or the other scheme, and could you advise on where you think the weaknesses might be in terms of fraud and error?”? How does it actually work? Is it entirely a matter of the Department’s discretion as to whether they consult you, or not?

**Mark Cheeseman:** In terms of consulting the central team, it is at the Department’s discretion, and we should remember they have fraud experts in the Departments, as well as people with experience in this space. We are on that journey of developing the counter-fraud profession, so it is at the Department’s discretion. What we then have, which are new, are the standards in the counter-fraud function and, as Cat has touched on as well, “Managing Public Money”, which these schemes were developed under, and others areas of expertise and other functions.

**Q68 Sir Geoffrey Clifton-Brown:** Can I ask you a question about speed versus better due diligence, if I can put it that way? We are talking about the bounce back loans, where there is clearly a big possibility that a large amount of public money may not be recovered—not necessarily because of fraud, but because of, as Ms Munby has made clear, creditworthiness, as they may not be able to repay the loans. But there is clearly an issue here with the speed of introducing a scheme that was necessary during the pandemic, as opposed to taking a little bit more measured approach, considering it a bit more and doing a bit more due diligence. We heard the other day from the culture recovery fund, where the level of fraud is reckoned to be very low and where they took time to consider all the aspects of fraud. Is this an area that your central function is looking at?

**Mark Cheeseman:** I came from an operational management environment, and there is always a balance between speed of throughput and control. In emergency management situations, as the international guide says, the balance clearly moves towards pace in order to get support out to communities and individuals who need it, so you always play that balance. It is about considering how we do that balance. As



Sarah Olney said, how you balance accessibility and control is one of those things that counter-fraud professionals and other professionals in policy, finance and risk management all look at.

- Q69 **Sir Geoffrey Clifton-Brown:** Ms Munby, finally from me on bounce back business loans. The British Business Bank's central estimate put the lack of recovery of funds between 35% and 60%, or between £16 billion and £27 billion out of a £44 billion scheme, so this is a very serious matter. You undertook to write to us on the bank's sampling exercise, which I believe was completed at the end of February. Where have we got to with the sampling exercise and publicising what the findings are?

**Sarah Munby:** That is the PwC sampling exercise, looking at bounce back loans, to come up with a specific estimate of fraud within that larger estimate of losses, as you describe. The team are at the end of phase 3 of 4. They expect to complete by the end of May, and we have committed to write to the Committee at that point. Of course, the ultimate deadline for completion is that we need to have a high-quality estimate for our accounts in order to have them signed off. We are planning to tell the Committee where we are before that, but that is the ultimate backstop.

The work takes time, and I will say two things about why, because that is important. First, what you are trying to do here is put together a lot of data sources to identify high-risk loans. Working through, for example, the GDPR consequences of that, not just with other parts of Government but with the banks, takes care and effort and needs to be done right.

The second thing is that it is a complex landscape. The interim work that I have seen to date demonstrates that the number of loans that we can pick out as being either what you might call definite—absolutely fraud—or as having evidence of very hardcore fraud, is really quite small. But there is a huge spectrum, which runs from having a set of loans that come from the same address—how likely is that set of loans to be fraudulent? Well, more likely than others, because that suggests that maybe you either have companies that are very closely related or are part of the same group that have applied for multiple loans. What does that mean? The spectrum runs right through to cases where it looks like the company's turnover was exaggerated. Is that fraud or was it a mistake? Working through that spectrum and the subtleties that sit behind it is not an easy job. That's why it takes time. If we could easily spot and identify the fraud, we wouldn't have let it happen in the first place. It is inherently a hidden crime.

**Sir Geoffrey Clifton-Brown:** That is very helpful. Thank you.

**Chair:** Thank you very much. Of course, we expect that your annual report and accounts will be dealt with before the summer, so that is the backstop deadline, but it would be helpful, if you have any information before that, if you can alert the Committee. Obviously, we are keeping a close eye on this, along with our sister Committees.

- Q70 **Olivia Blake:** Ms Munby, do you mind me asking about how BEIS is going



to ensure that the business grants that have been administered by councils have followed proper assurance?

**Sarah Munby:** In the case of business grants—this goes a bit to why we don't have hundreds of people working on fraud—it is LAs that are on the frontline. Local authorities are administering the grants, and they will all, for example, have carried out their own fraud risk assessment. We carried out a global fraud risk assessment across all the LAs and shared it, so those two things are working together. The same pattern has been followed throughout. For example, we have taken on support for enforcement of the most organised, serious, highly criminal cases of fraud. We have prosecutions taking place through that programme, whereas LAs will be responsible for the more low-level recoveries process. From quite close to the beginning of the programme, they have all had very clear guidance on how we expect recoveries and fraud to be handled.

On the question of whether LAs have the right capabilities, there is obviously a variable level of practice. It is fair to say that, unlike the core Department, local authorities deal with fraud of various kinds as part of their day-to-day business, so in terms of the numbers and the boots on the ground, they are probably even better equipped than we are to handle this kind of process.

Q71 **Olivia Blake:** Is there a chance that if they didn't do it quite well enough or they weren't robust enough, they would face the likely exposure of that? How robust do you think you have been in response to this?

**Sarah Munby:** A few thoughts on that. One is that we are carrying out a similar sampling exercise to the one that I just described for bounce back loans, and the ones that Jim described, in order to get a better view of what the fraud picture looks like. That sampling exercise is being carried out at the moment, in time for our annual report and accounts. When we see what that looks like, we will be able to give a more fact-based answer about how the picture varies by local authorities.

It is fair to say, by the way—I think it is important context, especially having just talked about bounce back loans—that this is a much lower-risk environment. Bounce back loans are one extreme of the risk profile. These grants are primarily based around rateable properties. Those properties physically exist, and local authorities had good records of them at the start of the process. While we absolutely need to take fraud seriously in this grants case, it is at a very different end of the spectrum relative to the bounce bank loans.

Q72 **Olivia Blake:** Moving on to transparency, I would like to get Mr Cheeseman and Ms Little's views on this. What are your plans for improving transparency over efforts to tackle fraud and error?

**Mark Cheeseman:** I will go first, if that is okay, and then pass to Cat. I mentioned that the counter-fraud function produces the fraud landscape report. That was a deliberate decision following the NAO's fraud landscape report in 2016. Indeed, echoing the language used in that, it said that the



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centre should focus more on the broader picture outside DWP and HMRC, where figures are published.

With the fraud landscape report, we published detected, prevented and recovered figures from Departments, and compliance against the functional standard. The function intends, working with Departments, to continue to become increasingly transparent in how the whole of Government deal with fraud. We will have all the publications that colleagues in DWP and HMRC have, and the annual reports and accounts that Departments publish and what they publish on that. In addition, we will have a cross-Government picture in the landscape report.

**Cat Little:** To expand on the financial reporting requirements, obviously the FReM, which is overseen by the Treasury, sets out very specific requirements for both the corporate governance and the annual report part of the annual reports and accounts, and for the financial statements. That is where we expect to see the vast majority of detail reported on a timely basis. As this Committee knows, we are working really hard with the NAO to make sure that those annual reports and accounts are brought back into a more regular timetable, so that we can very quickly get financial data out to the public and to Parliament.

The other thing that I would say is that “Managing Public Money” is the other key bit of guidance here, and we are in the process of updating “Managing Public Money”, including annexe 4.9, which specifically talks about fraud risk and our expectations there. That update will be published in due course in May.

Q73 **Olivia Blake:** Will that be much more clear about accounting officers’ responsibilities around tackling fraud and error?

**Cat Little:** I think the current version of “Managing Public Money” is very explicit about accounting officer requirements. What we are doing in the latest version is making sure that all the different types of guidance that are relevant to fraud are clearly signposted. We have had some feedback from users to make sure that there is clearer signposting to all the different bits of Government guidance. Mark talked about the fraud standard. We also have the Orange Book, which talks about risk management, so we are making some clarifications, but I think that the current version is very clear.

Q74 **Olivia Blake:** Why is it not mandatory for proposals that change controls, policies and regulations to include fraud impact assessments and counter-fraud action plans?

**Cat Little:** “Managing Public Money” sets out a whole host of areas that we expect Departments to consider when designing policy, including counter-fraud, and we ask that accounting officers record and make explicit the judgments that they have undertaken as part of policy design. Ms Munby talked earlier about how that was undertaken for bounce back loans, but that is already an expectation of accounting officers. I would like to think that if you went to ask individual accounting officers how they



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considered counter-fraud in policy design they would be able to share the explicit evidence as to how that was undertaken.

Q75 **Olivia Blake:** But you do not feel that it should be mandatory.

**Cat Little:** Obviously, “Managing Public Money” in itself is the sort of bible for managing public funds. I very much see it as the first port of call and it is a mandatory requirement for Departments to consider it and to follow it as the core guidance on use of taxpayers’ funds.

Q76 **Olivia Blake:** So you are confident that that is robust enough as it stands?

**Cat Little:** I think that the guidance in itself is clear, but we have to ensure that there are assurance mechanisms. I mentioned earlier that we meet with all accounting officers to go through their assessments of how they have accorded with the guidance and their responsibilities in respect of financial management. However, we also rely very heavily on the National Audit Office and internal audit to make sure that we build up a picture of how well “Managing Public Money” is ultimately adhered to.

Q77 **Olivia Blake:** Looking forward, what more do you think could be done to improve the consistency of what is reported across different public sector bodies? I am very aware that there are many public sector bodies that are not represented here today, and I just wondered if you have any areas of concern that you will address in the future, and what more can be done?

**Cat Little:** We go through a really important exercise every year, where the financial leadership group of Government sits down with the National Audit Office and we go through all the thematic lessons learned from reporting—the annual reporting accounts in particular. Mark might want to say more about specific fraud reporting. But as part of that process, we get into the detail of where there are differences on presentational aspects. This year in particular, we have talked about covid. I am sure we will talk about fraud risk as we go through this year’s year-end process. So we do a lot of that as part of our normal feedback processes and sharing of good practice.

**Mark Cheeseman:** Absolutely; one of the things we did quite early in 2013-14, before we were a function and when there was a small policy team in Cabinet Office, was to agree with Departments across Government common definitions of fraud and a common typology, and all Departments then report centrally against that typology and definition. Fraud is as it is defined criminally but to a civil balance, so we can actually see where Departments suspect it is going on, rather than where we have proved it, which can be quite a long process.

I feel we have a good foundation there. I think there is more work that could be done within my team and within the wider function, just to make sure those numbers are as robust as possible and continue to be. That is both through checking of those numbers and through the journey I have talked about—increasing the capability across the system to understand



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those numbers. Having run a fraud unit, I know that those numbers aren't always as simple as they first seem when you get underneath the skin of them. Trying to make sure there is that consistency and understanding across the piece is really important.

I also think that, in terms of reporting, it comes on to the measurements, which we have touched on as well. Those measurements, or what Government's view is of the overall measured level of fraud and error, are published in the landscape report. Going further on that, we have a standard for how we measure, and the function will be helping the Departments that do not usually measure with assurance of the measurements they do use, to increase both transparency and confidence in those numbers.

**Q78 Peter Grant:** Mr Harra, I want to ask about the level of transparency that surrounds the furlough scheme in particular. As you will know, I have contacted you on a few occasions when constituents have come to me with concerns that a business that they believed was receiving furlough payments was also working, or working almost normally.

Do you feel that the way you are publishing information on furlough payments is sufficient to allow members of the public to allay their concerns in that regard? Do you feel that you give enough information for the public effectively to act as your eyes and ears, to be better informed about alerting you to potential fraud?

**Jim Harra:** Obviously, while we welcome information from the public if they have any evidence of fraud, we are not particularly reliant on it in terms of managing the risk. Nevertheless, we want to be transparent. We have taken two key steps. First of all, for furlough claims for periods starting on or after 1 December, we have published details of the employers who have made those claims and the size of those claims within bands.

In addition, if you are an employee who is in an employer's furlough claim, you can see that in your online personal tax account. If you go in there, it will tell you whether from December you have been the subject of a furlough claim. If the public, having seen that information, have concerns that those claims are incorrect, then we have our fraud hotline, on which they can contact us—anonously if they wish—to provide us with that information. We always review and act on that information as necessary. The primary reason for that transparency is really just for public transparency of how public money is being spent; its primary purpose is not to get that information flow for management purposes because, as I say, we have our own capability to do that.

**Q79 Peter Grant:** I appreciate what you are saying about an employee knowing that they are part of a furlough scheme, and that is all very well if an employee does not want to be involved in a fraud committed by an employer, but if the employee is part of fraud, which, sadly, will be the case in some cases, and is the only person who gets a letter, they are not going to do anything about it.



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I want to pick up on your comment about published details. What is published on the website is the name of the business—it does not say anything about where the business is based. Very often, even if the business is described as a limited company, it does not give the company registration number. It should, but sometimes—I have some in front of me now. One is a limited company, but the company registration number is blank. It is impossible even to sort those claims—the 800 or 1,000 of them—in order of size, because of the way the information is formatted. It is formatted as words rather than as numbers, so you cannot sort them in order of size. A big company might have shut down parts of its operation but have others operating normally. It gives no indication as to the geographical locations of those employees who are being furloughed. It does not give an indication of whether it is the entire workforce or part of the workforce—you can guess from the size of the numbers.

Did you consider, when you were deciding what to publish, using it as a way of allowing members of the public to be better informed about alerting you about potential fraud, given the levels of fraud that we all appreciate we may be facing as part of this scheme?

**Jim Harra:** There are limits, I'm afraid, to the data that we hold and which we can publish, so it is not a case of withholding data here. If we take what you said about geographical locations, for example, you are right that a large employer may have closed down one part of its operations in one part of the country and put those staff on furlough, but that is not information that is on the claim that we are readily able to publish. Frankly, we publish the data that we have.

As I say, the aim of this is to be transparent with the public. I know from the media, for example, that there has been quite a lot of interrogation of that data. If it helps us to manage fraud, that is great, but we do not see it as a necessary and core part of our fraud management to rely on that kind of information.

Q80 **Peter Grant:** To be clear, are you answering my question by saying that you did not consider using the publication of the information as one of the tools in your armoury to help to detect fraudulent claims? You didn't intend that to be part of its use?

**Jim Harra:** No, sorry—I may not have spoken clearly. It is one element, and we do welcome information from the public, but we are not reliant on it, and we were therefore not reliant on the public sharing that information to manage the fraud risk. Of course, if by publishing it, we get some useful information from the public that supplements our own analytics, then by all means, that is very welcome.

**Chair:** Of course, the Committee has made representations before.

Q81 **Shaun Bailey:** Ms Little, can you talk me through how the Treasury in particular—perhaps other colleagues will want to jump in here—assesses the feasibility of recovering moneys that have been lost by Government through fraud?



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**Cat Little:** We work very, very closely with Departments and the counter-fraud function, but it is ultimately up to accounting officers to undertake their assessment of feasibility in line with managing public moneys for accounting officer tests. Ultimately, we rely on departmental and accounting officer assessments. It might be useful for one of our accounting officers to talk through an example of that.

**Peter Schofield:** We have a lot of different ways of recovering debt, but obviously some people we collect debt from are vulnerable or have low means, or may have been subject to identity theft, for example. The first thing is assessing whether this is a debt that they themselves have accrued or whether it was accrued on their behalf through some sort of identity theft. If it is attributed to them, we seek to recover, if they are on benefits, by a deduction from those benefits. Throughout that, we have established mechanisms in place for anyone who feels that debt recovery is causing hardship. We have done things such as reducing the cap on deductions, which we did earlier this month, to 25% of universal credit.

Ultimately, it tends to be around the timing of recoveries. Over time, we will find ways of recovering, whether it is through, eventually, deductions from benefits, or if someone moves off benefits, through voluntary repayment arrangements, or, if necessary, direct earnings attachments, and ultimately through recovery from estates. We tend to always assume that we can recover all the debt that is accrued. There are very limited cases in which we would write off.

Q82 **Shaun Bailey:** That is really helpful. You talked about how you go about that, but what is your measure of success? That comes back to the whole point about targets and metrics, and how you measure this. What is the measure of success when it comes to recovery? How do you quantify that?

**Peter Schofield:** We report on this in our annual report and accounts. We have a measure for the amount of recoveries that we seek to make each year, which we obviously discuss with the Treasury. In the case of the year we are in, obviously, in our annual report and accounts, we will be able to state the number, but we had three months in which we suspended most debt recoveries, which will have had an impact on the overall recovery. Obviously, all that was considered at the time the decision was made. Recoveries restarted fully in November, and I am glad to say that the teams did a fantastic job through the rest of the year. We will be able to say what the numbers were. But yes, we agree an objective for the recoveries, in cash terms, that we will make each year, and then we report on that in the annual report and accounts.

Q83 **Shaun Bailey:** You touched on vulnerable people in your preceding answer. Obviously, the breathing space scheme is available to vulnerable people. Again, how do you ensure that there is a degree of equitability, enabling you to still make those recoveries but without impacting the most vulnerable in society to the point where it is just not happening? A balance needs to be struck there surely.



**Peter Schofield:** You are absolutely spot on. Given the nature of many of the people we serve, that is a massively important issue. As I say, there are a number of features here. There is a sort of policy angle of capping the maximum deductions. Some years ago, it was 40% of benefits—of the standard allowance—which was reduced to 30% and then, as I said, earlier this month it reduced to 25%. Even within that, we prioritise the order in which we recover different types of debt. We prioritise, first, really essential debt, such as rent arrears and utilities. Benefit repayments and tax credit repayments are a fair way down that priority list. We make sure that people are able to pay key, day-by-day costs as they go along. Obviously, if someone feels that they are unable to pay, they can phone the debt management team and we will look into their case on an individual basis. The team can then allow a suspension for a period—I think it comes to about three months—or a reduction in repayment levels.

Q84 **Shaun Bailey:** I will touch on one point that might affect all the accounting officers. We talked earlier about the civil enforcement that might be possible. Given the issues that we have, particularly in the justice system—backlogs and all that; this Committee has touched on that previously—how confident are you that you are actually able to pursue the stuff that you need to? I am thinking particularly of Ms Munby. How, in the worst-case scenarios, will you be able to do this? I, for example, have a local authority that is very concerned. I appreciate that it is on a slightly different level to yourselves, but it is very concerned that it is not going to be able to recover some of its stuff because there is a ridiculous amount of backlog, particularly in the court system, which will not enable it to do that.

Thinking of the more extreme cases, is a more holistic approach not needed on how this is resourced? It is all well and good setting up teams or giving directly to Departments, but how much of a broader view of that enforcement system is being taken?

**Cat Little:** One of the big tasks for our policy work in advance of the spending review '21 will be how we go about making sure that we recover from the very detrimental impact that Covid has had on frontline services. Whether it is backlogs in courts and in the NHS or catch up for education, they are right up there in the priorities that I know will be important for our considerations.

Obviously, for the current financial year, we have put a lot more money into the justice system to make sure that it has the capacity to try to recover as much of the backlog as it feasibly can during this financial period, but the real effort now is on what the options are for going further and what funding the Government want to put into it. That will be a matter for the spending review, and we will have to consider it in the round.

Q85 **Sir Geoffrey Clifton-Brown:** It is very easy where there is a shortage of money to categorise that as fraud, but, as you know better than most, “fraud” is a very specific term, where you have to prove intent. How are you helping Departments categorise fraud, as opposed to pure error?



**Mark Cheeseman:** As you say, the difference between fraud and error is intent, and intent can be a complex thing to establish. As we were discussing earlier, if you are taking the criminal route, that would be established in a court of law. You present the evidence and that is where that is established.

The capability standards—the standards we have on investigating—which Departments will steadily bring their staff in line with, have content on how you understand intent. Equally, that is part of the definitions work that I spoke to earlier. Where we don't define it to the criminal standard, we define it to the civil, but we have those conversations with Departments about understanding that intent. As you said, that is not a clear line because, when it is not done to a criminal standard, that is a judgment call for someone to make on whether they expected the intent to be there when categorising that type of loss.

How we deal with that more generally is similar to what Jim and Peter have spoken to. When dealing with fraud, you deal with fraud and error. When looking at what controls to put in, if you can get the controls and improve the controls, and make the controls better and better, the intent is less important. That is then a matter where we decide to investigate and look for intent, rather than something we have to deal with throughout the system.

**Peter Schofield:** To add to that and give some examples, in our world, one of the biggest areas of error is around someone failing to tell us about a change in their circumstance. Then you come to the question of what is intent and what is someone just not doing it.

One of the big investments we have been making—capital error is one element of this—is in making it easier for people to inform us of a change, with more opportunity to do that online and more prompts to do it. It is a relatively simple thing to do in a way, but what we are finding is that that is potentially making some difference in sweeping up the type of error that is not really fraud, but is someone not getting round to telling us or having felt no compulsion to tell us about a change of circumstance.

Q86 **Sir Geoffrey Clifton-Brown:** That's really interesting. How do you encourage a culture that enables people to come forward and admit that they have made mistakes, so that they know that they will not necessarily face the full rigour of enforcement, back-payments and so on?

**Peter Schofield:** On back-payments, we would seek to recover anything they owed that they should not have had, but I guess the first thing is around making it easy for people to be up front. Actually, the first thing is being able to use data matching, so that the system picks it up before they need to. They might have told one arm of the state about something and we pick that up as well. That makes a difference, as we can correct before the payment goes out and they don't actually have to tell us.



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With something like earnings in universal credit, by and large if you are working for an employer and you get a pay rise, you don't have to tell us because we will know through the PAYE system and we will automatically adjust your universal credit as a result. That is the ideal. That is ultimately where we would love to get to in all this.

The second thing is making it easy for people to be able to tell us about a change in circumstance, even something trivial, such as moving house, because that might have an impact on rent. It is making sure that if someone tells us about a change of circumstance in one benefit line, we pick up on that elsewhere.

Then you get into all the questions around the nature of enforcement and response. Increasingly, as Jim was saying about HMRC and the same is true for us, we want to pursue with the full force of the law those organised gangs and that organised fraud—IT hijacks and such like—where the fraud and benefit may be hiding some other organised crime that we really want to get to grips with. That means we can then use administrative and civil penalties for low level fraud.

**Q87 Sir Geoffrey Clifton-Brown:** Mr Schofield, you must have read my script because my next question to Mr Cheeseman is about that top end—the serious and organised crime relating to fraud. Do you work very closely with the Government agencies relating to IT, intelligence and cyber? It is almost a game of cat and mouse, isn't it? I am sure that Mr Harra, HMRC and the DWP must experience this all the time. The more you discover about different avenues of fraud, the more the serious criminals are getting one step ahead to try and get cleverer and avoid that. How are you working with the Government agencies to become cleverer and cleverer at detecting this serious fraud?

**Mark Cheeseman:** There are a number of ways that work. I will pass to Jim if he wants to talk on HMRC specifically, as I know they have close relationships there. Having a function has enabled us to come much closer together on that. It is an explicit part of our functional strategy that we link up with cyber and that security side. We do that increasingly; it is an area where we want to do more, but we do do it.

The functional board brings together fraud leaders across Government, including the Serious Fraud Office, the City of London police and the National Crime Agency. During Covid, we were pleased by how the fraud community came together. We set up what we called a pseudo-board, which was where all those agencies, including the National Cyber Security Centre, sat. We shared what we were seeing and produced guidance that we put out to Departments around that.

The NCA itself set up an intelligence group, of which we and Departments were a part. This is an area where we can always do more. The more cohesive we can make that system, the better, but I feel we are heading in the right direction.

**Q88 Sir Geoffrey Clifton-Brown:** Mr Harra, you are welcome to comment if



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there is anything you can add.

**Jim Harra:** In 18-19, our overall tax gap was £31 billion. About £4.5 billion of that was criminal attacks by organised gangs, so it is a significant problem. We work closely with other agencies in joint working, in sharing data and analytics, and in managing that, and with other tax authorities.

Our experience is that a lot of the gangs we deal with specialise in the tax system and they are not necessarily involved in other types of criminality, although clearly some are. The nature of it is that it is very hard to arrest your way out of, because of a lot of them are operating extra-judicially and are well hidden. While we obviously want to arrest, prosecute and convict these people if we can, a key part of our strategy is to disrupt their activities and make them unprofitable.

If you look at alcohol fraud, where we have had a concerted effort in recent years, that is what we have done. We have tried to use the legitimate supply chain to make it really difficult to commit these frauds and drive them out, and we have seen the alcohol fraud level go down as a result.

Q89 **Sir Geoffrey Clifton-Brown:** That is very helpful. Mr Cheeseman, the EU used to have quite a lot of anti-fraud measures in relation to funds we operated on their behalf. Are you confident that, now we have left the EU, individual Departments—I will give you one example, which is the single farm payments in DEFRA—have sufficient anti-fraud measures in place to take over from what the EU used to do?

**Mark Cheeseman:** One of the other functions that I am involved in is the grants management function, which is the other side to the commercial function and is dealing with grants. A lot of the payments that have come from the EU to be administered from the UK are grants, and throughout the transition, the grants management function has been overseeing and working with Departments on how they are transitioning those payments. We provide a view on where they are and provide advice to those Departments on how and where those schemes are progressing. I couldn't comment individually on the schemes at this stage, but we do monitor that overall.

Q90 **Sir Geoffrey Clifton-Brown:** In terms of the Fraud Advisory Panel and data sharing, does that fully cover debt recovery?

**Mark Cheeseman:** Sorry, can I check what you mean by "fraud advisory panel"?

Q91 **Sir Geoffrey Clifton-Brown:** Well, in terms of debt recovery, does every Government Department share the necessary data to make sure that where there are schemes that are cross-Government, all the necessary data is there to recover the debts?

**Mark Cheeseman:** One of the other functions I am involved in is the debt management function. Obviously, a lot of Government debt is held in HMRC and DWP, but other Departments also have some debt, and that is being impacted by Covid. We have something called the debt market



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integrator. If Departments are struggling to recover debt, they can pass it to that, and it does a lot of data analytics and corralling. Using the Digital Economy Act, we have run a number of pilots on the debt management side to bring data together. Again, it's an area where we could do more, but we are moving on that space.

- Q92 **Sir Geoffrey Clifton-Brown:** Finally, an area that I am particularly interested in and concerned about is local government. Are you sure that anti-fraud measures mean that fraud is being properly detected by either the Department or by the local government audit function, or is there a gap in between where fraud may be occurring in local government and nobody is picking it up?

**Mark Cheeseman:** The first thing to highlight on local government is the localism agenda. The local authorities don't have accountability or reporting lines; my scope is largely over central Government. However, I am the head of the fraud function, and I do see and have an awareness. I also run the national fraud initiative, which provides data to individual local authorities. From the data we have seen, I would say that the capability is variable across local authorities, depending on their judgment of what the right capability is. That would be my view on where local authorities are. Cat, I believe you want to come in there.

- Q93 **Sir Geoffrey Clifton-Brown:** Ms Little, I am glad you want to come in, because although it is often trumpeted that what happens in local government is a local responsibility, it is ultimately taxpayers' money, so the Treasury should be interested in this.

**Cat Little:** Indeed we are, and we do work very closely, as you know, with MHCLG on the overall financial management framework for local government. I think this links to a discussion we had at a previous hearing, on the overall assurance that we have over local government. As you know, we are concerned about the state of the audit market and the fact that we have a couple of hundred local authority accounts that are delayed—late—and having an impact on our ability to assess the quality of the controlled environment overall, in Government. We are working very closely with MHCLG on the immediate next steps for the system leadership recommendation of the Redmond review, but I hope we will be able to give the Public Accounts Committee an answer soon.

**Chair:** We are doing two sessions on this, on 13 and 20 May, so we can cover all that then, I think.

**Sir Geoffrey Clifton-Brown:** That is very helpful, Chair and Ms Little, and that is all from me. Thank you very much.

**Chair:** Thank you very much, Sir Geoffrey. Fraud and error in different Departments are really something we look at as bread and butter in this Committee, so it has been quite interesting to talk about those across Government. That gives us a lot of things to get our teeth into, but clearly there is also a lot for individual Departments. Maybe next time, with the Committee's permission, we will invite some of the Departments that are not here today, because clearly a lot of the resources are in DWP and



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HMRC. They are dealing with it all the time and, on the whole, quite well; obviously, we will challenge you on where you need to improve. We look forward to our report at some point in—well, I'm not sure whether it will be May even. It will probably be May or early June. However, the uncorrected transcript of this session will be up on the website in the next couple of days. I thank our witnesses very much indeed.