HOUSE OF COMMONS

International Development Sub-Committee on the Work of the Independent Commission for Aid Impact

Oral evidence: ICAI's review on Tackling fraud in UK aid, HC 441

Wednesday 7 July 2021

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Watch the meeting

Members present: Theo Clarke (Chair); Sarah Champion; Chris Law; Mr Virendra Sharma.

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Witnesses

I: Tarek Rouchdy, Commissioner, Independent Commission for Aid Impact; Stephen Blakeley, Team Leader, ICAI Tackling fraud in UK aid Review.

II: Lord Ahmad of Wimbledon, Minister for South Asia and the Commonwealth; Juliet Chua, Director-General for Finance and Corporate, Foreign, Commonwealth & Development Office; Mark Cheeseman, Director, Government Counter Fraud Function, Cabinet Office.

Examination of witnesses

Witnesses: Tarek Rouchdy and Stephen Blakeley.

Q1 **Chair:** Welcome to our first panel of witnesses for this evidence session on the Independent Commission for Aid Impact's review into tackling fraud in UK aid. Could I ask my two witnesses first to introduce themselves, starting with Stephen?

Stephen Blakeley: Thank you, Chair. My name is Stephen Blakeley. I was the team leader for this review.

Tarek Rouchdy: Good morning, Chair. Thank you very much. My name is Tarek Rouchdy. I am one of the two part-time commissioners with ICAI. My background is that of an internal auditor working for commercial and multilateral banks such as the African Development Bank, the European Bank for Reconstruction and Development. I am currently audit committee chair for a private listed bank in Egypt as well as being a non-executive director. Thank you.

Q2 **Chair:** My first question is what was the focus of the Tackling fraud in UK aid review? What were the key findings? Tarek, I do not know whether, as commissioner, you would like to answer that first.

Tarek Rouchdy: First of all, thank you very much, Chair. I apologise for one thing. I am currently transiting back into the UK, so I am in a hotel lobby on my phone. If there are any interruptions as such, I apologise beforehand.

There are two things that I wanted to mention before I focus on the report itself. First, if you have low levels of underreported fraud, that does not mean to say that fraud does not exist. Secondly, the Cabinet Office made a very good statement in its fraud landscape report of 2019, where it said that you have to find fraud in order to fight it. Those two themes weave their way all throughout the report, because the report is very much about finding more fraud.

The focus of our report was to look at counter-fraud structures within five government departments, mainly the government departments that had more than £100 million of aid expenditure to spend. What we were looking at was whether the counter-fraud structures within those government departments were appropriate for the profile of the operations. That is the focus. Shall I go on to the findings?

Chair: Yes, that would be helpful. Thank you.

Tarek Rouchdy: Overall, in the findings, we were very pleased with the way the systems were set up. All of the counter-fraud structures within Government were appropriate, and that is a positive statement to make. Nevertheless, there were areas of improvement all relating to the point that I just raised: finding more fraud.

Although we had various levels of maturity within government departments in terms of how they manage fraud risk, our overall recommendation was that in order to properly manage fraud within government departments it would be better to have a centralised function that oversaw ODA aid operations, essentially because ODA is quite a specialised subject. Therefore, having a centrally managed function overseeing those counter-fraud teams would be good.

The second recommendation revolves around whistleblowing. Currently within Government we have a number of whistleblowing mechanisms, be it email, phone, post, talking to a nominated advisor or raising the matter with the Civil Service Commission. In terms of the DAC rules on whistleblowing, streamlined whistleblowing is the recommended course of action, ie you need to have something whereby whistleblowers can easily access mechanisms and channels via which they can report fraud.

To give a very quick example, if I were posting a letter in Egypt in January to the counter-fraud team in Government within FCDO, it would probably get there by Christmas. Secondly, setting up a fictitious email account to send an email is identifiable and it is quite technically advanced to do, so it is not easy. Thirdly, if you were to phone FCDO to report a fraud, by way of an example, if you were an aid worker in a country such as Mali or Egypt, you do not have enough credit on your phone to make that call. Whistleblowing mechanisms have to be reviewed and streamlined in order to make them more accessible and less identifiable.

The third recommendation revolves around procurement. Procurement, as we know, is a big-ticket item. A lot of the expenditure in aid operations goes through procuring partners and implementing partners. Procurement is a blind spot within Government where the counter-fraud teams are not proactive in terms of identifying cases of fraud within procurement and outsourcing.

The fourth recommendation revolves around learning. Whilst we saw good examples of learning across the board, it was not as systematic as we would have liked. At the end of all my answers, Chair, I will just refer to Stephen to see whether there are any examples or added commentary he would like to make. Stephen, would you like to go ahead? Thank you.

Stephen Blakeley: Thank you, Tarek. Thank you, Chair. As Tarek mentioned, fraud is a hidden crime, so finding fraud is a good thing, a bit like finding Covid cases is a good thing. A lot of our findings and recommendations relate to that challenge. We acknowledge that it is not easy. We have to send a clear message that fraud is unacceptable while also creating an environment where people feel safe to report it and are motivated to report it.

We did find that many of the Departments had been working quite hard to encourage reporting of fraud concerns by their staff and delivery partners. Progress has been made on this. Delivery partners, for example, have got the message that they need to report suspected fraud. That was well understood by the people we spoke to and in the anonymous survey that we conducted to enable people to provide safe and anonymous feedback to us.

We also found that there was a very strong reluctance to report. Of the 420 survey respondents, which included government officials, first-tier service providers and partners and second-tier and other stakeholders, 80% said that they believed that fraud in UK aid was underreported, primarily because people are afraid or disincentivised from reporting it, including being concerned that it might damage the reputation of UK aid and lead to funding cuts to their programmes. More than 10% said that they had suspected fraud in UK aid but not reported it. While we acknowledge that it is a very difficult area, we feel that this is a really important area to be focused on. That is one of the reasons we looked into this in quite a lot of detail.

Tarek has mentioned the importance of whistleblowing and reporting systems to improve transparency and enable people to feel safe and to report back. It is also important to make it clear that you cannot just take the numbers at face value; you need to look underneath them to understand the reasons. A good example is that, if you look at the reported data, most detected fraud is reported as recovered, but often this is recovered from first-tier partners and not from the fraudster. While it looks like taxpayers' money is being refunded, there is still a cost to the wider system. We are not necessarily tackling the underlying challenge and issues. There is a lot of nuance that needs to be understood as a result of fraud being a hidden crime.

Overall, there is good foundation in many areas and there is momentum in the right direction, but there is quite a lot more to do to increase, as Tarek mentioned, the independent scrutiny and intelligence-sharing across and within Departments and, importantly, to foster a culture of openness and reporting.

Q3 **Chair:** Thank you very much. Tarek, are you satisfied with the Government's response to your recommendations?

Tarek Rouchdy: Overall, we are pleased that they have accepted three out of the four recommendations, but let me just tackle the one recommendation that they partially accepted, the first one. This was recommending that we have a centralised oversight body looking at counter-fraud within aid operations. We did not specify where that centrally managed function would be. They partially accepted it. Whilst we can see the argument for possibly looking at aid from a more centralised function within FCDO, given the merger between DFID and the FCO, what they have not told us in their response is how, given that 93% of aid operations go through FCDO, they can manage to do the oversight function for the other departments that are dispersing aid. The comment is acceptable that they will look at centralising it more within

FCDO. The question is whether FCDO has the visibility and the ability to govern the way fraud is managed in other departments.

When we come to the third recommendation, which is on the procurement side, they have accepted the recommendation that procurement should be proactively looked at, but the point they have not made is around how they will do that. They have mentioned that fraud has not been discovered in previous audits, but what we are saying is that we need a more systematic and proactive review of all contracts more or less monthly or weekly, but it should be constant to make sure that fraud is not apparent. As I said before, one of the biggest areas of fraud within the commercial world and within most Government expenditure is in procurement. Overall, they were positive responses, but there are still gaps.

Q4 **Chair:** Did the review considering the diversion of aid money through bribery and other corrupt activities?

Tarek Rouchdy: Fraud is a wide subject. It is a deceitful attempt to conceal money or to divert money. Anything that relates to aid diversion is covered. Our recommendation on whistleblowing is a mechanism by which you report wrongdoing. We would not have a hotline that said, "Press 1 for fraud; press 2 for corruption". You report fraud on a hotline and that is reported. The answer would be, yes, we did cover all aspects of wrongdoing that we would expect the counter-fraud team to go and uncover. Stephen, if I have missed out anything, please jump in.

Stephen Blakeley: Importantly, fraud specifically involves deceit or abuse of position. Most bribery, corruption, and other financial crimes, along with many other crimes, involves some sort of fraud. We were not pedantic about the definitions, but we did focus in particular on the deceitful and hidden aspects of the topic. For example, that is the reason why we conducted the anonymous survey and tried to dig underneath some of the numbers. Although we looked at all types of financial crime, including corruption and bribery, and did not draw a great distinction, it did affect our methodology.

Q5 **Sarah Champion:** Thank you, panellists. You noted in your review that up to 5% of all public spending is estimated to be lost to fraud each year, but less than 0.05% of those losses are detected. I wonder whether you could tell us a) whether that performance is good enough and b) how it compares with other overseas aid donors. Stephen, could I come to you as the hands-on part of the review?

Stephen Blakeley: Thank you very much for that question. This comes to the heart of the challenge. We know from research that is widely done globally that fraud levels are much, much higher than what we are detecting. When it comes to the question of whether the UK is doing as well or as badly as other government departments or other aid-spending bodies, broadly speaking our level of reporting is in line with those. I should point out that we did not set out to benchmark this as part of the review, but we do know that work by the National Audit Office, for example, in 2017 found that other donors including USAID, AusAID at the time and UN bodies also have similar very low levels of reporting.

On one level we are one a par with our partners, but the UK Cabinet Office does state that the UK intends to be the most transparent Government globally in how we deal with public-sector fraud. We were not really coming at this in terms of a comparison but really looking at what we are doing well and how we can do it better. That is really where the focus of this review comes.

Q6 **Sarah Champion:** Do they meet that objective of being the most transparent?

Stephen Blakeley: Like I said, we did not do the comparison so it would be hard for us to conclude that. What we found was that there were good systems and processes in place in particular to identify and mitigate fraud risk. We saw very comprehensive investigations taking place into the fraud that is reported. Where we felt that there could be more done is on this issue of trying to find the fraud that we cannot see and trying to find where things are happening that we do not know.

It is fair to say that there are a lot of good practices taking place, but there are also some weaknesses and blind spots, as Tarek mentioned, that it is really important to close up. There are some excellent practices in some departments. The Department of Health and Social Care, for example, sets targets on finding and preventing fraud. It has set some financial targets, which we see as good practice. We know the FCDO has adopted DFID's Smart Guides and Smart Rules, which have been built up over a long period of time. Much of those deal with fraud risk as well as many other programme-related risks. There are some very good practices, but there are also some weaknesses, gaps and blind spots.

Q7 **Sarah Champion:** Tarek, in your opinion, what impact do instances of fraud have on both aid beneficiaries and on the UK Government's reputation abroad?

Tarek Rouchdy: Thank you for that question. Any aid diversion is bad for the UK in many respects, and it is also bad for the end beneficiary. With aid diversion, less money will get to the end beneficiary. By definition, that will get relayed amongst the market participants. In addition, if we have fraud, corruption or mis-procurement, the implementing partners will not be the best in the area and the project will not be implemented well. That would send a bad message that, when it comes to UK aid, we cannot implement our aid projects well. Overall, if you are seeking to achieve a global Britain as such going forward, any aid that leads to bad aid or misdirected funds will send a very bad signal that we are not as transparent as we make out to be.

Q8 **Chris Law:** Do FCDO and other aid-spending departments give the appropriate priority to losses through fraud? In terms of the departments, would you say that some departments do better than others? Tarek, we could maybe begin with you.

Tarek Rouchdy: The Government pays through fraud losses. We have seen that in DFID we had the Smart Rules. In FCDO we now have the Smart Guides. All of these systems are there to ensure that we actually find fraud. Where losses are alerted to the counter-fraud teams, we have seen that the counter-fraud teams are quite reactive. They react well; they investigate; they obtain learning examples around what happened and how it happened for future cases. Losses are important to the Government, especially when it comes to fraud.

The point we are making in our report—this comes back to the theme that I said—is that in order to fight fraud you have to find it. That is what the Cabinet Office has said. We are not seeing the Government proactively looking for fraud. If we have cases of fraud that are running at less than 0.01%, it is not a positive sign. It could well mean that this is the tip of the iceberg. The whole report is essentially about going out and finding more fraud if we can.

Obviously—*[Inaudible]*—fraud because it may impact you personally. Therefore, improving the culture is part of the governance to make sure people report—*[Inaudible]*—as opposed to only reacting to it.

Q9 **Chris Law:** Thank you, Tarek. Maybe we can turn to you, Stephen. ICAI plans a separate review later this year looking at fraud prevention measures within multilateral aid contributions. Given, as we know, that there are going to be cuts to ICAI's budget, will you still be able to undertake this review as planned?

Stephen Blakeley: Thanks for that question. I will pass back to Tarek on the point about the ICAI cuts more generally because he has bigger oversight of that. In terms of the follow-on review, that is kicking off. We have our first kick-off meeting with the Government next week, so that will be going ahead. Tarek may want to comment further on the impact of the proposed cuts as well. If his reception is poor, I can also come in on that.

Tarek Rouchdy: I am hoping that my reception is good. Thank you, Stephen. The question on the proposed cuts that we have heard about is negative news. If you have an independent body such as ICAI scrutinising aid and you have a set budget that spans four years, any cut in that budget will impact the deliverables that we aim to achieve. IDC has a list of our reviews for 2021. I would say that any proposed cuts would impact those reviews negatively, meaning that either we cannot deliver on time or we cannot deliver the number of reviews that we have promised to achieve. I would be quite surprised if a cut were passed, because it also sends a message that the independence of ICAI would be threatened as a result. That is my comment on that topic.

Q10 **Chris Law:** Thank you, Tarek. My next question is what will be the focus of the review into fraud prevention measures within multilateral aid organisations? If you do not mind, I would like to ask, in summary, how much money do you think we are losing? It will be a guesstimate because we do not know, given the amount that we recover. Given the correct number of personnel, how much could we recover?

Tarek Rouchdy: At the moment, 52% of aid funds are being channelled through the multilateral banks such as the World Bank. To give an estimate of how much we are losing to fraud is just a guesstimate, as you rightly stated. The Cabinet Office did a study in 2019 and they estimated that between £3 billion and £23 billion was being lost across Government due to fraud and corruption. That is excluding tax fraud and benefit fraud. That is total Government expenditure, so that is a huge figure. They were only able to recover £474 million in the last five years.

By way of an estimate, it is probably impossible for us to put a figure on the amount with any certainty. What we can say is that, if you have mechanisms by which you can find fraud pretty easily and you uncover that the fraud rate is as reported, 0.04% or 0.05%, you can say with certainty that is the figure. At the moment, we have no realistic chance of knowing how much fraud is out there because the biggest chunk of money that goes out, ie procurement, is not being looked at on a consistent, proactive and well-managed basis. We only look at it when we hear of something. We should be looking at it more systematically.

Of course, a centralised function overseeing counter-fraud is important, because there are certain departments, for example, that do not provide fraud-awareness training across the whole department. If you have a department that has only provided fraud-awareness training to 20%, people may look at fraud and not recognise it to be fraud. There is a lot of work still to be done.

Q11 **Mr Sharma:** Does FCDO’s proposed intention to reduce reliance on mega-contracts with delivery agents give you confidence that the risk and extent of fraud will be reduced in the future?

Tarek Rouchdy: I will go first, and then Stephen can add on any gaps that I have missed. Thank you for the question. The suggestion by the Secretary of State for more mega-projects to go into the FCDO is a good development. The risk profile is still there. Fraud does not stop because we are going to be doing it ourselves; it will still happen. However, if you bring it in-house you will probably have better control over what is happening. Given that additional control, you can probably minimise fraud. It is a good development, but nevertheless that does not mean to say that fraud will vanish. Again, whether it is taken inside or left outside, we need a culture of reporting fraud and we need accessibility of whistleblowing systems so that, once fraud is seen and remarked on, it is reported. Stephen, would you like to add anything more on this point?

Stephen Blakeley: Yes, thank you. There is absolutely potential for reducing the risk of fraud, but just the act of moving away from mega-contracts and building capacity in government departments does not necessarily reduce fraud risk. It will be up to the FCDO, with support from the central counter-fraud expertise hosted in the Cabinet Office, to continue the work that is already going on and to create a culture where reporting concerns is encouraged within government departments and down the delivery chain. There is potential to reduce fraud risk, but with any major change there are potentially increased risks. There is a risk that, at the moment, we are relying on large service providers to manage fraud risk. We will be transitioning that, presumably, into government departments. Any transition has its own risks. There is potential, but overall it remains to be seen whether the risk can be reduced. It depends on how it is implemented.

We as ICAI and scrutiny bodies in general also have a responsibility to support a culture of openness and reporting and to treat finding fraud as a success, while also holding government departments to account for learning from what they are finding and making decisions based on evidence. We all have a role to play in that, and I include myself in it.

Q12 **Mr Sharma:** Thank you very much. What impact do you envisage that the Covid-19 pandemic will have had on the incidence of fraud since late 2019?

Stephen Blakeley: Thanks for that question; it is a very good one. As I mentioned, any major change will change the risk profile. There is not much that can be as major as the Covid-19 pandemic. In particular, it has affected risk in a number of really important ways. First, it has made in-person monitoring more difficult in many cases; it is hard to get out there and check things. It has also in some cases necessitated the rapid deployment of funds. It has changed the circumstances of partners in the delivery chain, incentivising them to do different things than they were before. It has also led to programmes and aid budgets being cut. All of those are big changes, and they can all affect the risk profile.

We tend to think of three factors that affect the likelihood of a fraud being committed. The first is whether there is an opportunity. Weak controls or an inability to go and check things would lead to an opportunity for people to commit fraud. The second area is the motivation. That could be to meet your daily demands or to pay the bills, for example. Again, the financial impact of Covid-19 can affect that. Thirdly, there is rationalisation or the ability to justify what you are doing. Again, difficult circumstances give people reason to justify what they are doing.

Based on that, it is fair to say that Covid affects risk. In most cases, it is going to be negatively. From what we saw, decision-makers are taking this into account. They do need to continue taking into account the changing risk profile. The changes have not ended; they will continue. We have to realise that in some cases it may be appropriate to accept higher risks if the rewards are justified. For example, giving life-saving aid with reduced visibility may in some cases be justified. In other cases, we may want to make changes, reductions or add additional controls to mitigate risks as well. There may be different risk profiles being looked at across government departments. That is appropriate.

It is really important to draw the distinction between accepting risk and accepting fraud. Whenever we make a payment, run a programme or do whatever we do, whether it is aid or anything else, we accept some level of risk. Provided that it is thought through, mitigated and deemed worth it, that can be appropriate.

Finally, I would just like to add that most of the impact of Covid on everything, including fraud risks, is negative. That is the reality. There are some positives. Covid has highlighted the value of building local monitoring capacity and strengthening accountability systems within recipient countries, because in situations like this we are more reliant on that. Investment in building local capacity and involving local expertise in aid scrutiny has the potential to help address fraud as well as programme-risk areas. That is maybe one of the small silver linings that we can take out of this.

Tarek Rouchdy: I just have a very quick comment. During my career, I used to meet with the heads of internal audit across all the multilateral agencies. One of the biggest risks that they always faced was whenever there were peacekeeping operations or an emergency somewhere, such as Haiti or on an island, and there was massive destruction, the procurement of equipment and lifesaving devices for that particular assignment was very quick. The push to rush the money out of the door was so quick that everything else was forgotten. Every control mechanism that you use to ensure that the procurement, supply, quantity and price was right was thrown out of the window. The main objective was to get there as soon as possible.

With the pandemic, I am sure that cutting corners was part of the whole exercise to get the money out there. I am not saying that in relation to the UK, but in general when you have an emergency there are corners that are cut. Mis-procurement can happen, and procurement rules are probably not observed as strongly as they should be.

Q13 **Chair:** I wanted to pick up on your point, Tarek, about risks. 50% of aid is now being spent in fragile states. I wondered what findings ICAI had about the particular risks around fraud, corruption and aid money being badly spent in conflict regions or fragile states.

Tarek Rouchdy: Thank you for the question. Fragile states present their own circumstances. One of the biggest risk profiles of a fragile state is the monitoring and the extent of the monitoring you can do in the field and on the ground to make sure the money is being spent well. Again, I have seen that from my experience in the African Development Bank. We had four or five fragile states. We had loans that were not disbursed properly and we were not able to monitor them. Monitoring is an important part of the counter-fraud structure that HMG has to be aware of. In fragile states, you would expect the levels of fraud to be high.

Here, again, we still have an overall low level of fraud. As I mentioned earlier, an underreported level of fraud does not mean that it is not happening. It means that we have to go out and look for it even more.

Stephen Blakeley: One of the really interesting things about fragile and conflict-affected states—we found this in the review that ICAI conducted on fiduciary risk in fragile and conflict-affected states—is that, because access is generally very difficult in those environments, there are some very good practices that can be learnt from for situations we are facing now in relation to Covid. Although risks are very high in some of these environments, sometimes the controls match those risks and we can really learn from that in other scenarios. We have seen that happening.

Q14 **Sarah Champion:** Pandemic aside, I wonder whether you could give us some examples of fraud or—Tarek, I cannot remember the word you used—divergence happening with UK aid either that you have discovered or that you have heard of anecdotally. Stephen, could I come to you for some examples?

Stephen Blakeley: Yes, absolutely. I should probably point out that this review did not set out to find new cases of fraud. That was not part of our objective. We did look at existing cases that were being investigated and, as I mentioned before, there was an opportunity for stakeholders to report their general views and concerns to us anonymously. We got a good idea of some of the concerns that people faced, but we should caveat that: the sort of information that we provided in the report was based on what we were told rather than conducting our own investigation, because that was not within our remit.

What you want is some examples, so I will give you some of those. We came across, for example, a circumstance where a service provider that had historically been high-performing, met objectives and had appeared to be accountable was found to have over-claimed its costs. This happened at the end of a contract that was closed earlier than expected, and no follow-on funding was going to come. Through discussion with the teams that were involved in that, the view that we heard was that the change in risk profile because that service provider was essentially having their funding cut increased the motivation for them to try to get as much out of the contract before it ended as they could. That is a good example where a change in risk profile, at the end of a programme in this case, can affect the motivation of what up to that point we can only assume was a very diligent and good service provider. That is one example.

We came across a number of examples that related to outsourcing, grants and procurement that were told to us. We did not investigate these, but we heard a number of different concerns both from government officials and from service providers. Many of these related to issues where a certain service provider or contractor was preferred and ended up on a contract without due process. In some cases, a local host Government recommended a contractor that was then contracted without a proper process. In other cases, we heard that consortia were asked to include certain organisations in order to meet a cultural requirement that the commissioning department perceived, and those organisations then ended up winning the contract presumably because they had been given that inside information.

Q15 **Sarah Champion:** On that, would you define that as fraud or would you define that as poor procurement practice? Why are you making the distinction?

Stephen Blakeley: There is some overlap here. Like I said earlier, we try not to be too pedantic about this because the systems and controls that are designed to identify these risks are the same; they are the same systems and processes. You are absolutely right: to some extent that could be poor procurement. It is fraud where there is deceit or there is an abuse of power. If you talked to the other service providers who were not asked to take that NGO on, for example, they would tell you that there was a level of deceit and a level of abuse of power. The main problem may be, in that case, that procurement rules were not followed or allegedly were not followed, but the fact that there was some level of deceit or abuse of power around it meant that we captured it in this kind of review. There is definitely overlap here. Good procurement practices, good monitoring practices and so on all help to reduce fraud risk. There is huge overlap between those.

What I would say about the alleged procurement and grant-making issues that we came across was that we did not come across any evidence that UK Government officials were benefiting from this. It tended to be that they were trying to finesse a delivery partner so that it met what they thought were the right expectations. There may have been, in some ways, altruistic aims, but ultimately some people lost out and other people gained. What we know from the feedback we received through this review is that most of the stakeholders believed that procurement fraud and fraud relating to over-claiming costs and over-reporting performance are the highest risk areas where fraud is most likely to happen in UK aid.

We can look at whether or not fraud occurred in individual instances, but this is a perception issue as well. The point about independent counter-fraud scrutiny of procurement is not just because we want the processes to be right. We want to demonstrate that they are robust to all service providers to give them confidence that, when they compete for a programme or a bid, they are competing on a level playing field. There is a fraud-mitigation angle, but there is also giving confidence to stakeholders that fraud is being mitigated.

Q16 **Sarah Champion:** One of those stakeholders, perhaps the one we ought to consider most, is the UK taxpayer. Tarek, I asked you earlier about fraud's impact on the UK's international reputation, but I wonder if you can give some comment on how fraud impacts on the view of aid within the UK. Whenever I tweet about UK aid, I always get people coming back saying, "It is all corrupt; it is all lining people's pockets". Your evidence shows that that is not true at all, but I wonder if you can speak to that perception of fraud in the aid sector in the UK.

Tarek Rouchdy: Thank you for the question. There is no question that when you have a media article that highlights a case of fraud within UK aid it does get blown out of proportion. Of course, UK aid is a part of what the UK Government do. We have a law that dictates at the moment that 0.5% of GNI goes to aid. That is what the UK does. When a fraud happens in UK aid, it negatively affects the opinion of UK aid amongst the common taxpayer. That is something that can only be minimised and mitigated by a consistent level of uncovering and minimising fraud. If you minimise fraud and you have low cases of fraud appearing in the press, people will be much more comfortable with the fact that UK aid is doing what it should be doing. That is the problem. The problem is that we do not see enough being done across areas that we would consider to be quite fraudulent.

I am repeating myself, but, when it comes to procurement, when it comes to launching big contracts, the Government procurement rules are not exactly, according to my own experience, standardised. They are quite flexible, in the sense that the route to market by the FCDO and other agencies is such that our selection of the supplier depends upon many factors, whereas in other multilateral banks they are only dependent on price. In other words, if it is more than a certain amount, it is done this way; if it is over a certain amount, it is done that way. The more we minimise fraud, the more the man or the woman in the street will realise that UK aid is doing a good job, and we will not have the bad media articles that send a bad message.

Q17 **Mr Sharma:** This is not a very important comment, but, Tarek, I was very impressed when you said that bringing services back in-house will give better control and a culture of openness. If you do not want to answer because it is not in your remit, do not answer. Would you say that this applies to every outsourced service? If the system brings outsourced services back in-house, does that statement apply?

Tarek Rouchdy: If I understand your question correctly, you are asking me whether I believe bringing outsourced contracts back in-house is a good thing.

Mr Sharma: Yes.

Tarek Rouchdy: As an ICAI panellist, as an ICAI commissioner, as an accountant, as a person who has had a lot of experience withing fraud and corruption, I would say that the more you shorten the lines of supply the better. In other words, if you do bring something in-house you are more control of your actions; you are more in control of what gets delivered. I do find that the overemphasis or the overreliance on outside contracts sometimes leads to bad governance, bad expenditure or wasted expenditure. A lot of these companies—I am not naming names—depend upon the UK Government for their livelihood. Therefore, there is a whole protection around the fact that these contracts are quite important for them.

The pricing of the contracts also includes other fixed costs that the FCDO already has. If the FCDO has a number of staff, buildings and vehicles, that is a sunk cost. If you use that sunk cost to do services yourself, you are saving money—there is no question about it—when you compare yourself to external outsourcers that have the same costs, because we are bearing both our costs and their costs.

Mr Sharma: Thank you, Tarek. I am obliged.

Chair: Thank you very much to our first panel.

Examination of witnesses

Witnesses: Lord Ahmad of Wimbledon, Juliet Chua and Mark Cheeseman.

Chair: We are now going to turn to our second panel. I can see that, Lord Ahmad, the Minister for South Asia and the Commonwealth at the Foreign, Commonwealth & Development Office has now joined us along with two colleagues from the FCDO and the Cabinet Office. Thank you very much for joining us, Minister. I will turn to Virendra Sharma for the first question, please.

Q18 **Mr Sharma:** Thank you very much, Chair. Good morning, my Lord. Do you agree with ICAI's assessment of your performance in this area?

Lord Ahmad: First of all, thank you. It is great to be back. I feel that it is almost becoming a weekly appearance, but it is always good to be amongst friends. First and foremost, as I have said on a range of areas across development, we welcome the role that ICAI plays. The same applies very much when it comes to the issues in this particular area. ICAI's report is very much welcome. We take on board the recommendations. In as much as we get better at tackling fraud, one should never forget or lose sight of the fact that those who wish to commit fraud, wherever that may take place, are also ever getting more sophisticated. We welcome the scrutiny, but we also welcome the recommendations. From my perspective—this is shared by my senior officials, including Juliet Chau, who joins me from the FCDO as our DG on finance—this is something we very much share and take seriously at the FCDO, because it is a job never done.

Q19 **Mr Sharma:** Why did the Government only partially accept ICAI's recommendation related to establishing a centralised ODA counter-fraud function?

Lord Ahmad: I am delighted to be also joined by Mark Cheeseman, who is our lead official at the Cabinet Office, but I can certainly give you our perspective. The short answer is that much of what has been put forward in the recommendation is already operationalised both within the context of FCDO and Cabinet Office responsibility across HMG. There are a number of areas where we are already undertaking these particular issues. It is in no way rejecting what ICAI is suggesting. On the contrary, the reason we are partially accepting this is because it is already operational. With your permission, Virendra, Mark may wish to comment on the broader Cabinet Office perspective.

Mark Cheeseman: Thank you. Yes, absolutely. My name is Mark Cheeseman. I am the director of the Government's Counter Fraud Function. At its heart, what the function does is bring colleagues together in Departments to learn together. Rather than every individual government organisation trying to work out how to deal with fraud by itself, we learn once as Government and we share that learning across the system. One of the ways we have done that, as referenced in the report, is through the functional standard, where experts have come together and said, "These are the basics that departments and public bodies should have in place to deal with fraud". That is then shared amongst the community.

That is the first thing that I would say. At its heart, the function is not so much bringing together people under an organisation but the sharing of practices and collaboration. The activity that the FCDO is doing with the other departments working on ODA to build a forum for those experts working in those departments to come together will work towards delivering many of the things the function does on the broader picture of fraud. In terms of the function itself, while there are specific elements to how fraud acts in ODA, when thinking about the tools and techniques that you can use to deal with fraud, there is more in common with other colleagues in other departments who deal with fraud than there is difference.

Q20 **Chair:** My question to the Minister is this. Where does overseas aid fraud sit within the FCDO's risk register?

Lord Ahmad: It is very much central. There is a specific officer in charge of this particular area. In terms of the structure of reporting, it is looked at in terms of procurement, project management and review. In terms of overall oversight, we have ministerial oversight on particular projects, mitigations ongoing in projects and independent reviews in this respect as well. On the specifics on the operational side, with your permission, Chair, I would bring in Juliet Chau at this point.

Juliet Chua: Thank you, Minister. I am Juliet Chua. I am the Director-General for Finance and Corporate. I am also the board-level risk and fraud sponsor, so I play a key role on this agenda across the department. To build on the Minister's response, fraud and fiduciary risk is very high on our principal risk register that we review at the management board on a monthly basis. It essentially sits at the top of our risk processes. At the operational level, every programme team will be reviewing their risks regularly. That will include a very clear focus on fraud, as well as an organisational fraud risk assessment on a six-monthly basis. I can assure the Committee that the fraud and fiduciary risk category sits right up there at the top of our risk register.

Q21 **Chair:** Thank you. Minister, how confident are you that other aid-spending departments are able to manage the particular fraud risks that UK aid expenditure presents?

Lord Ahmad: That is a very pertinent question. First of all, if I may, within our FCDO remit, as I said right at the start, the job is never done. We are ever looking at how we can further mitigate risks and improve. The baseline to all of this, Chair, is the issue of data. As data improves in terms of our own reviews, let us not forget the central principle that, where ODA is being spent often in the most vulnerable countries, the level of instability in systems and structures is that much greater and so the likelihood of fraud is also enhanced.

We have oversight within our own area through the mechanisms and tools that Juliet just mentioned. The Cabinet Office—Mark, again, may wish to come in on this—has a centre of expertise here. It has invested significantly in recent years to improve all departments' ability to identify and manage fraud based on the performance of departments. Yes, a large percentage of ODA now sits within FCDO; however, through training and experienced counter-fraud experts, all departments have the skills and ability to both manage funds but also, importantly, to look at the ever-evolving risks and mitigate appropriately.

Mark Cheeseman: The other departments delivering ODA spend also use the functional standard, which sets the basic. A comment was made earlier about wanting to be the most transparent Government in the world on this issue. We publish departmental, individual and organisational performance against that standard in the annual fraud landscape report. That is something that all of those departments have signed up to and are all working towards developing their capability on.

The second thing I would say, and where colleagues from ICAI started their evidence, was about how fraud is a hidden crime and to fight it we have to find it. It is across-Government policy to try to find more fraud in the system, to do more work to improve whistleblowing and to improve the use of data to find fraud and things like that. Whether it is FCDO, DHSC or BEIS, all of those departments are working on that agenda.

Lord Ahmad: Chair, if I may add, it is always good to provide a level of figures in support of this. Whilst we are never complacent, in terms of recovery when we identify issues, we have seen a rate of 94% in terms of recovering funds. There is a whole raft of issues underlying all of that. Yes, there is mitigation, training and support that we provide, but some of our key partners are also engaged and involved in identifying where fraud may be identified and reporting that back. Of course, they also cover that through insurance as added mitigation for any losses that may be incurred. The overall picture is that, as we identify more fraud—I fully accept the principle that more fraud is being identified; we have seen an upward trajectory—we are also recovering, as I said, a large degree of the identified fraud that takes place.

Q22 **Chair:** What does the FCDO give to other aid-spending departments to help manage the risks of fraud?

Lord Ahmad: First and foremost, two or three things are happening at official level. To the famous adage, "Do government departments talk to each other?" Yes, we do. There are various leads. For example, within the context of the G7, we are working very closely with the Home Office on issues of mitigating fraud. I also ensure that John Penrose, as the lead on tackling corruption for the Prime Minister, is also brought in to many of our discussions in this respect.

As the FCDO has the major budget, we deliver presentations and share our approach on the range of fraud-related topics, including investigative process and lessons learnt. We have also supported the recruitment and induction of ODA counter-fraud experts to other ODA-spending departments, and we have proposed a counter-fraud forum, which presents an opportunity to build on these initiatives. I am always open to ideas. There is always more to be done, but we do have a good, strong structure in place to see how we can meet this major challenge. Ultimately, aid should go to those who need it most.

Q23 **Chris Law:** Good morning to everyone. To begin, what risks did spending at least 50% of aid in fragile states and regions present for DFID? How do you respond to and manage those risks?

Lord Ahmad: First, I am glad that you have not called me Tariq-ji on this occasion, but we look forward to future engagements. You are spot on. I have already alluded to the fact that it is a real challenge, because where aid most matters is in that bottom billion. We want to help those who are most in need and those who are most vulnerable, but we also have to balance that against the fact that the fraud risks of working in the most fragile and conflict-affected areas are generally extremely high.

When we look at some of the support and some of the valuable work that FCDO does, there is a higher risk, for example, on the issue of seizure of goods and on looting. We have seen challenges in some of the conflict areas around the world. Yemen is a good example. Whilst we had the difficulty of getting the UN aid into the country, it is then blocked and we have to work with those who control different areas. There is a lot of duress; there is a lot of displacement of people. There are also fake beneficiaries, if I can put it that way. That is why it is important that we continue to review.

In terms of mitigation, we have developed further checks and balances. We operate an absolutely zero-tolerance approach to fraud wherever it exists in our portfolio. When funds go missing, I assure you that we take all the opportunities we have, all the avenues we need to take and all the actions that are available to us to identify and recover the funds. That is why, going back to the earlier figure I quoted, we can see that 94% of funds are recovered.

If I may, turning back to the ICAI recommendations, we have taken all of those on board. Indeed, coming in to this briefing, I asked specifically how many of those are now implemented. Around 79% of what ICAI has put forward both in this report and in other reporting is already being implemented.

Q24 **Chris Law:** Just on that note, we were hearing earlier that we only ever hear fraud reported when it is found. Of course, if we are not searching for it, we will not know. Between 2017 and 2020, fraud against DFID increased significantly from £5.9 million to £9.2 million. Can you explain what the reasons for this increase are? Who is it that is committing fraud?

Lord Ahmad: That is a very good question. When you see the stats on their own, they are a cause for concern. There is an old adage here as we strengthen our reporting mechanisms, and this applies to ODA as it does to other areas of Government support on any issue. As reporting and data improves, so we see an incremental increase in the level of fraud. Based on the evidence, I would argue that we are seeing more of this because we are identifying a greater level of fraud and then acting on it.

We are also working very closely with key partners. There is good collaborative working happening on key vulnerable areas. For example, within the Syria region, we work very closely with the US. There are improved mechanisms. That is shown by our increased caseload. I talked about zero tolerance. We are focused on raising awareness in our own staff and implementing partners. There is a good whistleblowing process, and that has been recognised and accredited by the NAO. The spike in losses was also as a result of a number of high-profile and complex cases coming to a conclusion. There are various cases from sub-Saharan Africa, East Africa and South Asia where we identified fraud, acted on it and saw the recovery of funds.

However, I would add at this point that we need to continue to drill down more on issues of procurement. I know this is the case for my own portfolio. We have some specific measures. Any procurement over £10 million also has an overlay beyond FCDO where the Cabinet Office has oversight. We have quite specific structures. As Ministers, on programmes—I speak from experience—where you identify failings, it is important to drill down and establish exactly what those failings are and then establish appropriate mitigations. Whatever loss has occurred, whilst we will chase that loss, there should not be a further dripping away of other funds on that same programme because we have not challenged or addressed the particular issue of fraud taking place.

Q25 **Chris Law:** You have said that the incidence of fraud is increasing. I want to ask is the value of the frauds increasing? How successful are we at getting the monies back?

Lord Ahmad: On the success rate, I quoted the figure of 94%. That demonstrates to me that we are getting back a high percentage of funds. I ask the obvious question, because that is what I do: what about the 6% that we are not getting back? We need to make sure that we focus on that. Every penny or pound is important, and often the reason we do not get that 6% back is because that is already a loss that, particularly in some of the more vulnerable countries, is non-recoverable. Because of the processes I have already alluded to, we are already seeing a high level for the recovery of funds. The mitigations that we are putting in place, the processes around whistleblowing and protecting those who identify particular instances of fraud, are also increasing confidence in the system and our expertise in dealing with particular issues.

In terms of who is committing the fraud, again, as I have alluded to, there has been an analysis that confirms that lower-level cases normally involve issues like theft or misuse of assets. For the high-level cases, some of which are contributing to the higher figure, it is payment fraud that takes place. The nature of the fraud is different whether it is low-level or high-level. Again, Mark may wish to come in and elaborate on any of these points on a cross-Government basis, with the permission of the Chair.

Mark Cheeseman: Thank you. I would make a few points. From a counter-fraud perspective, the rise in detected fraud is a positive thing. Fraud is a hidden crime, and you never find all the fraud and irregularity in a system.

The 5% from the report was touched on earlier in the evidence, which is the UK cost committee. The UK Government also have an estimate of likely fraud and error levels in the system, which is 0.5% to 5%. That is based on 23 fraud-measurement exercises since 2015 across about £4 billion of expenditure. We use a range because there is that uncertainty with fraud. Going to one number can be a false idea. It can give a false idea that it is 5%, whereas the reality is that we do not know because it is a hidden crime.

What we see in the FCDO numbers and the wider numbers from across Government is that we are finding more. Certainly from an FCDO perspective, we see that because there has been increased reporting and an increased focus on encouraging reporting. That is good, because it means we are uncovering more of what is going on. As a counter to that, although it is incredibly difficult—I would say impossible—to measure, in uncovering more we will suppress the level of fraud in the system anyway by doing more on it. It is unmeasurable but pretty logical.

Q26 **Chris Law:** That is really helpful. Thank you, Mark. The obvious question is are you content with what is being done at the moment to prevent and detect fraud? What steps would you like to see happening more? What steps has FCDO taken to counter new fraud risks? How is this action co-ordinated with UK aid spending partners? As a last point to this, we heard in the earlier session that fraud and corruption are two different things. At which point do they interweave? Is that included in your figures?

Lord Ahmad: That is a very pertinent question. First of all, is there more we can do? Across the piece, the short answer is yes. No Government or body can think that they have tackled fraud and that is it, tick. It is never a job done. Ever more sophisticated fraud is taking place as we look at technology in terms of delivering outcomes and in terms of the dispensation of cash. I have used this example before, and we have discussed the issue of cash transfers and the digital technology that underlies this. We need to ensure that system checks and ID checks are in place so that the end person, the end user or the end beneficiary is the one it should be. That applies both for the programmes we do bilaterally as well as multilaterally.

To take your second question as well, we work with other Departments, but there is certainly more that we can be doing in terms of strengthening our collaboration internationally. I already alluded to some of the good work we have done in Syria, for example, with the US. With other key partners including the EU and the UN, there is more to be done in sharing their insights, data and information as well as our own. As we begin to develop some of our networks further, if we think about how we can strengthen our work with key partners, this comes back to the point I made earlier on procurement. In the procurement of key partners, we have to make sure the issues of fraud and countering fraud are very much looked at as part and parcel of procurement processes.

On the issue of corruption vis-à-vis fraud, fraud is the end product of corruption. If you have a corrupt system and a corrupt process with corrupt individuals, the end product is the fraud that will take place, the siphoning off of cash. Indeed, the delivery of programmes will be impacted. Therefore, we must invest and do more in terms of our processes to address the issue of corruption. Where people are identified, they should be prosecuted. That sends a real message in the system, be it through our multilateral or indeed bilateral work, that we will not just sit back and not prosecute people.

We are also co-ordinating with other government departments, looking at the learnings there and strengthening our own internal systems. We are working particularly closely when it comes to the issue of corruption and illicit finance with our colleagues across in the Treasury, including in the banking sector with the Bank of England as well.

Q27 **Chris Law:** If the Chair permits me, can I ask a final question about ransoms? Of course, we have seen ransoms being used across all levels of businesses by people who are hacking into our systems. Is this something that is a concern for FCDO? Is it happening already and we are able to tackle it or is it something that is new and we are just investigating it at the moment?

Lord Ahmad: The principle of ransoms, sadly and tragically, has been part and parcel of the system over many years. The nature of what that ransom is focused on has changed. We have seen recent instances using technological advancement; hackers will use systems in terms of making sure that they can basically stop the operation of a company or, in a broader attack, the operation of government agencies until a ransom is paid.

There are two elements. In terms of the response, there is a point of principle here that I think is right otherwise you open the door to it. As soon as you start paying a ransom in whatever area, you then open yourself to a greater risk of others doing exactly the same. Where we are making strides is around mitigation in terms of identifying challenges, particularly on the cyber side. We have invested a great deal in terms of our own capacity. Our National Cyber Security Centre is world-class; it is second to none. I have been there and I have met with the individuals there. We have used that technology, expertise, insights and processes and shared them with key partners. For example, with the hat I wear as the Minister for the Commonwealth, we have worked with smaller countries to help mitigate the issue of challenges through strengthening cybersecurity. That is a real area of investment.

Mark may wish to comment on this from the broader Government perspective, but for the FCDO we are never going to do away with the issue of ransom. There will always be people somewhere in the system who will be seeking to disrupt, and that disruption may well then be tantamount for ransoms being paid until they release systems. Indeed, sadly and tragically, we have instances within our own programme in the most vulnerable, fragile and conflict-affected states where individuals or organisations working on the frontline may also be held physically. There is a human element and no one is devoid of the impact it has particularly on individuals, but the principle of not paying is the right one because I do feel that it would open the floodgates. What we have to look at is enhanced security of processes and people and enhanced mitigation in terms of technology and systems.

Q28 **Sarah Champion:** Good morning, Lord Ahmad. I wonder if I could have your view on the impact of incidents of fraud both on aid beneficiaries and also the UK Government’s reputation abroad.

Lord Ahmad: It is important. Sarah, first of all, I would just start from the premise of what I have said earlier. This is never a job done. We can never, ever be complacent. That could be around delivery in a remote region of Pakistan where we are working with a key partner as well as what we are doing centrally in terms of our large distributional funds working with IFIs and multilaterals. The issue of reputational risk is very high when it comes to the distribution and disbursement of large amounts of money. Therefore, we need to be ever evolving in our response. Equally, we have high recovery rates and I hope you will see through my answers and those answers of Mark and Juliet that we have systems and structures in place.

The other thing is that we are constantly reviewing this. I will give you one example. When I took on a particular project with IMC in Pakistan, which was a school-building programme, there were clearly problems there. I will give you a simple example. My background is as a banker. I drilled down into the finances. I wanted to know at what level what was paid, when it was paid, how it was paid and what the measures were in terms of mitigating and ensuring, and I held the payments back. Until those processes were in place, nothing further was distributed. That is the level. I know that Juliet and her team, together with our various directors-general within the FCDO, have worked very much to that agenda of ensuring that there is real scrutiny within the programmes, because every pound counts. If we were not just seen to be acting but also getting the level of recovery that we do, the reputational risk would take away from what I believe is a very important part of what we do as HMG in helping the most vulnerable and conflicted areas of the world.

Q29 **Sarah Champion:** Maybe I could follow that up then with the other end of the stick, which is sanctions. What sanctions have been taken against perpetrators of fraud? Do you believe that these sanctions are sufficient to deter future cases?

Lord Ahmad: First and foremost, you are spot on, Sarah. There are a number of individuals and organisations that are identified where we find evidence that our funds have been misappropriated. It is important that we act. First and foremost, as a point of principle, we will go through and ensure we exhaust every avenue in recovering those funds. I know it is a point you will agree with that ultimately it is important that every pound or penny is recovered and that it goes back to the beneficiary for whom it was intended. Because of that, we will pursue criminal convictions, working with law enforcement and other partners to ensure successful outcomes.

Without going too much into the detail of specific cases—as you can appreciate, they are always sensitive—in the National Cash Transfer Programme in the area I look after, in South Asia, fiduciary risk assessment identified a potential fraud in the programme. Payments to the programme were suspended immediately and investigations confirmed what was lost. In this particular instance, it was just over £160,000. The amount was then deducted from our final payment as well. If we do not see mitigation, if we do not see processes improving, we will stop that particular programme and we will take stock. We will then, because the principle of the programme may well be the right one, look to see how we can take on new partners and work with other delivery partners who will be responsive to the measures and processes we are putting in place. It does require the kind of scrutiny that I believe we are putting in now.

You will say that I would say this, but the merger of FCO and DFID into a single structure has allowed us to structure our approach in terms of our direct diplomatic engagement and in having quite candid conversations with key partners that we support. Equally, our networks have benefited as well, because the two teams are working in a very integrated fashion on this particular issue as well.

Q30 **Sarah Champion:** Do you know if you have actually secured criminal convictions?

Lord Ahmad: I do not have the details. Mark or Juliet might want to come in here. There have been criminal convictions. Without going into specific cases on the South Asian one, there are people who we have pursued who have been identified and held to account. In other instances where we have not gone the whole hog of criminal convictions, we have suspended or held back payments and changed partners. Mark and Juliet may wish to come in on this.

Juliet Chua: If I can follow up, I would say, yes, absolutely as part of overall investigations we will pursue criminal investigation and sanctions. Earlier, the Minister referred to some of the collaboration we do particularly in fragile or complex states where the benefit of sharing information is critical. As an example of that, there was reference to Syria. There have been examples where we have really pursued and successfully prosecuted criminal gangs in the activity of misappropriation of funds. This is definitely one of the critical sanctions alongside the recovery of funds, as the Minister has described. Mark may want to come in with the perspective from across Government.

Mark Cheeseman: No, I have nothing more to add on those examples.

Q31 **Chris Law:** As you know, we are concerned about cuts to the ICAI budget and whether or not we can carry out reviews later this year. One of them is a separate review looking at fraud-prevention measures within multilateral aid contributions. What is the FCDO’s assessment of the fraud risk in this area of activity?

Lord Ahmad: First of all, it is an appropriate question for a Minister who looks after multilaterals as well. First and foremost, and I am sticking my neck out here, I believe in multilateralism. The sum of the whole gets you more in terms of the end product. That could be experience, money, insights or the sharing of expertise. What we have done with multilateral organisations is we have built up more specialisms and technical expertise around delivering aid on a large scale, and we can reach more fragile locations with our end benefit. This means, yes, there is more exposure to fraud, but the fact that we are working in a multilateral environment means that in fragile and conflict-affected areas where the risks are higher, we can be seen to be acting in a very consolidated form.

Just developing, if I may, the Syria example, with the fragility, the lack of infrastructure and, frankly, the lack of governance, we are more exposed in the multilateral system, I would argue, to looting and the seizure of goods and assets often under duress. We have seen the same happen in Yemen. When the FCDO does provide core funding to multilateral organisations—again, I would stress that due diligence is undertaken—there are strategic assessments that evaluate an organisation's own core capacity when it comes to issues of dealing with fraud and addressing corruption and we have information-sharing agreements with our investigative counterparts. At board meetings and in committees, our officials and delegations work very closely with other donors to ensure that multilateral institutions are also held to account.

Chris Law: Thank you. I hope all of your pressure can bear down on the Government to restore the funds to ICAI so this assessment can be carried out.

Q32 **Chair:** My final question, Minister, is this. What impact to you envisage that the Covid-19 pandemic will have on the incidence of fraud since late 2019?

Lord Ahmad: With all things, Chair, Covid-19 has been used as a cover to do more in terms of impacting, challenging and deflecting support for the most vulnerable. Where we are in more fragile environments, in more conflict-affected environments, sadly and tragically, that will occur. That said, I mentioned evidence and data earlier. We are still collecting some of that. If I could specify, there have been no Covid-19-specific frauds reported within the system of the FCDO, but we are still collating the full impact of that. Fraud levels have dropped due to reduced delivery. We are doing less because of our inability of access certain areas because of Covid-19 and travel restrictions. Less is being done. The Cabinet Office also recognises that fraud risk will increase in times of emergency. Mark may wish to come in on this. In this regard they have issued specific guidelines on how to strengthen risk management. That has been applied to ourselves at FCDO and it has also resulted in us strengthening our risk registers.

Again with your permission, Chair, Mark may wish to come in and provide a broader perspective on this point.

Mark Cheeseman: As Stephen touched on earlier, C-19 has increased the threat level on fraud through both increasing the motivators and just changing the context. It is an international phenomenon; that can be seen in all countries.

As the Minister touched on, one of the things we did—it was not just us, actually; it was the Five Eyes through the International Public Sector Fraud Forum, which the UK set up—was to release guidance on how to deal with fraud in emergency management situations. That was back in February 2020 before the pandemic really hit and before we started to understand it. That has been used by a number of people. We have still yet to see how that plays into the ODA area. We are seeing it a bit more in our own schemes like furlough in the UK.

The other thing about how C-19 will affect us is in terms of how we learn more. A lot of these processes are about learning. The Minister mentioned the risk assessment work. The UK Government introduced the world's first standard on how to do fraud risk assessment and trained over 154 people in it, some of whom are in the departments delivering ODA. We have to use that learning to get better and better at dealing with fraud both in emergencies like C-19 and in emergency circumstances, like ODA does, but also generally in how Government deals with public sector spending.

Juliet Chua: I just wanted to build a little on what the Minister said about the FCDO response. Indeed, in its own report on our Covid response, ICAI highlighted that our focus on fraud and indeed safeguarding have not relaxed and, if anything, we have made sure that we have really heightened it in the way the Minister described.

I would just observe that for the FCDO, as the former DFID and FCO coming together responding to a crisis is not a new activity. Both departments had that capability. Clearly, we did have established processes and structures in place. Clearly, through the pandemic we have been making sure that programme teams are really putting in place heightened scrutiny of the potential risks around fraud. Indeed, building on the earlier question about data and data analyse, we have been identifying particular risks of cold spots where you have particular countries or areas where you might expect to see fraud or low reporting and bringing that together in terms of quite a targeted conversation. This is absolutely something that we are monitoring closely.

I would observe that the reporting levels did drop earlier on, but they are now back up to the levels we had seen previously, to normal levels. We will continue to focus on that and ensure that our reporting level is going to grow.

Chair: Can I thank all of our witnesses today for attending this evidence session? A huge thank you to the Minister for being with us today.