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Fraud and Error

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The Committee of Public Accounts

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Fraud and error are long standing threats to the public purse and cost the taxpayer in the region of £29.3 billion to £51.8 billion in 2018–19. As part of the COVID-19 pandemic response, the government introduced several large-scale schemes which provided vital support to many vulnerable businesses and individuals. However, these schemes also significantly increased government's exposure to fraud and error and are expected to result in billions of pounds of additional losses to the taxpayer. Between April 2020 and March 2021, fraud within Universal Credit rose to an all-time high of 14.5%, or £5.5 billion. Between 35% and 60%, equivalent to £16 billion to £27 billion, of loans issued through the Bounce Back Loan Scheme may never be repaid due to fraud or credit risks.

Fraud and error have traditionally been the sole responsibility of each department to manage leading to considerable variations in their approaches. The cost of fraud and error within the tax and benefits system is fairly well understood by government, and HMRC and DWP have well-established approach to tackle and address fraud and error in their areas'. But for many areas of spend outside the tax and benefits system there is still no formal measurement and limited capability to tackle fraud and error, risking large amounts of fraud and error being unidentified or untackled. Cabinet Office estimates this annual level of undetected fraud and error could cost the taxpayer up to £25 billion a year before COVID-19 schemes are considered.

Cabinet Office and HM Treasury's central mechanisms for managing fraud and error are still in their infancy. We are concerned that departments are not required to consult with the Government's Counter Fraud Function when designing new spending initiatives, even where high risks of fraud are identified. Whilst departments recognise the potential benefits of closer collaboration for preventing and detecting fraud and error, their efforts are hindered by a lack of real time data sharing and weak transparency arrangements.

It is essential that government recovers monies paid out as a result of fraud or error to allow taxpayers' money to be spent on those that need it most. Our work has shown that this is often a complex and time-consuming process. Successful recovery will be dependent on the respective resources, powers and policies available to each department.

Introduction

Fraud is estimated to account for 40% of all crime committed across the UK. Fraud and error in public spending are estimated to cost the taxpayer up to £51.8 billion every year, around £25 billion of which is outside the tax and benefits system. Each Department is responsible for managing its own risks of fraud and error leading to varying approaches depending on their understanding of the risks and the importance given to them. In 2018 Cabinet Office established a Government Counter Fraud Function which works to increase the understanding of fraud risks and threats to government by instilling professional standards and bringing together the 16,000 counter fraud professionals across the public sector. HM Treasury is responsible for setting out the counter fraud requirements for government departments and approving policy spend.

Government introduced many vital support schemes in response to the COVID-19 pandemic, with BEIS, DWP and HMRC responsible for some of the schemes identified as having the highest risk of fraud or error. Between April 2020 and March 2021, fraud within Universal Credit rose to an all-time high of 14.5% and BEIS estimates between 35% and 60% of loans issued through the Bounce Back Loan Scheme may not be repaid.

Conclusions and recommendations

1. **The taxpayer is expected to lose billions of pounds from the increased risk of fraud and error in the Government's COVID-19 schemes.** Government acted quickly to provide vital support to vulnerable businesses and individuals in response to the pandemic but in doing so significantly increased its exposure to fraud and error. This is in part due to the need to work at pace, but also because departments decided to relax or modify controls in place to prevent or detect fraud and error, and to provide support to people and businesses that government did not have a prior relationship with. Launching multiple large-scale support programmes, such as the Bounce Back Loan Scheme, markedly changed the risks BEIS must manage leaving it reliant on banks that it admits lack incentives given it is not their money on the line. BEIS estimates it could lose up to £27 billion through fraud or credit issues on the Bounce Back Loan Scheme. Local authorities are responsible for delivering several government support schemes, but their services are already under pressure and their capability to take on additional counter fraud activities varies considerably. Universal Credit fraud and error rose by £3.8 billion to an all-time high of £5.5 billion between April 2020 and March 2021. Despite these challenges, we were pleased to hear that within DWP the need to adapt traditional controls (such as being unable to have face-to-face meetings with claimants) for remote working created the opportunity for innovation, such as its increased use of data matching and online checks.

   Recommendation: ***HM Treasury and Cabinet Office should, within 3 months, set out:***

   - ***how they will ensure that departments are implementing a zero-tolerance of fraud and error following the pandemic; and***
   - ***how they will ensure departments apply the same level of innovation when tackling the increased risk of fraud and error as they did when implementing the COVID-19 response schemes.***

2. **Government's focus on the long-standing fraud and error risks it understands, risks large amounts of fraud and error being unidentified or untackled elsewhere.** Efforts to tackle fraud and error in the tax and benefits system come under regular scrutiny. While we regularly scrutinise and challenge HMRC and DWP on their approach, both departments have a well-established approach. However, fraud and error threaten many other areas of the public purse with fraud and error going unmeasured in around £503 billion of expenditure each year. Cabinet Office estimates that the rest of government was already losing between £2.5 billion and £25 billion a year as a result of fraud and error before the COVID-19 schemes were introduced. Part of the challenge government faces is the sheer diversity of risks, with fraud and error impacting everything from grants and procurement to income collection. As part of its Global Fraud Risk Assessment, the Cabinet Office Counter Fraud Function identified a large number of COVID-19 schemes as potentially at high risk of fraud but believes scheme owners need to do more work to fully quantify those risks. The Function recognises that it needs to do more work to understand the broader fraud and error picture outside the remit of DWP and HMRC.

Recommendation: ***HM Treasury and Cabinet Office should, within six months, work with all Departments to build on the existing Global Fraud Risk Assessment and identify and publish all the fraud and error risks to public money across government and commit to updating this publication annually.***

3. **Departments' lack of urgency to robustly measure fraud and error hinders their ability to direct their counter fraud and error efforts.** The robust measurement of fraud and error is a crucial aspect of any counter fraud response because it shows where controls need to be improved and effort directed. BEIS, DWP and HMRC have committed to producing an estimate of fraud and error for some of their COVID-19 schemes and publishing this in their annual report and accounts. But we are concerned that this work is not being given the priority it deserves and comes too late to direct efforts to minimise fraud and error in the schemes. HMRC does not expect to have a statistically valid estimate of fraud and error in the Coronavirus Job Retention Scheme until December 2021, around 22 months after it was first introduced. HMRC also does not intend to measure the rate of fraud and error in the Self-Employed Income Support Scheme and Eat Out To Help out schemes. DWP cannot say when it will set a target for reducing fraud, citing that COVID-19 has changed its traditional mix of cases within the benefits system. BEIS does not expect its fraud sampling exercise on the Bounce Back Loan Scheme to complete until the end of May 2021, 12 months after the scheme opened for applications. Other departments, that have not had as much scrutiny of their fraud and error risk, have not made public commitments to measure the extent of fraud and error in their COVID-19 schemes.

Recommendation: ***HM Treasury should, within three months, strengthen current reporting requirements and ensure that all departments measure and report on the risks of fraud and error within each of their COVID-19 support schemes. This should include:***

- ***the estimated value of fraud and error within their COVID-19 response,***
- ***how identified risks of fraud and error are being addressed, and***
- ***any planned action to recover taxpayer money lost to fraud and error, including timescales.***

HMRC and BEIS should write to the Committee within 3 months setting out how they will measure fraud and error in all their COVID-19 schemes and build prompt measuring of fraud and error into their future programmes from the outset. DWP should write to the Committee with its targets for reducing fraud and error.

4. **Departments do not make enough use of counter fraud expertise when designing new initiatives to ensure they minimise losses to the taxpayer.** One of the key lessons from government's response to the pandemic is the need to balance speed of implementation and accessibility of support schemes with efforts to prevent fraud and protect taxpayers' money. Despite it being two years since it was established, Cabinet Office's work to increase the awareness of the new Counter Fraud Function is still at an early stage. Departments consulting it is still optional, meaning it lacks authority despite its expertise. BEIS, for example, did not consult the Counter Fraud Function when designing the Bounce Back Loan Scheme despite the increased risk

of fraud and error compared to its usual operations. Designing schemes in a way that prevents fraud and error is essential if losses to the taxpayer are to be minimised. The Counter Fraud Function is working to introduce a minimum standard for fraud risk assessments across government. Transparency about these risk assessments is vital if decision makers, including Parliament, are to understand the implications of these design choices.

Recommendation: ***HM Treasury and Cabinet Office should, within six months, introduce mandatory fraud impact assessments that require formal sign off from the Counter Fraud Function for all Government Major Project Portfolio programmes and for all other schemes that departments identify as having a moderate to high risk of fraud or error. A summary of these assessments should be published.***

5. **HM Treasury and Cabinet Office do not know whether departments are adequately resourced to tackle fraud and error.** There are currently 16,000 members of the Counter Fraud Function within the public sector, with 77% of counter fraud professionals working in DWP or HMRC. Although Cabinet Office understands where counter fraud resources are deployed across the rest of government, it admits it does not yet know whether the capabilities are all in the right place. Cabinet Office has begun work to strengthen departments' capabilities in response to increased fraud and error risk from COVID-19 support schemes. Where departments have additional funding to build their counter fraud capacity, this has not been made available in a timely manner. For example, it is unacceptable that it took HM Treasury 12 months to approve the funding for HMRC's Taxpayer Protection Taskforce despite knowing since March 2020 that the fraud risks for CJRS and SEISS were heightened. Though all the government professions have a role to play in minimising fraud it is imperative that government does more to ensure trained counter fraud professionals are deployed where they are most needed.

Recommendation: ***HM Treasury and Cabinet Office should write to the Committee within three months setting out how they will work with departments to build their counter fraud capacity and ensure that each Department's resourcing is properly aligned with its risk exposure.***

6. **Gaps in transparency and information sharing between departments is hindering efforts to prevent, detect and correct fraud and error.** Timely data sharing can be used to prevent fraud by data matching, improve detection of fraud by sharing intelligence, and enable recovery in cross-government schemes. Increasing the use of these methods is a priority for the Cabinet Office Counter Fraud Function, although such arrangements will take time and care to establish due to data protection requirements. We were pleased to hear examples of departments collaborating and sharing data during the pandemic to improve government's overall response. For example, BEIS used data held by HMRC to retrospectively check applications for the Bounce Back Loan Scheme. However, other opportunities to prevent fraud in real time were missed, and well-established industry data sources were overlooked. Publishing business beneficiaries of COVID-19 support schemes provides transparency and the opportunity for whistle blowers and others to report suspicious claims. But the data HMRC published on employers claiming CJRS from December 2020 onwards has insufficient detail to allow proper public scrutiny and

BEIS will not commit to publishing details of COVID-19 loan recipients. Going forward, increased data sharing could enable DWP to identify changes in claimant eligibility for benefits and enable changes to be applied across all benefits before a payment is made, preventing errors from occurring and reducing the need for recovery.

Recommendation: ***Cabinet Office should write to the Committee within six months detailing how it has worked with departments to identify and address gaps in real time data sharing.***

HM Treasury should, within six months, set out the transparency principles it expects for government support schemes, including the presumption that the business beneficiaries of government support schemes will be published.

7. **HMRC, DWP and BEIS are unable to justify the inconsistencies in their approaches to the consequences of fraud and error for different groups of debtors.** Departments need to take steps to detect, pursue and recover the billions of pounds of fraud and error overpayments it has lost during the COVID-19 pandemic. However, we are concerned that Departments are taking different approaches to dealing with the consequences of fraud or errors of a similar nature, such as failing to disclose a change in circumstances. DWP applies a financial threshold when deciding whether to pursue criminal sanctions, whereas HMRC will only pursue criminal proceedings for the most serious crimes, focusing instead on disrupting criminal activity to make it unprofitable. Although BEIS is working with the police on criminal sanctions for loan scheme fraud, it maintains it is up to the bank to follow usual recovery procedures in the first instance. These differences in approaches results in penalties appearing unfair and inconsistent to the public. DWP is investing in making it easier for people inform it of changes in circumstances, for example through more online prompts in systems, rather than assuming fraudulent intent. We welcome the Cabinet Office's commitment to, through the Counter Fraud Function, improving the consistency of sanctions applied for fraud and whether enforcement and recovery powers can be expanded across government.

Recommendation: ***HMRC and DWP should write to the Committee within three months setting out how they will identify and address inconsistencies of sanctions for frauds that are similar in nature.***

BEIS should write to the Committee within three months setting out details of steps it will take to assess whether the recovery efforts of banks are reasonable, and the steps it will take to recover taxpayers' money if deficiencies are identified.

1 Government's understanding of fraud and error risks and the resources needed to tackle them

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from Cabinet Office, the Department for Business, Energy and Industrial Strategy (BEIS), the Department for Work and Pensions (DWP), HM Revenue & Customs (HMRC) and HM Treasury about fraud and error.[1]

2. The Cabinet Office told us that fraud accounts for 40% of all crime committed across the UK.[2] It estimated that in 2018–19 fraud and error cost the taxpayer £29.3 billion to £51.8 billion, around £26.8 billion of which was attributable to the tax and benefits system. The rest is based on Cabinet Office's assumption that fraud and error is likely to be in the range of 0.5% and 5% for the £503 billion of government expenditure where fraud and error is not measured.[3] This range is based on academic research and fraud measurement activities in the United States government, the European Union and the private sector, and 24 measurement exercises undertaken since 2015 by Cabinet Office across £3.6 billion of expenditure.[4]

3. Each Department is responsible for managing its own risks of fraud and error which has led to varying approaches and capabilities across government.[5] In 2018, the Cabinet Office established a Government Counter Fraud Function which works to increase the understanding of fraud risks and threats to government by instilling professional standards and bringing together the 16,000 counter fraud professionals across the public sector.[6] HM Treasury is responsible for setting out the counter fraud requirements for government departments and approving spend on initiatives subject to fraud and error and on counter fraud and error activities.[7]

Fraud in COVID-19 support schemes

4. The government introduced several large-scale schemes in response to the COVID-19 pandemic which provided vital support to many vulnerable businesses and individuals. However, the NAO concluded that the risk of fraud and error has risen significantly as a result of the government's response to the COVID-19 pandemic.[8] This was the result of a variety of factors, including that government had spent more on areas that were prone to fraud and error, such as welfare, business support and grants, and that it had often prioritised the need for speed when setting up new initiatives over reducing the risk of fraud and error. The increased risk was also due to providing support to people and businesses that government did not have a prior relationship with, relaxing or modifying controls in place to prevent or detect fraud and error, prioritising its COVID-19 response over business-as-usual compliance activity; and a general increased risk appetite for fraud and

1 Comptroller and Auditor General, Good Practice Guidance Fraud and Error, March 2021
2 Q 17
3 C&AG's Guide, page 4
4 Letter from Mark Cheeseman page 3
5 Q25, Letter from Mark Cheeseman page 3
6 C&AG's Guide page 6
7 Qq 33, 44, 72
8 C&AG's Guide, page 4

error, as shown by ministerial directions accepting the risks identified by the civil service. Early indications are that fraud and error has risen by billions as a result of the COVID-19 response, but the actual amount will only become clear as departments measure the level of fraud and error across specific initiatives.[9]

5. BEIS, DWP and HMRC are responsible for some of the support schemes Cabinet Office identified as having the highest risk of fraud or error.[10] We have previously reported on several of these schemes, including their consideration of fraud and error risks. For DWP, we concluded that COVID-19 will lead to further increases in fraud and error, but it has an opportunity to learn from the impacts of its control easements.[11] In our report on the Bounce Back Loan Scheme, we found that Government lacks the data needed to assess the levels of fraud within the Scheme.[12] In October 2020 we reported that although HMRC was yet to see the full effects of COVID-19 on taxpayer compliance, it was already estimating up to £3.5 billion of fraud and error in furlough payments.[13] In December 2020 we reported our concerns that HMRC still did not know the actual level of fraud and error in the Coronavirus Job Support Scheme (CJRS) and the Self-Employment Income Support Scheme (SEISS) schemes and would not have a complete estimate until the end of 2021 at the earliest.[14]

6. We asked HMRC, DWP, and BEIS how the government's response to the pandemic had changed the risk of fraud and error within their areas and how they had responded. BEIS told us that launching multiple large-scale support programmes had markedly changed the fraud risks it needed to manage. It explained that prior to the pandemic it had considered itself a "relatively low risk environment for fraud" and that it had good controls in place to deal with the very traditional risks that it faced, for example around procurement.[15] However it told us that it had found itself in a new environment as a result of the pandemic, which required bigger interventions, and was now "doing a lot more work on fraud".[16] BEIS recognised that loan programmes, such as the Bounce Back Loan Scheme, had left it reliant on banks that lacked incentives to prevent, detect and correct fraud and error given it is not their money on the line.[17] As previously reported, BEIS estimates it could lose £16 billion to £27 billion through fraud or credit risks on loans issued under the Bounce Back Loan Scheme.[18]

7. BEIS is also responsible for several government support schemes delivered by local authorities, such as the Small Business Grant Fund and Retail, Hospitality and Leisure Support Grant Fund. In our recent report on local government finances we noted that government support schemes during the pandemic were not always designed with sufficient knowledge of local government finance or input from the sector, and that the

9 C&AG's Guide, page 4
10 C&AG's Guide page 5
11 Committee of Public Accounts, *Department for Work and Pensions Accounts 2019–20*, Twenty-Sixth Report of Session 2019–21, HC 681, 18 November 2020
12 Committee of Public Accounts, *Covid-19: Bounce Back Loan Scheme*, Thirty-Third Report of Session 2019–21, HC 687, 16 December 2020
13 Committee of Public Accounts, *Tackling the tax gap*, Twentieth Report of Session 2019–21, HC 650, 16 October 2020
14 Committee of Public Accounts, *Covid-19: Support for jobs*, Thirty-Fourth Report of Session 2019–21, HC 920, 20 December 2020
15 Q 48
16 Q 48
17 Q 61
18 Committee of Public Accounts, *Covid-19: Bounce Back Loan Scheme*, Thirty-Third Report of Session 2019–21, HC 687, 16 December 2020

focus on speed of delivery did not always take account of the need for assurance against fraud.[19] In written evidence the Fraud Advisory Panel also told us that for the COVID-19 schemes local authorities were asked to make payments 'as quickly as possible' leading to a high likelihood of fraud and error.[20] When we asked about counter fraud capabilities in local authorities, BEIS told us there is a variable level of practice but as local authorities regularly deal with fraud as part of their day-to-day business so they are "probably even better equipped" than BEIS to handle these risks.[21]

8. Fraud and error within Universal Credit rose by £3.8 billion to an all-time high of £5.5 billion between April 2020 and March 2021. DWP told us it that during lockdown it found opportunities for innovation by adapting traditional controls, such as face-to-face meetings with claimants, for remote working. As an example, DWP described how from June 2020 it introduced enhanced biographical questions from June 2020 to verify identity over the phone, leading to fewer cases referred to its fraud checking service.[22] We have previously reported that HMRC has carried out fewer compliance investigations since lockdown began in March 2020, as it had to prioritise the implementation of COVID-19 support schemes and be responsive to the needs of taxpayers struggling with the impacts of the pandemic. The number of completed civil compliance checks fell from 62,000 in the first quarter of 2019–20 to 40,000 in the first quarter of 2020–21. HMRC estimates up to £3.5 billion of furlough payments made by 16 August 2020 may have been fraudulent or paid in error.[23]

Understanding of fraud and error across government

9. We have regularly reported on HMRC's and DWP's efforts to tackle fraud and error in the tax and benefit systems. DWP's accounts have been qualified every year since 1988–89 due to material levels of overpayments and underpayments in benefits expenditure.[24] In our report on their 2019–20 accounts we concluded that while DWP is good at understanding the types of fraud and error in the benefits system it is unable to demonstrate the cost-effectiveness of its counter fraud and error controls. We also reiterated our intention to hold DWP to account for improving its performance, aided by the fraud and error targets it has agreed to set.[25] We have previously criticised HMRC for basic errors in financial forecasting including its uncertainty around what its estimate of fraud and error from tax credits should be and delays in producing a more rigorous estimate of the level of fraud and error associated with the Research & Development relief.[26] We have previously concluded HMRC's COVID-19 support schemes have led to a major reprioritisation of its resources and it has needed to reduce compliance activity while under lockdown. This has adversely affected HMRC's core compliance activities and led to a backlog of investigations.[27]

19 Committee of Public Accounts, *Covid 19: Local government finance*, Fourth Report of 2021-22, HC 239, 4 June 2021.
20 Fraud Advisory Panel submission page 7
21 Q 70
22 Q 51
23 Committee of Public Accounts, *Tackling the Tax Gap*, Twentieth report of the session, HC 650, 12 October 2020.
24 Committee of Public Accounts, *Department for Work and Pensions Accounts 2019–20*, Twenty-Sixth Report of Session 2019–21, HC 681, 18 November 2020
25 Committee of Public Accounts, *Department for Work and Pensions Accounts 2019–20*, Twenty-Sixth Report of Session 2019–21, HC 681, 18 November 2020
26 Committee of Public Accounts, *HMRC performance 2019–20*, Thirty-Sixth Report of Session 2019–21, HC 690, 20 January 2021
27 Committee of Public Accounts, *Tackling the Tax Gap*, Twentieth report of the session, HC650, 12 October 2020

10. We asked Cabinet Office about fraud and error risks outside the tax and benefits system. Cabinet Office told us that the diversity of risks is "very, very large", because government spends £850 billion and collects around £800 billion in income. It explained that this covers all the different grants, procurement, and services that the public sector offers, which have a range of different fraud risks.[28] Cabinet Office explained that the COVID-19 response has changed the fraud risk profile for many departments who are now exposed to higher levels of risk and loss than they had experienced previously.[29] It acknowledged that it still needs to do more work to understand the broader fraud and error picture outside the remit of DWP and HMRC.[30]

11. The Counter Fraud Function undertook a Global Fraud Risk Assessment across 206 COVID-19 response schemes, with an estimated total value of £387 billion. It risk-assessed 16 of these schemes as having a high or very high fraud risk, representing 57% (£219 billion) of the £387 billion.[31] As part of this Global Fraud Risk Assessment, the Counter Fraud Function identified four COVID-19 response schemes as having the highest risk of fraud and error:

a) Universal Credit, as DWP accepts that a doubling of the caseload and relaxing controls will lead to a further increase in fraud and error levels. There is uncertainty around exactly how much fraud and error will rise but NAO believes that the increase is likely to be substantial.

b) Coronavirus Job Retention Scheme, as HMRC's planning assumption estimated fraud and error losses of 5% to 10% of scheme expenditure.

c) The Bounce Back Loan Scheme, as BEIS and the British Business Bank have estimated between 35% and 60% of the loans may not be repaid due to fraud or credit issues.

d) Coronavirus Response Fund - Funding for the NHS: Procurement of medical equipment (including additional ventilators), as there is a high risk of fraud in procurement of personal protective equipment.

12. It also assessed a large number of other COVID-19 schemes as potentially at high risk of fraud but believed scheme owners needed to do more work to fully quantify those risks.[32]

Counter fraud resources across government

13. We asked HM Treasury and Cabinet Office about the capability and capacity of counter fraud resources across the public sector. Cabinet Office explained that traditionally Departments have decided individually what level of capability they need, but as fraud is a quickly evolving and complex crime this approach is not optimal.[33] Cabinet Office told us that there are currently 16,000 members of the Counter Fraud Function, and 91% of these individuals work for HMRC and DWP on tax and welfare as these are government's highest

28 Q 17
29 Letter from Mark Cheeseman page 3
30 Q 72; Letter from Mark Cheeseman page 2
31 C&AG's Guide, page 4
32 C&AG Guide, page 5
33 Q 31

areas of known loss. The Government Counter Fraud Profession has 6,823 members from 42 organisations across central and local government and policing.[34] Cabinet Office told us that 77% of these professionals work in DWP or HMRC.[35]

14. We asked whether counter fraud expertise is adequately deployed across the rest of government. Cabinet Office provided information on where counter fraud expertise is deployed across the rest of government but it is clear that some of the major departments have relatively few counter fraud resources.[36] Cabinet Office told us that because the Counter Fraud Profession does not have a structure to assess people individually, it is "not yet able to give a view" on whether the capabilities are all in the right place. However, it is "confident" that the Counter Fraud Function is developing the structures to show where the different types of counter fraud capability are.[37]

15. HM Treasury told us it has ongoing dialogue with departments and supports the funding of counter fraud activity if it is cost effective. We asked HM Treasury why it took 12 months to approve the £100 million funding for a Taxpayer Protection Taskforce within HMRC. HM Treasury told us it wanted to see the assessment of the potential benefits that should accrue, and to be assured that the money is going to be directed in the right place, though was keen to assure us that throughout the 12 months there was "active discussion" around the funding required. HMRC told us it did not wait until March 2021 to deploy counter fraud and error resources on CJRS and SEISS, but the additional investment enabled it to open a further 20,000 one-to-one investigations on top of the 10,000 that it had already opened, as well as more criminal investigations.[38]

16. HM Treasury told us that other government functions have a critical role in helping with fraud risk. It told us the Finance and Commercial Functions must operate as an effective second line of defence in advising and supporting fraud risk. It suggested that the combination of these functions operating under the expert of guidance of the Counter Fraud Function "ultimately has the bigger impact" in tackling fraud and error.[39] HM Treasury also highlighted that the Counter Fraud Function is "fairly immature" compared with some of the older functions so it is important that government keeps up the professionalism and assessment work currently under way.[40]

34 Letter from Mark Cheeseman
35 Q 23; C&AG Guide, page 6
36 Letter from Mark Cheeseman, page 2
37 Q 31
38 Q 44
39 Q 18
40 Q 34

2 Measuring and reporting on fraud and error

17. The Counter Fraud Function describes fraud as a hidden crime which you must find before you can fight.[41] The government's counter-fraud functional strategy states an aim to be the most transparent government globally in dealing with public sector fraud.[42] Cabinet Office told us it aims to put as much focus into the areas where there are low levels of detected fraud, and low levels of investment in counter fraud, as it does those areas where there are known to be higher levels of loss.[43] It publishes an annual Fraud Landscape report every year, which reports on the detected fraud levels across government.[44]

18. HM Treasury's guide to Managing Public Money states that that every department should measure and estimate the scale of fraud and error and disclose this in its Annual Report were material.[45] The NAO identified the proper measurement of fraud and error as a crucial because it shows departments where controls need to be improved and counter fraud efforts directed.[46] We asked HMRC when it expects to have an estimate of fraud and error in the Coronavirus Job Retention Scheme. HMRC told us it does not expect to have a statistically valid estimate until December 2021 as the planned random sampling exercise "will take time to complete" though the evaluation framework for the CJRS was published in December 2020.[47] HMRC clarified in a written response to us that it does not intend to measure the rate of fraud and error in the Self-Employed Income Support Scheme and Eat Out To Help Out schemes and will instead use a "blended approach" bringing in a wide range of available evidence.[48]

19. We asked about DWP's progress in developing a target for fraud and error. We have previously recommended that DWP analyse the extent to which fraud and error in the system was temporary because of the pandemic and what was due to longer term structural issues.[49] DWP explained that COVID-19 has changed the traditional mix of cases within the benefits system as there are now an increased proportion of claimants who are self-employed or who have capital. DWP's expectation is that this has changed the risk of fraud and error in the system, and as a result DWP could not tell us when it will set a target for reducing fraud. DWP explained that it wanted to wait to update baseline data before it committed a target to ensure it is meaningful but reaffirmed its commitment to providing us with this information in due course.[50]

20. We asked BEIS about efforts to estimate the level of fraud and error in the Bounce Back Loan Scheme. BEIS told us it has commissioned PwC to undertake a sampling exercise to come up with a specific estimate of fraud which it expects to be completed in May 2021. BEIS explained that this exercise is taking time as it pulls together a lot of data sources to identify high-risk loans and that working through GDPR consequences, for

41 Government Counter Fraud Function, Cross-Government Fraud Landscape Bulletin 2019-20, February 2021
42 C&AG Guide's, page 7
43 Letter from Mark Cheeseman, page 1–2
44 Q 33; Cabinet Office, Cross-Government Fraud Landscape Annual Report 2019, February 2020
45 C&AG Guide's, page 7
46 C&AG Guide's, page 12-13
47 Q 54
48 Letter from Jim Harra, 7 May 2021
49 Committee of Public Accounts, *Department for Work and Pensions Accounts 2019–20*, Twenty-Sixth Report of Session 2019–21, HC 681, 18 November 2020
50 Qq 57- 59

example, "takes care and effort and needs to be done right". BEIS told us that the interim work performed to date demonstrated that the number of loans that it can pick out as being "absolutely fraud" is "really quite small" and that working through the subtleties that sit behind each application is "not an easy job".[51]

21. We asked about what needed to be done to improve the consistency of fraud and error reporting across the public sector. Cabinet Office told us that the introduction of the Functional Standards, a set of minimum criteria for dealing with fraud, is an important tool to increasing consistency of approach.[52] It has also agreed a common definition of fraud and a common typology with all Departments reporting against this.[53] Cabinet Office told us that the COVID-19 response has left many departments more exposed to higher levels of risk and loss than previously, but we are not aware of any other departments that have made public commitments to measure the extent of fraud and error in their COVID-19 schemes.[54]

Data sharing

22. Cabinet Office and DWP told us that timely data sharing can be used to prevent fraud by data matching, improve detection of fraud by sharing intelligence, and enable recovery in cross-government schemes.[55] The Digital Economy Act 2017 permits data-matching for the purposes of fraud and error.[56] Cabinet Office told us that data analytics is a priority for the Counter Fraud Function which has worked with public bodies to deliver 38 data pilots with an impact of over £90 million to date.[57] The Counter Fraud Function is also working to establish closer relationships with the Serious Fraud Office, City of London police, and the National Crime Agency. In addition, it told us that an explicit part of the Function's strategy is to link up to the cyber and security sides of the Counter Fraud Profession to learn more about different avenues of fraud.[58]

23. In written evidence Cifas, the UK's largest cross-sector fraud sharing organisation, told us there should be transparency around the businesses that have been in receipt of COVID-19 support scheme funds, and, in its submission to us, the Fraud Advisory Panel agreed that transparency around fraud and error is "imperative" to maintain public trust and confidence.[59] The Counter Fraud Function has said it wants to help ensure the UK is the most transparent government globally in how it deals with public sector fraud.[60] In December 2020 we recommended that HMRC list details of companies who received support through the CJRS scheme to try and reduce the opportunity for fraud to occur.[61] HMRC published details of employers claiming CJRS from December 2020 onwards, but told us there are "limits" as to what details it holds and can publish. HMRC explained that the publication of this information was "really just for public transparency of how

51 Q 69
52 Letter from Mark Cheeseman, page 3
53 Q 77
54 Letter from Mark Cheeseman, page 2
55 Qq 86, 87, 91
56 Fraud Advisory Panel submission, page 6
57 Qq 87,91; Letter from Mark Cheeseman page 3
58 Q 87
59 Cifas submission, page 3; Fraud Advisory Panel submission, page 5
60 C&AG's Guide, page 4
61 Committee of Public Accounts, *Covid-19: Support for jobs*, Thirty-Fourth Report of Session 2019–21, HC 920, 20 December 2020

public money is being spent".[62] HMRC told us it was not reliant on the public sharing of information to manage fraud risk as it was not an integral part of the fraud management process, although it welcomed any useful information as a result of doing so.[63] In response to a parliamentary question about the list of companies offered coronavirus business interruption loans, BEIS stated it was seeing if it could "publish something soon".[64] In written evidence the Fraud Advisory Panel told us publishing data on loan recipients would have been useful as it could have assisted with the early identification of potential instances of impersonation fraud and may have acted as deterrent for would-be fraudsters.[65]

24. In written evidence Cifas told us that it believed government's failure to mandate industry standard fraud significantly contributed to the vast scale of fraud in COVID-19 support schemes.[66] BEIS told us that it "found cross-Whitehall collaboration incredibly useful" on the Bounce Back Loan Scheme and local authority grant schemes. It used data held by HMRC to retrospectively check applications for the Bounce Back Loan Scheme which helped banks spot potentially fraudulent applications.[67] DWP told us that going forward increased data sharing could enable it to identify changes in claimant's eligibility for benefits and enable changes to be applied across all benefits before a payment is made, preventing errors from occurring and reducing the need for recovery. DWP told us this "ideal" could be achieved using PAYE system data to automatically adjust universal credit payments.[68] DWP also explained that it is considering the use of additional powers, for example data sharing with banks, which would have to be done in collaboration across government.[69]

62 Qq 78-79
63 Q 80
64 UK Steel Production: Greensill Capital, Volume 691: debated on Thursday 25 March 2021
65 Fraud Advisory Panel submission, page 6
66 Cifas submission, page 2.
67 Q 48
68 Q 86
69 Q 50

3 Responding to fraud and error

25. Each government department has a responsibility to minimise fraud and error, put it right and report on it.[70] HM Treasury told us it expects policy to be developed with fraud risk considered at the development and design stage.[71] The NAO concluded that deterrence and prevention are often more cost-effective for tackling fraud and error than detection, correction and pursuit and that a cost-effective control environment, where the department is doing everything it reasonably can to minimise fraud and error, leads to the lowest level of fraud and error compatible with the policy intent.[72] DWP told us one of its key lessons from the COVID-19 response was the importance of design in terms of trying to avoid fraud and error coming into the system in the first place.[73]

26. The Cabinet Office told us that the Counter Fraud Function is aiming to introduce a minimum standard for fraud risk assessments across government.[74] But it is also still working to increase awareness of the Counter Fraud Function.[75] For example, consultation with the Function's central team of experts is at the discretion of each department, though Cabinet Office recognised some departments will be able to draw on their own internal counter fraud expertise.[76] BEIS told us that despite the increased risk of fraud and error compared to its usual operations it did not consult the Function when designing the Bounce Back Loan Scheme. However BEIS did not think any additional counter fraud expertise or analysis would have changed its position given Ministers had already made the decision to tolerate the increased risk to ensure speedy delivery.[77]

27. The Cabinet Office told us that in emergency situations like the pandemic response it is important to get support out to communities and individuals who need it, and how you balance accessibility and control is one of the areas counter-fraud professionals and other professionals in policy, finance and risk management all look at.[78] We previously concluded that BEIS' focus on speed of delivery for the Bounce Back Loan Scheme has exposed the taxpayer to potentially huge losses.[79] BEIS told us this decision was a "difficult trade off".[80] In written evidence Cifas told us that even allowing for time pressures when the support schemes were first introduced, administering public sector bodies have in many instances continued to receive minimal consultation on preventing during subsequent rounds of funding.[81] We recently heard from the Department for Digital, Culture, Media and Sport on its efforts to prevent fraud within the Culture Recovery Fund. DCMS attributed the Fund's low level of fraud to its upfront due diligence process, though recognised this increased the time it took to distribute funding to recipients.[82]

70 C&AG's Guide, page 7
71 Q 33
72 C&AG's Guide page 8
73 Q 50
74 Q 52
75 Q 40
76 Q 67
77 Q 66
78 Q 68
79 Committee of Public Accounts, *Covid-19: Bounce Back Loan Scheme*, Thirty-Third Report of Session 2019–21, HC 687, 16 December 2020
80 Q 52
81 Cifas submission page 2
82 Oral evidence, COVID-19: Culture Recovery Fund, HC 1291, 26 April 2021, Q 76

28. We asked DWP how it balanced the need to protect taxpayers' money with the speed and accessibility of support schemes. DWP told us that Universal Credit was a good example of balancing these needs as applications normally rely on people coming into the jobcentre for ID checks which was no longer possible. DWP told us it had to find other ways of verifying information which were "less satisfactory", but over time was able to find new techniques, using data and remote methods. DWP explained that those early cases where payments were made without having satisfactory data were flagged for review and it now has a team of 1,400 people methodically going through those cases, one by one, to put them right.[83]

Consequences of fraud and error

29. Departments need to ensure that they detect fraud and error and recover overpayments wherever possible.[84] HM Treasury told us it is up to departments to undertake an assessment of how feasible it is to recover funds lost to fraud and error. DWP told us it has a "lot of different ways of recovering debt".[85] For example DWP explained that debt recovery from vulnerable individuals through the Breathing Space Scheme is by a reduction of benefits and there is a cap in place where this reduction would cause hardship.[86] Cabinet Office told us that it has started making moves towards increasing the commonality of sanctions applied by departments and has an "aspiration" to open up powers and sanctions to allow other parts of government to access them as part of their counter-fraud arrangements.[87]

30. We asked DWP and HMRC about the different departmental responses to similar fraudulent actions, such as concealment of earnings. HMRC told us it has a policy of using criminal investigations in only 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 HMRC to get to the bottom of, such as when information is beyond the reach of its civil powers.[88] HMRC explained it focuses instead on disrupting criminal activity to make it unprofitable.[89] DWP explained that in 2017 it increased the threshold for fraud that it would pursue through the criminal process as opposed to the civil process and it increasingly uses administrative penalties, rather than full-scale prosecution, because it wants to focus criminal investigations on serious organised fraud.[90] DWP told us one of the big investments DWP has been making is to make it easier for people to inform the department of a change, for example through online prompts in systems which are making some difference in sweeping up errors caused by a failure to notify of a change of circumstance.[91]

31. We asked BEIS about plans to recover loans made as part of the Bounce Back Loan Scheme. BEIS told us that in the first instance, it is the banks responsibility to manage recovery in line with their usual processes.[92] BEIS explained that it is planning to work with the police to carry out criminal investigations, and pursue a civil recoveries programme

83 Q 51
84 C&AG's Guide page 7
85 Q 81
86 Qq 81, 83
87 Q 27
88 Q 25
89 Q 88
90 Q 25
91 Qq 85-86
92 Q 61

where potential frauds impact multiple banks...[93] BEIS told us it has also taken on police support for enforcement of the most organised, serious, highly criminal cases of fraud in the local authority grant schemes, though local authorities remain responsible for the low-level recoveries process.[94]

93 Q 63
94 Q 70

Formal minutes

Thursday 24 June 2021

Virtual meeting

Members present:

Meg Hillier, in the Chair

Mr Gareth Bacon	Sir Geoffrey Clifton-Brown
Shaun Bailey	Peter Grant

Draft Report (*Fraud and Error*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 31 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Resolved, That the Report be the Ninth of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Monday 28 June at 1:45pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Thursday 29 April 2021

Jim Harra, First Permanent Secretary and Chief Executive, HM 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, HM Treasury; **Mark Cheeseman**, Director, Government Counter Fraud Function, Cabinet Office Q1–93

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

FAE numbers are generated by the evidence processing system and so may not be complete.

1 Cifas (FAE0001)

2 Fraud Advisory Panel (FAE0002)

3 Fraud and Error (FAE0003)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

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Number	Title	Reference
1st	Low emission cars	HC 186
2nd	BBC strategic financial management	HC 187
3rd	COVID-19: Support for children's education	HC 240
4th	COVID-19: Local government finance	HC 239
5th	COVID-19: Government Support for Charities	HC 250
6th	Public Sector Pensions	HC 289
7th	Adult Social Care Markets	HC 252
8th	COVID 19: Culture Recovery Fund	HC 340
1st Special Report	Fifth Annual Report of the Chair of the Committee of Public Accounts	HC 222

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1st	Support for children with special educational needs and disabilities	HC 85
2nd	Defence Nuclear Infrastructure	HC 86
3rd	High Speed 2: Spring 2020 Update	HC 84
4th	EU Exit: Get ready for Brexit Campaign	HC 131
5th	University technical colleges	HC 87
6th	Excess votes 2018–19	HC 243
7th	Gambling regulation: problem gambling and protecting vulnerable people	HC 134
8th	NHS capital expenditure and financial management	HC 344
9th	Water supply and demand management	HC 378
10th	Defence capability and the Equipment Plan	HC 247
11th	Local authority investment in commercial property	HC 312
12th	Management of tax reliefs	HC 379
13th	Whole of Government Response to COVID-19	HC 404
14th	Readying the NHS and social care for the COVID-19 peak	HC 405
15th	Improving the prison estate	HC 244

Number	Title	Reference
16th	Progress in remediating dangerous cladding	HC 406
17th	Immigration enforcement	HC 407
18th	NHS nursing workforce	HC 408
19th	Restoration and renewal of the Palace of Westminster	HC 549
20th	Tackling the tax gap	HC 650
21st	Government support for UK exporters	HC 679
22nd	Digital transformation in the NHS	HC 680
23rd	Delivering carrier strike	HC 684
24th	Selecting towns for the Towns Fund	HC 651
25th	Asylum accommodation and support transformation programme	HC 683
26th	Department of Work and Pensions Accounts 2019–20	HC 681
27th	Covid-19: Supply of ventilators	HC 685
28th	The Nuclear Decommissioning Authority's management of the Magnox contract	HC 653
29th	Whitehall preparations for EU Exit	HC 682
30th	The production and distribution of cash	HC 654
31st	Starter Homes	HC 88
32nd	Specialist Skills in the civil service	HC 686
33rd	Covid-19: Bounce Back Loan Scheme	HC 687
34th	Covid-19: Support for jobs	HC 920
35th	Improving Broadband	HC 688
36th	HMRC performance 2019–20	HC 690
37th	Whole of Government Accounts 2018–19	HC 655
38th	Managing colleges' financial sustainability	HC 692
39th	Lessons from major projects and programmes	HC 694
40th	Achieving government's long-term environmental goals	HC 927
41st	COVID 19: the free school meals voucher scheme	HC 689
42nd	COVID-19: Government procurement and supply of Personal Protective Equipment	HC 928
43rd	COVID-19: Planning for a vaccine Part 1	HC 930
44th	Excess Votes 2019–20	HC 1205
45th	Managing flood risk	HC 931
46th	Achieving Net Zero	HC 935
47th	COVID-19: Test, track and trace (part 1)	HC 932
48th	Digital Services at the Border	HC 936
49th	COVID-19: housing people sleeping rough	HC 934

Number	Title	Reference
50th	Defence Equipment Plan 2020–2030	HC 693
51st	Managing the expiry of PFI contracts	HC 1114
52nd	Key challenges facing the Ministry of Justice	HC 1190
53rd	Covid 19: supporting the vulnerable during lockdown	HC 938
54th	Improving single living accommodation for service personnel	HC 940
55th	Environmental tax measures	HC 937
56th	Industrial Strategy Challenge Fund	HC 941