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Meg Hillier MP
Chair, Public Accounts Committee
House of Commons
SW1A 0AA

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Dear Chair,

PAC Fraud and Error

Thank you for your recent report into fraud and error across the Public Sector (June 2021). The Government's Counter Fraud Function (GCFF) welcomes your continued focus on fraud and error and has provided a detailed response to four of your recommendations in the annexes below.

- **Recommendation 1** - Setting out how the government applies a risk-based approach to fraud and error - Annex A. The work that is being done across departments to improve the use of data has been combined with the update on recommendation 6 - Annex D.
- **Recommendation 3a** - Providing an update on the work departments are undertaking to measure and report fraud and error within COVID-19 support schemes - Annex B.
- **Recommendation 5** - Setting out how the government will be working with departments and across the system to help build counter fraud capacity and capability - Annex C.
- **Recommendation 6** - Highlighting the work that is being done across departments to improve the use of data, progress made and future actions on real time data sharing - Annex D.

The information contained within the annexes illustrates the work that is being led by the centre of the Counter Fraud Function, working closely with HM Treasury and departments. The Function has the intention to go further, it is working across the system to steadily build structures and capability for departments and public bodies to draw upon should they choose to. This will enable the better use of measurement techniques and data to give a greater understanding of fraud risk exposure.

I trust that the information provided is useful and look forward to continued engagement with the Committee through future updates and inquiries.

Yours sincerely,

Mark Cheeseman

Director of the Government Counter Fraud Function

Recommendation 1 - *The government will write to the Committee setting out how it applies a risk-based approach to fraud and error and highlighting the work that is being done across departments to improve the use of data.*

Part 1 - Applying a risk-based approach to fraud and error

1. Accounting Officers are responsible for managing their organisation's response to fraud and error risk as part of their overall control environment. HM Treasury sets out the key responsibilities for Accounting Officers in its guide to Managing Public Money. In respect to fraud and error this is to:

    - demonstrate cost-effective controls to deter and prevent fraud and error;
    - ensure cost-effective controls to detect and rectify fraud and error; and
    - to provide transparent reporting of fraud and error.

2. To do this Accounting Officers across government take a risk-based approach to fraud and error rather than one of zero-tolerance.

3. In most situations it is impossible to completely eliminate the risk of fraud and error within a scheme, project or programme. Even if it was possible, the control framework necessary to achieve it would likely be prohibitively bureaucratic, expensive or have a negative impact on the quality of the service or delivery of the project.

4. The Government Counter Fraud Function (GCFF) therefore encourages departments to define their fraud risk tolerance at both departmental and scheme level. This fraud risk tolerance acknowledges that some fraud and error will occur, but aims to keep this within acceptable levels.

5. For an organisation to define their fraud risk tolerance, they should have an in depth understanding of their fraud risks as well as a shared understanding of their risk appetite. The UK government has invested in creating a common standard for Fraud Risk Assessment (the first in the world) and is training officials across government to undertake these assessments. There are 154 trained fraud risk assessors, with 41 of these trained to the level that they have received a professional qualification from the Government Counter Fraud Profession.

6. The GCFF provides expert advice and support across government to help departments and ALBs apply a risk based approach to fraud and error through its work with:

    - HM Treasury to develop a requirement to undertake fraud impact assessments on major spend initiatives (consistent with PAC recommendation 4);
    - the Grants Management Function to build the requirement for fraud risk assessments into new grants; and
    - the Commercial Function to strengthen the inclusion of counter fraud within the Commercial Functional Standard and assessment framework.

Part 2 - The work that is being done across departments to improve the use of data.

7. The work that is being done across departments to improve the use of data is set out in the response to recommendation 6.

Annex B

Recommendation 3a - *Update on the work departments are undertaking to measure and report fraud and error within COVID-19 support schemes*

1. When the government acted to support the economy and individuals through the pandemic it recognised an increased risk of fraud and error. The General Public Service Ministerial Implementation Group (GPSMIG) agreed that, in response to this increased risk, departments would take action to look for irregular spending in C-19 schemes and to measure the extent of loss in the highest risk schemes. We have called this Post Event Assurance (PEA) activity.

2. There were in excess of 200 C-19 schemes. As part of the PEA programme, departments committed to test 92 schemes. 79 have commenced testing, with 27 of these now completed. In addition, HMRC and DWP (who sit outside this programme due to their historical activity to measure and report on fraud and error loss) have undertaken testing in their highest risk schemes.

3. Government has had an established standard for fraud loss measurement since 2015, which was co-created with HMRC, DWP and other fraud loss measurement experts. The GCFF has prioritised resources to review the loss measurement exercises undertaken in the six highest risk schemes against this standard. This assurance will provide greater confidence in the conclusions we reach on fraud and error loss from C-19 spend.

4. The most recent review of departmental progress as reported to the Fraud Ministerial Board shows that by March 2022 there will be a partial picture of the fraud losses from C-19 spend. Testing is led by departments. Therefore, the comprehensiveness of that view of fraud losses will depend on the breadth and the quality of the testing work they have undertaken.

5. Pre-covid, existing and comparator data suggest that levels of fraud and error in Government programmes where losses have not been measured will be within a range of 0.5% - 5% of expenditure. The expectation of the GCFF was that loss levels would be likely to be above these levels in covid schemes, due to the increased risk that was consciously taken by departments to provide support to individuals, communities and businesses.

6. DWP has published the results of their activity to measure fraud and error levels in Universal Credit. HMRC have also shared provisional estimates of levels of fraud and error in their COVID-19 schemes. As other departments complete their Post Event Assurance activity, including measurements, these will be brought together into a cross-government picture by the Function.

Recommendation 5 - *The government will write to the Committee setting out how it will be working with departments and across the system to help build their counter fraud capacity and capability.*

1. As discussed at the committee session, the Government Counter Fraud Function (GCFF) brings together the circa 16,000 people who work to counter fraud across central government. The centre of the Function, based in the Cabinet Office, works closely with departments to help build counter fraud capability. However, Accounting Officers decide whether their counter fraud capacity is commensurate with their risks.

2. Historically, the capability to effectively understand and manage the risk of fraud has not been clearly defined. While the foundation for capability standards in investigation and intelligence work existed, other important counter fraud disciplines, including Fraud Risk Assessment, Loss Measurement Exercises and fraud prevention activities had no defined standards, or associated capability standards for those working in those areas. Counter fraud activity has traditionally been a side activity undertaken by those of an audit, operational or finance background with no clear expectations of training, skills or experience.

3. The government has invested in the GCFF and brought experts on fraud together from across the public sector, supported by expertise from other sectors, to establish Professional Standards and Guidance, and to create the world's first Government Counter Fraud Profession. The Profession is designed to be a true 'in/out' Profession, where to gain, and retain, membership, individuals will have to demonstrate they meet the standards. Over time, this will provide a structure to enable the development of capability across government.

4. The Profession was launched in October 2018 and since then has grown to a membership of 6,800. The rate of change in the professionalisation of counter fraud will be steady, with the transformation taking many years. The Profession has already defined the core disciplines for effective counter fraud work, created new Professional Standards and Competencies for seven of these disciplines and created training qualifications - including the new Fraud Risk Assessment qualification and the Fraud Investigator Apprenticeship.

5. A key principle of the Profession is choice. Individuals have choice in whether they look to join, and departments and public bodies have choice in whether they decide to use counter fraud capability in line with the Profession, and Accounting Officer responsibility. Developing knowledge and skill will be a transformative process at the current pace. We expect that to get to an 80% coverage of the c16,000 staff working to tackle fraud could take 10 years.

6. The Profession works with the Function to continue to develop capability across the government. Examples of key workstreams include:

    - developing routes into the Profession for individuals. From January 2022 the Profession begins to open for individual as well as organisational membership with further routes to membership being developed in 2022/23;

    - development of a leadership programme - to train and assess counter fraud Functional Leaders in public bodies against the Profession's Leadership, Management & Strategy Standard. This creates a route into the counter fraud profession for the senior leaders that are responsible for fraud functions in larger public bodies;

    - further development of technical training on fraud risk assessment to build greater capability for this key skill in government. This training is being developed with the City of London Police and Coventry University, with 200 spaces for 2021/22. Attendance on this training will be focussed on areas where there is greatest need, based on the department or ALB's current capability to undertake fraud risk assessments and its capital budget. It will remain up to the public body whether they send their officials on this training, and to what extent they use the government standards; and

  ○ the development of Professional Standards and Competencies for Fraud Prevention and Deterrence.

7. The GCFF is also working with departments and public bodies to improve the basics they have in place to manage fraud through the creation, embedding of, and assurance against, the Counter Fraud Functional Standards. The Functional Standards set clear expectations and frameworks for the improvement of the management of counter fraud activity in government organisations. The Function will continue to assess departments and ALBs against the standard and publish the results.

8. The government has historically concentrated its focus and resourcing into the largest areas of known fraud loss, HMRC and DWP (91% of our counter fraud resources are based in these departments). Other government departments have distinctly lower counter fraud capacity and capability and more limited powers to take action. The government has continued to invest in fraud control in HMRC and DWP, as seen at Spring Budget 21. Welfare fraud received c.£44m via DWP and the government invested over £100m in a Taxpayer Protection Taskforce to tackle fraud and error in the HMRC-administered covid-19 support schemes.

9. As we committed to in our response to the Committee's report, the Government Counter Fraud Function are leading a review into Counter Fraud Workforce and Performance, delivered jointly with HM Treasury. The aim of this review is to map counter fraud workforce and capability across central government and selected ALBs to identify current resources and how this links to each department's ability to prevent, detect and recover fraud and error losses. The review will provide its results to a future Fraud Ministerial Board in early 2022.

Recommendation 6a - *The government will write to the Committee highlighting the work that is being done across departments to improve the use of data, progress made and future actions on real time data sharing.*

1. The response to this recommendation also covers Part 2 of Recommendation 1 - relating to the work that is being done across departments to improve the use of data.

Work that is being done across departments to improve the use of data.

2. The majority of cross departmental data sharing has historically been undertaken in a few large departments (those with the largest identified fraud and error loss). DWP and HMRC are involved in over 50% of the data shares across government.

3. The government established the Data Standards Authority (DSA) in April 2020 to lead cross-government efforts to drive greater standardisation of government data. The Cabinet Office's Central Digital and Data Office (CDDO) has developed an API catalogue that enables departments to discover data sets and share data. This enables departments to increase the reuse of data and reduce the duplication of effort in data projects.

4. The Government Counter Fraud Function (GCFF) has also been working across government with departments to identify new and emerging fraud risks and to support them to develop and improve the overall capability to access and use data and data analytics to tackle these risks. It does this through:

    - producing and distributing guidance and intelligence on emerging fraud risks and actions that could be taken;

    - developing and distributing a 'Counter Fraud Toolkit' detailing examples of: controls, data sharing products and activities that could counter fraud threats;

    - providing access to:
        - training (to support departments to effectively carry out their own data pilots);
        - Fraud Business Analysts to work with departments to identify gaps in data sharing and design (including the development of real time and near real time data sharing solutions);
        - Data Analytics Professional Standards, aligned to the Government Counter Fraud Profession that are in development; and

    - working with the public and private sector to access and trial new data sets, and technology to counter fraud.

5. In addition, working with experts across the UK and internationally, the Function has drafted a set of Professional Standards and Competencies that will underpin future training, and the potential creation of professional qualifications.

6. The government introduced new fraud data sharing powers under the Digital Economy Act 2017 (DEA). This has provided the legislative gateway to deliver better access in general to data for those public bodies listed in the act. Since 2017 10 counter fraud pilots have been delivered using the DEA, with a further 6 currently in progress. Without the Act, each of these would have otherwise required new legislation and significant parliamentary time.

7. The National Fraud Initiative (NFI), conducted by the Centre of the Function (where it moved at the closure of the Audit Commission in 2014), is an exercise that matches data within and between public and private sector bodies to prevent and detect fraud. The NFI has enabled participating organisations to prevent and detect £245 million fraud in the period 1st April 2018 to 4th April 2020. It is currently consulting to extend it's legal data matching powers to extend beyond fraud for other use cases including the identification and correction of error.

8. Below are presented some examples of where data and analytics have been used to find and prevent fraud driven by the Counter Fraud Function.

    - Bounce Back Loan Scheme analytics programme - This is a collaboration between: HMRC, Cabinet Office, Companies House, Home Office, the Insolvency Service, BEIS and the lenders of the British Business Bank Covid-19 loan schemes. This uses cross-government and private sector data to identify high fraud risk and ineligible or inflated applications for government British Business Bank Covid-19 loan schemes.

    - Data pilots - The GCFF provides support to departments to run data sharing pilots. Since 2017 the government has delivered around 38 data pilots through this route (including five under DEA powers). There are nine pilots live or in development (including four under DEA powers). A recent pilot facilitated by the GCFF shared data between HMRC and the Education and Skills Funding Agency (ESFA) to address fraud in the apprenticeship schemes - resulting in a saving of over £12m through fraud being prevented.

Progress made and future actions on real time data sharing.

9. The GCFF draws a distinction between:

    - real time access to data: where groups have immediate access to data sets as and when required, this data may be historic; and

    - access to real time data where data is made available as soon as it has been captured. Real-time data can be dynamic (e.g. immediate bank transaction data which is accessible immediately) or static (e.g. a fresh tax return covering the previous year, accessible as soon as HMRC have received it).

10. The GCFF works with departments to build departmental capability and to provide better real time access to data and access to real time data and products. The GCFF is providing, or is trialing, a range of data sharing products improving real time data sharing and analytics:

    - National Fraud Initiative (NFI) - continues to invest in the development of its 'AppCheck,' product which allows real time access to its datasets. AppCheck can be used to verify data given by applicants, matching it in real-time at the registration stage against the data sets provided by NFIs' 1200 odd participating organisations. This enables users to identify fraudulent applications at the point of claim.

    - NFI has continued to evolve, working with the private sector to establish the NFI FraudHub product; this product is used by around 20 Local Authorities, centred in 5 separate hubs. This enables individual organisations or groups of neighbouring organisations real time access to regularly screen more than one dataset with the aim of detecting errors in processing payments, or benefits and services.

    - Network Analytics and Entity Resolution - The GCFF has invested in a pilot of an analytics tool to be used on real time data sets. The tool uses advanced network analytics to identify networks of activity to flag and target high risk networks potentially relating to serious and organised crime.

- Credit data - The GCFF has worked with the private sector to develop access to new realtime data sets of corporate and charities bank account information and credit history. This is used to validate the authenticity of an organisation applying for a service at the point of application, and is used to assure that payments are being made to the bank account of the actual organisation and not through some fraud or deception to another bank account.

11. The government has also invested in the development of an upfront data sharing tool. ‘Spotlight,’ is an automated tool to reduce the fraud risk of making grants or procurement payments. Spotlight uses data from: Companies House, the Charity Commission, government grants awards, government contracts and commercial credit rating data to help build a picture of the grant or contract recipient in real time. The results of these checks provide insight into the eligibility and potential fraud risk of an organisation. The tool enhances access in real time to data for counter fraud checks prior to the provision of contracts and the award of grants.

12. A further example of improved real time access to government data is DWP’s 'NHS Charge Exemption' API. This allows pharmacies to check a citizen's eligibility for free prescriptions instantly and in real time. Previously a manual process beset by compliance issues, this service is forecast to lead to large savings for the NHS by reducing fraud and error, and the cost of processes needed to recover lost charges.

13. More widely, DWP have continued to invest in developing data sharing to detect and prevent fraud. More specifically on real time data - they continue to work with HMRC on access to PAYE real time static data. DWP also work with other government departments providing real time access to DWP managed benefits, including ID verification, and housing cost verification.

14. HMRC support a risk based approach on the access to, and use of real time data. Their work during COVID-19 has been highlighted in the response to recommendation 3a and independently to recommendations 3c and 7.

15. Government has further to go in developing all aspects of data access including real time data sharing. The Counter Fraud Function will continue to work with departments to create proposals for further innovation, including the use of real time information.

16. In the meantime the GCFF will continue to work with departments to improve the government's capability to use data to find and prevent fraud. It will do this through continuing to:

    - promote the use of the data analytics Best Practice Guide: encouraging organisations to develop and run their own well designed data analytics pilots;

    - develop and implement cross-government counter fraud analytical standards: ensuring that counter fraud analytics are carried out to the same high standard across government so that the value of data and techniques can be better understood and that benefits are realisable, achievable and auditable;

    - increase data sharing, and access to data, to support real time decision making in the future. The GCFF will do this by identifying and implementing pilots using new datasets and analytical techniques working across the whole of government and by providing access to data piloting teams and analysts, for groups with restricted capability;

- work to extend the NFI’s data matching powers beyond fraud; and
- secure a decision on the Digital Economy Act and work to develop its future use.