



National Audit Office

Report

by the Comptroller
and Auditor General

Cross-government

Fraud landscape review

Summary

1 Fraud is an act of deception carried out for personal gain or to cause a loss to another party. In the public sector, fraud can be committed internally by public sector workers or externally by suppliers, contractors and members of the public. Fraud covers a wide spectrum of activities and can affect all departments.

2 Preventing and detecting fraud are key to minimising loss and ensuring that public funds are spent in the way that taxpayers would expect. With ongoing pressure to cut costs, reducing loss of public funds through fraud is an opportunity for the government to make potentially significant savings.

3 In 2011, the government set out its priorities for reducing fraud in the public sector and in 2012 it developed a programme of work focusing on welfare fraud.^{1,2} Since then it has changed some of the bodies involved in preventing fraud including closing the National Fraud Authority and has published little up-to-date information on progress, particularly on the non-welfare side. Fraud risks have also changed, for example there has been an increase in online fraud and in the number of government services provided by third parties. However, levels of reported fraud remain low at 0.02% of expenditure across government.³

4 This is a review of the fraud landscape, examining the government's approach to tackling fraud in the public sector. It focuses on fraud associated with central government expenditure other than tax credit and benefit fraud as this is an area that has had less attention. HM Revenue & Customs (HMRC) and the Department for Work & Pensions (DWP) regularly report estimated levels of fraud and error. These have been the subject of our recent *Fraud and error stocktake*.⁴ We also do not cover fraud in local government or fraud against members of the public.

5 We sought to answer the following questions:

- What is the scale of fraud in the public sector?
- What did the government set out to achieve in tackling fraud and what has it done?
- What are the challenges in reducing fraud and how will the government meet these challenges in future?

¹ Cabinet Office, *Eliminating Public Sector Fraud, The Counter Fraud Taskforce Interim Report*, June 2011.

² Cabinet Office, *Tackling Fraud and Error in Government, a Report of the Fraud, Error and Debt Taskforce*, February 2012.

³ The Cabinet Office estimate 'true' detected fraud to be £72.9 million from a spend of £306 billion (0.02%) in 2014-15 excluding the Department for Work & Pensions, HM Revenue & Customs and local government.

⁴ Comptroller and Auditor General, *Fraud and error stocktake*, Session 2015-16, HC 267, National Audit Office, July 2015.

6 This is a summary of the government's objectives and projects and the outcomes achieved. It reports progress but does not evaluate the success of the activities or individual initiatives. We intend to follow up on the results of the government's anti-fraud work in the future. We recognise that detection of fraud and error are related and report data on both but the report focuses specifically on government's management of fraud risk.

7 Our methods are set out in Appendix One.

Key findings

8 Our work on fraud and error in the tax and benefits sector has demonstrated the need for an approach that includes:

- clear strategies and governance;
- an effective, well implemented control environment; and
- an ability to measure and evaluate performance.

Reducing fraud and error has been a major focus of the tax and benefits sectors for many years. They have established approaches to tackling fraud and error that include annual measurement exercises to estimate the scale of both fraud and error. For the rest of government, where the scale of fraud is less well known, there are fundamental issues to be resolved before the government can demonstrate that resources are being targeted effectively.

The scale of fraud

9 **The exact scale of fraud within the government is unknown.** The quality and completeness of fraud data is often variable and not sufficient to accurately assess the extent of fraud. The most comprehensive data relates to areas of known risk – tax credit and benefit fraud, as noted above – but information across the rest of government is incomplete. The Cabinet Office has recently started collecting fraud returns from departments but there are gaps and inconsistencies in the data sets. What the data does indicate however, is that departments are reporting less loss than expected given the scale of expenditure and range of activities. Some submitted nil returns despite reporting cases of fraud elsewhere. The Cabinet Office is working with departments to improve the completeness and quality of their data returns (paragraphs 2.16 to 2.19).

10 **Detected fraud across government was equivalent to only 0.02% of total expenditure (excluding tax credit and benefit fraud).** In 2014-15, detected fraud across government ranged from £27.6 million to £72.9 million, depending on the source, from a total expenditure of £306 billion (paragraphs 2.11 to 2.13, 2.17 and Figure 5).

11 There is a large disparity between the level of fraud and error that is reported and the level that other available estimates suggest might be occurring which needs explaining. The UK figure of 0.02% of expenditure compares with estimates of 3% to 5% in the European Union and United States. While these comparisons need to be treated with caution, they suggest that there could be significant fraud and error that is unreported or undetected and losses that are not being adequately addressed. Given current fiscal challenges, reducing the level of fraud is one potential way of making savings while protecting services (paragraph 2.17).

Government action

12 The National Fraud Authority, the previous lead on fraud across government, closed in March 2014. Its responsibilities passed to a number of bodies: the City of London Police, the National Crime Agency, the Home Office and Cabinet Office. However, a few of its functions such as producing the annual fraud indicator have not continued (paragraphs 2.7 and 3.2).

13 The Cabinet Office is now the policy lead for fraud but relies on departments to manage fraud risk individually. The government publicly set out an approach to reducing fraud and error in 2011 and internally revised this approach in 2013. A small team in the Cabinet Office together with a fraud, error and debt task force (set up in 2010 to look across government then refocused on tax and welfare in 2013), are responsible for setting government's policy and priorities. During the first few years, the government's approach to reducing fraud was to develop a range of counter fraud initiatives, mainly in tax and welfare. In 2013, it revisited this approach and asked departments to assess their own counter fraud capacity. Initiatives since then have targeted specific areas of departmental weakness. They have focused on improving accountability, measurement and reporting and using data sharing and analytical techniques to share intelligence and detect more fraud (paragraphs 3.5, 3.8 to 3.14 and 3.18 to 3.19).

14 The Cabinet Office has provided valuable central guidance and expertise to departments to improve the way they manage fraud. The Cabinet Office's small policy team is growing into a centre of expertise with a broader programme of work. It has tried to raise the profile of counter fraud activity and has taken steps to improve understanding of the cross-government picture by collecting data and surveying department's counter fraud capacity. In the absence of firm levers, it has tried to improve aspects of governmental capability through influence, and promote collaboration between departments. However, some areas of its work have less defined plans for achieving the government's ambitions to reduce fraud and there is a need for clearer measures of success to assess progress and the impact of central initiatives (paragraphs 3.3 to 3.4).

15 Departments' capacity and capability to manage fraud is mixed.

Departments reported varying abilities to understand and address fraud risks within their organisations. Some may lack an understanding of their exposure to fraud including knowing what their riskiest processes are. Consideration of fraud risk early in policy/ programme development through 'fraud risk assessments' is also not widespread. Those departments with dedicated fraud resources tend to focus on investigating cases of fraud rather than preventing it (paragraphs 3.16, 3.17 and 4.10).

16 There are few incentives for departments to record and report the true scale of potential fraud. Historically, those departments that report high levels of fraud attract more attention than those departments that report no or low risks of fraud. However, departments might report high levels of fraud because they have invested in identifying and assessing fraud (paragraphs 2.19 and 4.11).

17 Measuring certain types of fraud is inherently difficult and there is a trade-off to be made in respect of the time and costs in doing so. Organisations need to consciously invest resources and decide what approach is best suited to their circumstances and exposure to risk. Efforts by central government to detect and measure fraud and error have focused on asking departments to conduct random sampling of high-risk areas with mixed success. However, this will be only one source of information about government's exposure to fraud risk (paragraphs 3.20 and 4.5).

18 It is hard for government to assess the extent and nature of potential fraud and the areas most at risk of loss given the lack of good quality data.

Lack of data makes it difficult for the government to formulate a response to the risk of fraud and focus resources effectively. Without fully understanding the level of risk, departments cannot put in place a strategy to mitigate risk and cannot design or implement preventative controls or undertake targeted interventions. Attempts to understand the key risks across government rather than at a departmental level are also at an early stage (paragraphs 4.15, 4.17 and 4.18).

19 The lack of data and absence of metrics to evaluate performance make it difficult to assess whether the government's actions are improving the detection and prevention of fraud. Most central government activity so far has focused on getting departments to recognise the risks and establish governance structures and processes to better identify and prevent fraud. These are necessary steps to being able to evaluate success. There has been early progress in identifying more fraud but it is too early to tell if this is a sustained trend (paragraphs 3.18, 3.19, and 3.23).