



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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## **Department for International Development**

# Investigation into the Department's approach to tackling fraud

# What this investigation is about

1 This investigation is about how the Department for International Development (DFID) manages the risks to its expenditure from fraud. Where relevant, it compares DFID's approach to tackling fraud with the approaches taken by the Foreign & Commonwealth Office (FCO) and the British Council, which also spend money overseas.

## Fraud definition

2 DFID defines fraud as: "an intentional act of dishonesty by one or more individuals internal or external to DFID with the intent of making a gain for themselves or anyone else, or inflicting a loss (or risk of loss) on another".

3 DFID is increasingly using the term 'aid diversion', which can be any activity that deliberately prevents aid from reaching its intended recipients. The risk could come from:

- fraud;
- terrorism financing;
- money laundering; and
- bribery; and other corrupt activity.

4 In this investigation we use the catch-all term 'fraud' to cover all categories of aid diversion listed above.

## Fraud risks

5 DFID spends its budget through a variety of bilateral, multilateral and humanitarian channels, all of which have different fraud risks. In addition, two major changes have altered the fraud risk it faces. The first is the government's commitment to spend 0.7% of gross national income (GNI) on international aid, amounting to £12.133 billion in the calendar year 2015.<sup>1</sup> Although other departments are involved in providing international aid, 80.5% of the budget – some £9.767 billion – was spent by DFID. In line with the 0.7% commitment, DFID's budget has risen by more than a quarter (26.5%) since 2011, when it spent £7.722 billion.

<sup>1</sup> Available at: *Statistics on International Development 2016*, p.13: [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/572063/statistics-on-international-development-2016a.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/572063/statistics-on-international-development-2016a.pdf)

6 The second change was set out in the 2015 Strategic Defence and Security Review (SDSR15), which committed DFID to spending at least 50% of its budget in 'fragile states and regions' at least for the remainder of this Parliament.<sup>2</sup> Fragile states are more likely to be vulnerable to fraudulent activity, so the SDSR15 commitment could increase the risk of fraud in DFID's budget. DFID concentrates its bilateral funding on 32 countries.<sup>3</sup> Of these, 15 fall into the lower quartile (ie perceived as the most corrupt) of Transparency International's Corruption Perceptions Index.<sup>4</sup>

### Scope of this investigation

7 We undertook this study in response to:

- parliamentary interest in how the aid budget is being spent;
- the changing nature of DFID's budget, which has risen substantially and is increasingly focused on countries and regions deemed as fragile; and
- concerns that fraud in the government's overseas expenditure is under-reported, and that public reporting of fraud may not be sufficiently transparent.

8 This investigation sets out how DFID tackles fraud across its budget, and also looks at measures put in place by the FCO and the British Council. In line with the principle of conducting investigations to establish the underlying facts, we do not conclude on whether DFID's counter-fraud work or its wider anti-corruption programmes represent value for money. Nor do we cover overseas expenditure incurred by other government departments, such as the Ministry of Defence.

9 Our methods are set out in Appendix One.

2 Fragile states are those that: "suffer external and social stresses that are particularly likely to result in violence; lack the capacity to manage conflict without violence; and neighbouring states that are particularly vulnerable to instability". Available at: [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/573890/Bilateral-Development\\_Review-technical-note-2016.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/573890/Bilateral-Development_Review-technical-note-2016.pdf), page 9.

3 In addition to the 32 countries, DFID gives aid through multi-country global programmes and core contributions to multilaterals, three regional programmes and relationships with aid-dependent Overseas Territories: [www.gov.uk/government/organisations/department-for-international-development/about#what-we-do](http://www.gov.uk/government/organisations/department-for-international-development/about#what-we-do)

4 The Index is a widely-recognised measure of how corrupt a country's public sector is perceived to be. Available at: [www.transparency.org/cpi2015#downloads](http://www.transparency.org/cpi2015#downloads)

# Summary

## Key findings

**1** On the impact of the government's 2015 commitment to spending half of DFID's international aid budget in 'fragile states', we found **a clear relationship between those fragile states and countries also perceived as the most corrupt**. Based on the Department for International Development's (DFID) fraud cases, we found that there were **few allegations of fraud reported in some of the countries ranking among the most corrupt** (paragraphs 1.7, 4.14 and 4.15).

**2** On **fraud prevention**, we found that **DFID has changed its counter-fraud strategy** in response to previous criticisms by external scrutiny bodies. It structures its approach according to a 'three lines of defence' model, involving front-line staff; a control and assurance team, and internal audit. It has built the consideration of fraud risk into the processes that teams must follow when setting up programmes; for example, conducting due diligence over delivery partners (paragraphs 2.4 to 2.8).

**3** On **fraud detection**, the **number of allegations reported to DFID is rising** as a result of their work to increase awareness of fraud and reporting requirements among its staff and suppliers. Detection is particularly challenging **where DFID does not have direct control over all the funds it provides**; for example, in the 55% of expenditure routed through multilateral bodies. Two-thirds of allegations are notified to DFID by its partner organisations (paragraphs 1.3 and 3.2 to 3.7).

**4** On **investigating fraud**, we found that DFID's central fraud team investigated 93% of the 429 allegations in 2015-16, providing advice to teams for the remainder. **DFID's fraud caseload quadrupled between 2010-11 and 2015-16**, primarily with increases in lower priority cases, with the most serious cases remaining steady at between 20 and 25 cases annually. There has been a further increase in the caseload in 2016-17, with 475 allegations received during the nine months to 31 December 2016. There has also been a recent increase in the number of the most serious cases, with 26 cases in the same period. **Annual gross losses to fraud in 2015-16 were around 0.03%** of DFID's budget. The theft or exploiting of assets or information accounted for the largest losses in 2014-15. Between 2003 and 2016, non-governmental organisations accounted for nearly 40% of all reported fraud cases (paragraphs 4.7, 4.8 and 4.11 to 4.17).

**5** On **fraud recovery and sanctions**, DFID prioritises its actions to recover funds from those who have committed fraud. Since 2003, **DFID has recovered around two-thirds, by value, of the reported fraud loss**. There are a **range of sanctions that DFID applies** in response to fraud. DFID will pursue cases through the courts if it considers it proportionate and appropriate to do so. It does not make information public on the actions it takes in these cases, primarily to protect the identities of those reporting allegations (paragraphs 5.2 to 5.7).

**6** On **fraud reporting**, DFID reports fraud information to its audit committee and the Cabinet Office's fraud team. Externally, **DFID provides less information than it used to in its annual report**, in order to reduce the overall size of the document. It provides the balance of its reporting through its website, but there is no link to it from the annual report. Neither the FCO nor the British Council provide more fraud information in their annual reports than DFID, although they all meet mandatory requirements. All three bodies report less information than some non-governmental organisations (paragraphs 6.2 to 6.5 and 6.9 to 6.11).