UK Research and Innovation

Item 11
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UKRI Counter Fraud and Investigations Service – Annual Report 2023/2024

To note

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Summary

This paper provides an overview of the activity of the Counter Fraud and Investigations Service from April 2023 – March 2024.

PFO is asked to:

- **Note** the information on fraud referrals and investigations and counter fraud activities
- **Note** the prevalant fraud risks
- **Note** the planned priorities for the next 12 months

1 Resourcing

1.1 The year has seen a significant reduction in resource from a budget of 9 FTE in 2023-24 to an outturn of 4 FTE at year end. (This excludes one Band D on short term loan from IUK, due to return to IUK at the end of June 2024 and one Band E on secondment out to GIAA).

1.2 Consequently, activities have been prioritised and reduced over the year. Most notably there has been no proactive Counter-Fraud manager in post over the year which has resulted in proactive work being largely suspended. Resource has been focussed on undertaking investigations on key frauds and attempted frauds reported to CFIS. The results of this are reported below.

1.3 **Counter-Fraud Vision.**

1.4 This has been agreed with the CFO and is attached as an Annex. Minor updates will be made in the coming months to reflect improved joint working with Funding Assurance and closer collaboration with HEIs. This is covered further later in the paper.

1.5 **GovS013**

1.6 As a result of the resource constraints, a key priority has been to undertake an internal review of the current level of compliance with the standard. Agreement has been reached with DSIT Counter-Fraud to support this work in an advisory capacity to ensure a suitably appropriate external level of review.

1.7 The new Public Sector Fraud Authority GovS013 standards have increased the expectations in relation to detection, prevention and reporting activity from the previous version which was undertaken in 2022-23. The current assessment undertaken by CFIS, which will be supported by an independent assessment by DSIT, will fall short of where we were at last time; mainly (but not exclusively) due to the absence of proactive resource over the past year.

1.8 It is intended to use the in-house assessment as a basis for developing a new strategy and operating plan for CFIS. Once this is agreed, a road map will be developed to achieve full compliance. This will include a resource requirements analysis. In the current financial climate, agreed resource capacity will influence delivery timetables.

1.9 UKRI Fraud Risk Assessments

1.10 The CFIS have continued to support and contribute to the Fraud Risk Assessment (FRA) Task & Finish Group, in the design of the generic fraud risk assessment template. The work of the group will look to meet the GovS013 Functional Standard (Fraud) and the requirement for appropriate levels of fraud risk assessments.

1.11 Whereas there has been good progress on the completion of FRA of key activities across UKRI it is too early to assess the response of risk owners to improving controls and reducing the overall risk. The identification of and reducing the risk are two very different issues.

1.12 The CFIS continue to work with internal stakeholders to identify and address weaknesses in controls. An example of this includes the CFIS engagement with terms and conditions working groups and attendance at the Innovate UK Operations and Investigations Group.

2 Detection Activity

2.1 HMRC (Furlough scheme)

2.2 A detection exercise commenced on 28 January 2022 to conduct a review and analyse organisations that may have been in receipt of UKRI funding in addition to HMRC CJRS furlough payments relating to the same staff.

2.3 The data matching exercise identified that there were 804 companies who were in receipt of Innovate UK grant funding, whilst also receiving CJRS funding during the same period. A sample of 10% was selected for the review, which comprised of eighty companies. Highlights from these include:

- 73 companies have been reviewed of the initial 80 companies selected, due to seven companies being withdrawn as a result of no direct match in timing between CJRS and IUK funding. This represents 9.2% of the overall identified matches (804 companies). Of these 73 companies, this pilot found issues (error or fraud) in 16 companies (21.9%).
- No furlough fraud was identified against UKRI by participants to date.

2.4 This exercise has identified errors and overinflation specifically relating to labour claims made by UKRI participants. For example, the day rates charged to projects by some companies are not in line with the gross employee costs indicated on payslips. A report has been received by management with key recommendations for next steps and includes identified fraud risks.

2.5 With this in mind, a further sample of 40 was completed by IUK with support and training provided by CFIS with a significantly smaller overpayment value identified (£687 for IUK)

- Overall, the exercise has identified a number of overpayments and errors as follows:
    - A total overpayment of £979k of which £374k related to HMRC overpayments and £605k represents IUK overpayments.
    - Of the IUK overpayment of £605k, £382k has been paid back to date with £223k outstanding.

3 National Fraud Initiative (NFI)

3.1 CFIS began work on the NFI exercise, which requires pan-UKRI support to provide the relevant information to facilitate the reviews. This has proved challenging given the complexities and sensitivities connected to some of the information requests. This has now been resolved and the exercise is moving forward, albeit with constrained resources, meaning this has taken longer than originally anticipated.

3.2 There are a total of 14,501 matches to review. Of this, 3,706 matches have been processed and found to have no identifiable issues. A further 106 cases are subject to ongoing review with another 10,689 matches remain to be reviewed as resource levels permit. To support the NFI work, CFIS have upskilled members of UKSBS to review the duplicate creditor matches that sit on the Oracle system which account for the majority of the total NFI matches. Those matches that remain and are not associated with duplicate creditors, will stay in scope for CFIS to review.

4 Reactive Investigations - Analysis of fraud and Monetary Losses

4.1 The analysis of UKRI fraud related data has identified the following (additional detail is provided within the Fraud Dashboard at Annex 1):

- Identified fraud of £4.57M for the period 2023/24. This is an increase in comparison to the prior year of £1.2M.
- UKRI reported £13.45M 0.415m during 2023/24 in prevented fraud, in comparison to £0.42M during 2022/23. The main reason for the increase in prevented fraud in 2023/24 was due to a large and resource intensive complex investigation which enabled a grant payment to be stopped prior to payment. This was identified during the due diligence stage and emphasises the importance of early intervention.
- Identified fraud has increased over the past 12 months, resulting from improvements in the triage process, however referral numbers remain fluid and continue to fluctuate throughout the year.
- the value of recoveries for the period 2023/24 was £0.08M. UKRI has a recovery policy which was signed off by PFO in the autumn of 2022. Application of this will be required to increase the values of recovery, the rates of which are presently extremely poor. CFIS will look to the PSFA to provide further support in this area.
- the value of grants, subject to investigation, for the period 2023/24, totalled £42.59m.
- current investigations are identifying larger potential frauds but the results will not be reported until, for example, police investigations are completed; these can have very long timeframes, sometimes extending years.

4.2 Public Sector Fraud Authority

- A number of meetings have taken place with the PSFA to better understand how they are developing. In October 2023 they were intending to have finalised the design of the Enforcement Srvice to support departments (and ideally UKRI) to take action in cases of fraud, and seek recoveries in particular.
- Resourcing of the PSFA Enforcement Unit remains uncertain with varying ambitions reported. It is estimated that full activity may not be in place for some time to come. This is likely to place greater emphasis on the need to invest internally to meet the ongoing requirements of GovS013. Separate discussions remain ongoing to secure the services of the PSFA to recover monies on behalf of UKRI but remain subject to overcoming significant data sharing challenges, which are being reviewed by UKRI Legal. There is no timeframe available yet for when outstanding issues may be resolved.

  Discussions have also taken place regarding the feasibility of securing PSFA services to support CFIS investigations where resources are stretched. This will be further explored in 2024-25.

  In summary, we will continue to engage with the PSFA and seek to identify any opportunities where they could support or enhance the service delivery of CFIS. Opportunities will be built into our strategy as and when they reach an appropriate level of maturity.

4.3 Other CFIS Activities

- As part of the continuous improvement drive within CFIS, a number of activities are ongoing to not only meet the standards laid out in the GovS013 standards but to improve internal processes as part of a wider fraud prevention programme.

- Fraud Awareness training has recently been refreshed with a bespoke session delivered to the UKRI Finance Directorate. Further bespoke programmes are being designed for delivery to the Innovate UK Operations and Senior Management Teams.
- The Deputy Head of CFIS is working closely with the Innovate UK Monitoring Team to create fraud specific guidance, including reporting routes, as part of the Monitoring Officer Community Library. It is anticipated this approach will improve the triage and reporting process for the new Monitoring Service Providers.
- Discussions have taken place with some HEI stakeholders regarding how frauds are managed in HEIs. An emerging consensus, and recent experiences encountered by the Research Councils' Funding Assurance team have highlighted poor processes to recover fraud committed on UKRI projects.
- A number of policies reviews and drafts are actively in flight. A new pan-UKRI applicable Open Source Intelligence Policy has been drafted and will be presented for approval in the coming weeks. This will enable UKRI to meet its obligations to conduct counter fraud, due diligence and assurance processes in a legally compliant manner following recent external legal advice.
- The UKRI Counter Fraud and Bribery Policy is being refreshed by the Deputy Head of CFIS. This policy will be significantly streamlined while simultaneously meeting the requirements of the GovS013 standards.
- CFIS and Innovate UK are collaborating to submit rescoped data sharing agreement with HM Revenue and Customs. This is being supported by the Public Sector Fraud Authority and aims to achieve real time due diligence checks and improved counter fraud detection rates through the acquisition of HMRC data. Innovate UK are proposing a baseline of 15,000 checks per year, eventually rising to 30,000, which will increase the rates of fraud detection and demands on resource. The UKRI Data Protection Team has been engaged to support this process.
- A new internal fraud awareness campaign is being designed with the assistance of UKRI Creative Services and external facing awareness will be increased through ongoing engagement with the UKRI Web Design Team to improve the visibility of the fraud reporting routes.

5 Priorities for the next 12 months

5.1 The CFIS's priorities for the next 12 months include the delivery of:

- Further progress against the UKRI Counter Fraud Operating Plan 2022-2024 pending agreement of a new Strategy and Operating Plan;
- Developing a new Strategic Plan for CFIS and thereafter an updated operating plan recognising the new environment and resource availability;
- Continuation of the developing working agreements, including the sharing of intelligence with the Public Sector Fraud Authority and the DSIT Counter Fraud Function.

6 Risks

R-1046 Failure of Counter-Fraud controls.

If UKRI does not have the appropriate capability and capacity to detect, prevent and investigate fraud, as a publicly funded organisation that may be of greater risk of systematic or organised fraud. THEN UKRI is at risk of greater financial loss, reputational damage, additional resource requirements to manage incidents, failure to comply with Managing Public Money and impact on our ability to meet our funding requirements as a result of the loss.

7 Financial Implications

6.1 None

8 EDI Implications

7.1 None

9 Environmental Sustainability Implications

8.1 None

10 Conflicts of interest

9.1 None known

11 Annex

Annex 1: Fraud Dashboard – to note

Annex 1- Fraud Dashboard