HM Government

Cross-Government Fraud Landscape Annual Report

September 2017

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This information is also available on www.gov.uk

This report focuses on detected fraud and error data collected across central Government in areas of expenditure outside of the tax, welfare and local Government systems.

This report also includes updates on the cross-government work led by the Cabinet Office's Centre of Expertise for Counter Fraud and Error Reduction. This includes: Random Sampling exercises designed to detect and estimate fraud and error loss; setting standards for counter fraud skills and activity and building a government profession.

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Ministerial Foreword

Dealing with fraud across the public sector is an important part of effective Government. It is important and right that Government takes fraud, and the risk of fraud, seriously and strives to improve its approach. This Government's ambition is for the UK public sector to be one of the leading countries in both identifying and dealing with fraud loss and risk. The Cabinet Office is bringing government together to move on this agenda.

This government is taking a 21st Century approach to dealing with fraud. The risk of fraud is a challenge that all organisations and individuals face and the public sector is no different. Central government manages a huge range of public services, both directly and through others, and all of these have a risk of fraud associated with them.

Government has taken action on fraud loss in both welfare and tax fraud over the past few years and prides itself on its transparent approach to fraud levels in these areas. Fraud in the tax and welfare system has been well covered, scrutinised and is published annually. Fraud in the rest of the public sector has not had such a high profile.

In 2013, the Fraud Taskforce started work to understand the picture across the rest of Government, building on the work done by the National Fraud Authority. This work formed the basis of the National Audit Office's Fraud Landscape Review that was published in February last year.

This work suggested that the level of fraud being detected in central government was much lower than would be expected in an organisation of comparable size. In the Landscape Review, the NAO challenged government to maintain its focus on fraud outside of tax and welfare, a challenge that we have risen to.

Traditionally there have been limited incentives to find fraud, as the main consequence of finding it was criticism and scrutiny. Fraud is a hidden crime as those who commit fraud are actively trying to hide what they are doing. This means one has to proactively look for it. Hence only by considering finding fraud a good thing and detecting more will we be able to identify and deal with the problem, ultimately saving taxpayers' money.

It would have been easy to take the low figures for detected fraud in this report as a positive, as an indication that fraud levels were low. Government, however, believes that there is a lot more fraud out there to find than is currently being reported.

Attempts at fraud will happen and government sees the identification of these problems as a great success. It is only through identifying and understanding fraud that we can take effective action against it.

We have made good progress, since 2014/15, identified fraud in the public sector has risen from £29.7m to £73.6m. This rise has been due to the hard work of public sector workers and the co-ordinated drive from the Cabinet Office.

Where fraud is found, departments are taking action to deal with it. Departments look into these cases and pro-actively learn lessons, and consider changes in their processes to stop similar fraud from happening again. Departments are taking action to increase fraud awareness, more actively look for fraud and increase their capability to deal with it.

In support of this, the government is coming together, coordinated by the Cabinet Office, to increase capability in detecting and dealing with fraud through ground-breaking activities such as the creation and adoption of standards and the launch of the Government Counter Fraud Profession. These key initiatives and proactive stance clearly show the government's strong commitment to dealing with fraud.

There is more work to do and Government expects detected fraud levels to rise further as we uncover more and more. We are confident that doing this is the right thing for the public sector and will protect public services and ensure taxpayers' money is spent in the right places.

Chris Skidmore MP
Minister for the Constitution

Chief Executive of the Civil Service

The public sector is not immune to the threat that fraud poses and the damage that it does. Fraud means that we pay more to deliver public services, that those services can falter and the public loses confidence. The 2017 Crime Survey for England and Wales now names fraud as the most prevalent crime.

There has, therefore, never been a better or more appropriate time to focus on fighting public sector fraud. A crucial part of improving efficiency and effectiveness in public services is aggressively finding and reducing fraud losses to ensure we get the most from every pound of public money that we spend.

I am proud of the transparent and pro-active approach that this report represents. It is right that we are being open by publishing data on the known levels of fraud across government.

Fraud can feel like something we should be cautious talking about. However, I would encourage all organisations to be confident when talking about fraud. We should not see fraudsters targeting the public sector as our failing - everyone knows fraud exists. Public confidence comes in recognising that, admitting it and being open about measuring, detecting and tackling it. We should acknowledge the success of finding it and take the opportunity to learn and increase our effectiveness in preventing fraud in the future.

To help public bodies embrace this challenge the Cabinet Office, working with experts from across sectors, have produced a set of standards. These are the basics needed for organisations to deal with fraud. These were launched, by the Minister for the Constitution, in February this year and government organisations are currently working to get them in place.

Many public bodies are going beyond this by looking at new ways to fight fraud and the damage it causes. Increasingly, we are using data sharing and analytics to both find and prevent fraud. We are sharing knowledge and best practice across the public service, through an active network of counter fraud champions, and even going further, bringing together this best practice into guidance on key counter fraud activities.

Our vision for a Brilliant Civil Service is one capable of serving modern Britain, that truly reflects the people it serves and provides an opportunity for talented people to fulfil their potential, regardless of their background. To help deliver this, the Cabinet Office has brought government together to create and implement professional standards and competencies for those working in counter fraud, and is developing an exciting, new Government Counter Fraud Profession.

Everyone has a role to play in countering fraud and all parts of the public sector are at risk of fraud. We cannot be complacent. I urge public sector professionals to embrace this challenge, make yourself aware of how fraud can happen, really look for it and seize the opportunity when you find it. Challenge your own organisation and leadership to go further and actively look for fraud.

I hope what follows will inspire you to be curious about fraud in the public sector, and confident when dealing with it and playing your part in protecting public services and taxpayers' money.

John Manzoni
Chief Executive of the Civil Service and Permanent Secretary to the Cabinet office

Executive Summary

Scope of Report

1. Dealing with fraud effectively is vitally important for the public sector:

    - fraud wastes taxpayers money, which means more money is spent than needs to be;
    - fraud results in public money not going to the places that it is needed most; and
    - fraud is a crime and should be treated as such.

2. This report focuses on fraud losses from central government[1], drawing on data collected by the Cabinet Office Centre of Expertise on Counter Fraud. The data set also includes some data on losses due to error, although it is recognised this is not as comprehensive as the fraud data.

3. The report focuses on fraud loss outside of the welfare and tax systems. This is because information on these areas is published annually by HM Revenue and Customs (HMRC) and the Department of Work and Pensions (DWP). The purpose of this report is to increase the focus on fraud risk and loss in the rest of government, where less is known. This follows the government's established approach and the National Audit Office's recommendation to continue in this direction and for the Cabinet Office to publish data on known fraud levels across government.

4. The report also provides an update on the work the government is undertaking to increase capability in the public sector to find and reduce fraud loss.

    The Nature of Fraud
5. Fundamental to dealing with fraud is acknowledging that it exists. As an intentionally hidden crime, it can take considerable effort to uncover. This requires government to actively seek out fraud and to see it as a success when it is found. Public services and the public sector will always be targeted by fraudsters. Success is finding and understanding as much of this fraud as possible so that we can increase our defences to prevent fraud in the future.

6. On the basis of the data government has collected over the past three years, and the data collected by HM Treasury prior to this, it is the Cabinet Office's view that the amount of fraud currently being found and dealt with is lower than that seen in available comparators, such as the EU, USA and other sectors. This view was supported by the National Audit Office in their recent Fraud Landscape Review[2].

7. As such, the Cabinet Office is working with central government to find more fraud and will view identifying more fraud as a success in itself.

8. It is important to acknowledge that fraud is not a stable issue and many factors affect its prevalence. These include the control frameworks operated by public bodies, societal attitudes, and the increasingly international dimension to daily life and business.

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[1] Excluding DWP and HMRC

[2] https://www.nao.org.uk/wp-content/uploads/2016/02/Fraud-landscape-review.pdf p.22

What the Data Says

Levels of Fraud

9. The government started a push to find more fraud in 2013/14 and progress is positive. The data, published in Part 2 of this report, supports this. **Detected** fraud within central government[3] has risen from **£29.7m** in 2014/15[4] to **£73.6m** in 2015/16. The amount of fraud that government is **preventing** has also increased, from **£9m** in 2013/14 to **£33m** in 2015/16.

10. The Cabinet Office believe the reasons for the increase in detected and prevented fraud are due to:

    - an improvement in the quality and comprehensiveness of reporting as a result of a focus in this area;
    - an increased focus on the risk of fraud across government; and,
    - a drive by the Cabinet Office to develop established methodologies for measuring prevented fraud.

11. It is also possible that the prevalence of fraud is going up across all sectors, including the public sector. The crime statistics published by the Office for National Statistics in 2016, included figures on fraud for the first time. We know that, following the introduction of a single reporting route for all fraud in the UK in Action Fraud, the UK has more recorded reports of potentially fraudulent activity than it has previously. However, it is not clear to what extent this indicates a rise the reporting and recording of fraud as opposed to a rise in instances of fraud itself.

Functional Activity Coordinated from the Cabinet Office

12. The Cabinet Office's Centre of Expertise undertakes a number of other activities to increase the recognition of fraud and increase the capability of the public sector to understand, find and prevent losses.

Random Sampling

13. Since 2014/15, government departments have been undertaking small scale Random Sampling exercises (see Part 3) to test the presence and level of fraud and error in specific areas.

14. In its first year the results were varied. However, the highest quality exercises identified significant losses, and 80% of exercises led to the introduction of improved counter fraud controls. In 2015/16, Random Sampling was run on a voluntary basis and the exercises undertaken were, in general, of a higher quality.

15. To date, the evidence supports the hypothesis that there is more fraud and error in those areas than is being detected through current activity.

Functional Standards

16. Government has developed Functional Standards for Counter Fraud Management (Part 4). These Functional Standards detail the basic counter fraud elements that

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[3] Excluding DWP and HMRC

[4] The Government did not collect detected fraud and error data individually until 2014/15. In 2013/14 only a total fraud and error figure was collected.

central government bodies should have in place. These were publically launched by the Minister for the Constitution Chris Skidmore on 20 February 2017

Developing Counter Fraud Capability

17. Government's main policy approach to finding more fraud and dealing with it better is through developing counter fraud capability across government (Part 5).

18. This has three key aspects:

    1. Developing common, agreed standards;
    2. Developing an effective, value for money training and development regime; and
    3. Developing the infrastructure and governance to support and build a profession.

19. Government has made significant progress on this activity. It launched the Counter Fraud Framework in May 2015, providing a basis for a consistent approach to fraud management. Government has also developed a series of capability standards for those working in counter fraud, with six published to date:

    - Investigation;
    - Intelligence and Analysis;
    - Sanctions, Redress and Punishment;
    - Risk Assessment;
    - Counter-Bribery and Corruption; and
    - Leadership, Management and Strategy

Part One –
The Role of the Cabinet Office

1.1.   The Fraud, Error and Debt Taskforce was established in 2010 and the Cabinet Office Fraud, Error and Debt (FED) team was established to act as its secretariat. Initially, the Taskforce focused on working with departments to launch a range of counter fraud initiatives. These were largely focused on tax and welfare, with a few cross-government initiatives, such as encouraging the use of Spend Recovery Audits.

1.2.   From 2013 the Cabinet Office shifted its focus to wider central government spending. This involved carrying out research, including a capacity review, to understand the picture on fraud and associated error loss across the whole of central government. In 2015 the Cabinet Office FED team developed a Centre of Expertise for Counter Fraud and Error Reduction after the Taskforce closed.

1.3.   The Centre of Expertise on Counter Fraud is responsible for understanding the cross-government picture on fraud. It works with departments and public bodies to make the government's response to fraud as effective as possible and is the policy lead for cross government counter fraud activity. This was acknowledged by the National Audit Office (NAO) in their Cross-government Fraud Landscape Review (2016)[5], which positively acknowledged the role played by the Cabinet Office.

1.4.   As the NAO stated, the Cabinet Office is the policy lead for fraud and leads on some cross government initiatives. However, departments manage their own fraud risk and undertake a significant amount of activity to implement, execute and audit controls to reduce the threat and risk of fraud.

1.5.   The main goal of the Centre of Expertise in the Cabinet Office is to work with central government departments and experts from across sectors to identify and reduce financial losses due to fraud and error. This focus is on four core activities:

   1. Setting and supporting the adoption of standards;
   2. Building and providing access to capability in government;
   3. Developing and providing access to products and services; and
   4. Agreeing to and monitoring reductions in FED across government where there is identified systematic loss.

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[5] https://www.nao.org.uk/wp-content/uploads/2016/02/Fraud-landscape-review.pdf

Part Two -
Background and the Fraud Iceberg

2.1. This section outlines:

- What fraud is; and,
- How the Cabinet Office explains and represents fraud in Government.

What is Fraud

2.2. Prior to 2013 there was no consistent agreed government definition of fraud for public bodies to report against. In 2013, the Cabinet Office worked with government departments to agree a fraud definition and typologies.

2.3. The agreed government definition for recording fraud draws on the legal definition as set out in the Fraud Act 2006 which states:

"The making of a false representation or failing to disclose relevant information, or the abuse of position, in order to make a financial gain or misappropriate assets"

Departments report against the definition using a civil test. They therefore consider a civil burden of proof in order to report something as fraud. This considers whether, on the balance of probabilities, an action or inaction was likely to have been taken with the intention of defrauding the taxpayer.

2.4. If, on the civil balance of probabilities, it is not judged to be an intention to defraud, the loss is considered an error. This occurs where inaccurate or incomplete information is provided, or incorrect processing of information takes place. For example, if an incorrect amount was paid, but on the balance of probabilities there was no intent to defraud, it would be classified as error. Error can be made by an official or any third party outside of government with whom there is a financial relationship.

2.5. This report focuses on fraud associated with central government expenditure other than tax credit and benefit fraud and error. It also includes error loss where that is recorded. It does not include fraud and error levels for local government, other sectors (e.g. the private or third sector) or fraud against members of the public.

2.6. The primary focus of this report is fraud. Measuring error can be more difficult due to the potential breadth of the definition of error. For instance, error can be incorrect decisions on funding arrangements, or unintentional over claims on contracts. However, one could also consider wider administrative mistakes like incorrect decisions on projects as error. The data on error in this report is not comprehensive, as the collection focuses on fraud loss.

2.7. Measuring fraud is inexact due to the subjective nature of the civil test. This report gives figures for both fraud and what the departments have classified as error

The Fraud and Error Loss 'Iceberg'

2.8. The work of the Centre of Expertise in the Cabinet Office has broken down the fraud and error challenge that government faces into two areas:

1. The problem that is known; and
2. The problem that is not known.

The government can deal with the problem that is known, as the loss associated with this is self-evident and can be used to evidence the need to change controls or evidence the need to undertake counter fraud activity. In these areas there are either detected levels of fraud and error or estimates for the overall level of loss (for instance, benefits and tax).

2.9. Dealing with the problem that we do not know about is more complex, as the loss is not self-evident. The challenge is to shine a light on those areas where information is poor or non-existent. Fraud is a hidden and evolving crime; fraudsters make themselves hard to find and adjust and improve their tactics for evading detection when organisations take preventative action.

2.10. Over the past few years, this Centre of Expertise has built up knowledge and collected data in order to understand the cross-government picture on fraud and error loss.

2.11. The NAO's Fraud Landscape Review, published in February 2016, concluded that:

1. the exact scale of fraud within government is unknown;
2. 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; and
3. government should publish an annual report on fraud and error data to increase transparency and awareness.

2.12. The Centre of Expertise use the Fraud and Error Loss Iceberg (Fig.1) to explain and represent fraud loss in central government. It includes losses in welfare, but does not include losses in tax. It illustrates the difference between the loss we know about (where we have detected levels of fraud or estimates) and the loss we do not know about.

2.13. The headings in Fig. 1 do not to represent actual size of loss in Grants/Procurement, Welfare and Health. They represent how advanced those areas are in terms of conducting measurement exercises and how much we know or do not know about loss in that area. For example, most of welfare is in the known section of the iceberg as their measurement process is mature, while grants/procurement is mostly in the unknown section as there have not been many measurement exercises on this area.

Fig. 1
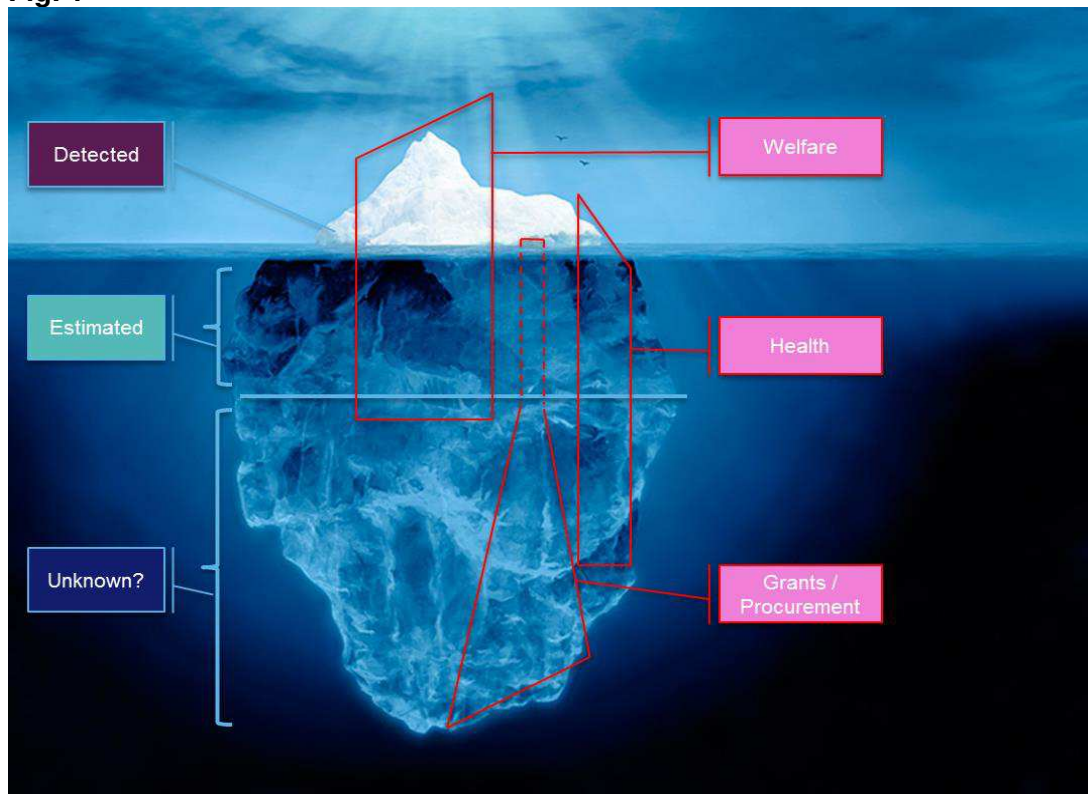
2.14.   The tip of the 'Fraud and Error Loss Iceberg', above the water line, represents detected fraud and error. The vast majority of detected fraud comes from the DWP and HMRC in the form of benefits and tax credits. The rest of the detected figures come from the Consolidated Data Request (CDR) collection, the data from which forms Part Four of this publication.

2.15.   Just underneath the surface of the water is the loss we know exists because of estimates, but has not been detected. These loss figures are extrapolations from detected fraud and error loss found during loss measurement exercises. These extrapolations are most effective where deployed on a large population of spending that uses a similar process (such as benefits). Testing in more diverse areas can be difficult and expensive.

2.16.   Only a few areas in government have the capacity and capability to estimate their losses. Again, the vast majority of the estimates are from benefits and tax credits. There are a limited number of other estimates of fraud and error loss in specific policy areas (for example, some areas of Health). We know these estimates only cover a small proportion of Government expenditure.

2.17.   Together, detected and estimated fraud and error make up known loss (the problem that we know about).

2.18.   Deep under the water is the unknown loss. The unknown area includes areas of spend where no estimates have been undertaken and no loss found and those where some loss has been detected, but there is likely to be more, as yet undetected, fraud and error loss.

2.19. For unknown loss, the Cabinet Office, alongside the Oversight Board (who oversee the Random Sampling Programme) use their professional judgment to assess the potential range of loss across all government spend that does not have an estimate. There is an upper and lower range:

The lower range is 0.5% of spending being irregular. This is what the Random Sampling Oversight Board considers to be of the lowest likely percentage level of loss that would be expected considering the available comparators.

The upper range is 4.02% of spending. The 4.02% figure is taken from the 2014 rate of Improper Payments in the United States, identified through loss measurement that was mandated in the United States of America Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012.

2.20. Government has concluded that:

1. Measuring certain types of fraud is inherently difficult, resulting in a trade-off to be made in respect of the time and the costs of doing so; and
2. 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.

The NAO has supported these conclusions in their Fraud Landscape Review.

2.21. There is no hard evidence for the unknown figures. The range provided here should not be taken as an accurate assessment. Government does not know the true extent of the loss due to fraud and error in the public sector. Government's approach is to continue to understand more and more about the unknown loss, through finding more, and to take action to reduce the risk of loss.

2.22. However, the view is that there is likely to be significant unknown loss right across government and we should undertake activity to detect, prevent and recover losses.

Part Three –
Tackling the Iceberg

Government Approach to Counter Fraud: Tackling the Iceberg

3.1. The government sees dealing with fraud and the risk of fraud in the public sector as an integral facet of delivering an effective government. When we consider the iceberg, the Cabinet Office express the approach as attempting to 'push the iceberg up' to increase our knowledge of risk and loss and, from that, take effective action to reduce it.

3.2. As such, we take action against the known loss and what we consider to be unknown loss.

3.3. A key part of dealing with the potential unknown loss is that it is hard to find. The government sees an increase in detected fraud as a positive. The government is seeking to find more fraud, both through detecting more and through carrying out more measurement exercises to estimate fraud and error loss in specific areas. The intention is that this will expose the unknown fraud and enable government to deal with it.

3.4. The Cabinet Office Centre of Expertise provides guidance to departments to help improve the way they manage fraud. Departments own the fraud risks in their areas. Collaboration is a core theme in the government's approach to counter fraud.

3.5. There is more to do, but progress has been made already. Working across the public sector, in order to expose the extent of the iceberg, government has already:

- launched a set of 11 Functional Standards to set out, at a high level, the basic components that should be in place within central government organisations that spend over £100m (Part 6);
- focussed on improving accountability by making sure every department has appointed an individual accountable for fraud at board level and a counter fraud champion;
- increased the level of fraud and error reported, by the Centre improving the reporting mechanisms and departments shoring up their own collection process (Part Four);
- improved fraud measurement through the introduction of Random Sampling. (Part Five);
- created functional standards, that detail the basic components that should be in place in public bodies for the effective management of fraud (Part Six);
- started to create standards for counter fraud work carried out in government to improve capability because, as the NAO determined, capability and capacity varies between departments (Part Seven);
- the National Fraud Initiative, previously run by the Audit Commission, moved to the Cabinet Office;

the Cabinet Office has led on developing new legislation, intending to enable the sharing of data to detect and prevent fraud, as part of the wider Digital Economy Bill;

developed an understanding of the data analytics market and tested the sharing of and analysis of data using new technologies; and

promoted the use of data sharing and analytical techniques to share intelligence and detect more fraud.

Part Four -
2015-16 Fraud Loss Data

Fraud Data Collection

4.1. Departments first started reporting fraud and error data into the Cabinet Office in 2012 through the Quarterly Data Summary (QDS). The fields collected were Total Detected Fraud and Error and Prevented Fraud.

4.2. In 2013 the Cabinet Office worked with departments to agree fraud and error definitions and fraud typologies. In 2014/15 when the Consolidated Data Return (CDR) was introduced, departments were required to give more detail, in line with the agreed definitions. This included splitting fraud into defined categories and collecting data on recoveries. In 2015/16 the CDR replaced the QDS.

4.3. All central government departments and Arm's Length Bodies (ALBs) with over £100m spend return the CDR through their parent departments. There are five main categories reported through the CDR:

> Detected Fraud – including a breakdown by typology;
> Detected Error;
> Total Detected Fraud and Error;
> Prevented Fraud; and,
> Recoveries.

4.4. All figures reported are gross, and recoveries are not netted off from the detected figures. All figures reported are detected or actual figures, and there are no extrapolations or estimates collected.

4.5. HMRC and DWP already publically report on fraud and error loss in benefits, tax credits and tax in significant detail. Consequently, they do not supply the Cabinet Office with any information relating to these areas of expenditure through the CDR.

Improvements to the data from 2014/15 to 2015/16

4.6. The data collected in 2014/15 was used by the NAO in their Fraud Landscape Review (2016). Since 2014/15, a number of steps have been taken to improve the quality of the data.

4.7. The 2014/15 prevention figures, used by the NAO, did not go through a verification process. In 2015/16 the Cabinet Office created a panel of experts to review public sector prevention methodologies. This panel signed off 98% of all prevention savings published in this document.

4.8. This additional scrutiny from the Prevention Panel provides more confidence in the integrity of the data. The panel is a group of cross-sector experts (public, private and third sector) that review and approve prevention methodologies in order to provide assurance around the savings reported. Departments are invited to the panel to discuss their reported prevention savings and the calculation methodologies behind

them. The panel will then either sign-off the prevention saving, request an alteration to the methodology, or remove the reported saving. The panel has also produced and recently circulated a 'bank' of prevention saving methodologies that departments can refer to when calculating their prevention savings.
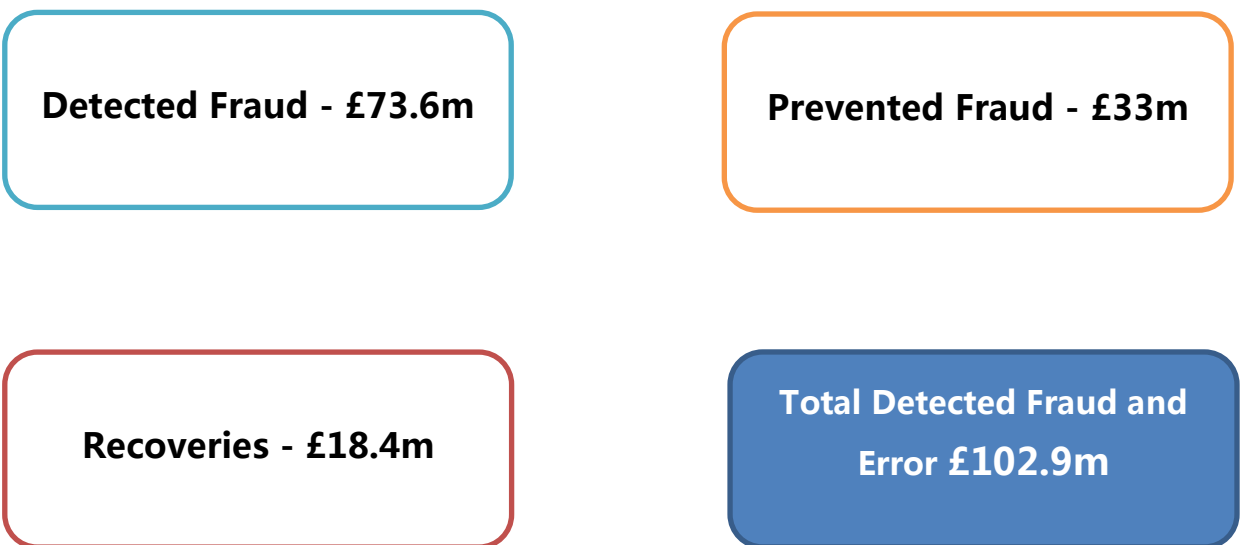
4.9.   The NAO put an onus on departments, with support from the Centre of Expertise, to improve the quality and completeness of the data. Departments have worked hard to improve their data collection processes.

4.10.   There has been a decrease in departments making a nil return for detected fraud. In 2014/15 six departments made a nil fraud return. This fell to only one department in 2015/16. Departments' increased experience should mean that the data continues to improve next year. An increase in the amount of fraud reported signals an increase in department's ability to detect and report fraud data; this is the key metric for measuring government's progress in this area.

4.11.   The reporting process has been streamlined, with only one return being requested instead of two (due to the QDS being discontinued).

Data Limitations

4.12.   It is challenging to have a complete set of data on known fraud for a number of reasons. For instance:

1. The definition of fraud is subjective. The civil burden of proof requires departments and ALBs to make a judgment on whether an action is fraudulent or erroneous – the decision of one department could differ from another.
2. Historically, as the NAO Landscape Review outlined, there has been little incentive for departments to report fraud. While the culture across government is changing, the appetite to detect and report a loss as fraud, rather than error, on the balance of probabilities may vary and in some cases be low.
3. There have been cases in some departments where investigations into potential fraud have taken place, identifying departmental losses that were the result of error rather than fraud. In such cases, the figures were often not reported. This is due to the team investigating the case being concerned only with fraud, and as such, not looking to collect data on what turned out to be error.
4. The Cabinet Office is aware that the quality of returns improved towards the end of the year as departments and ALBs began to improve on their processes for recording and reporting fraud. However, whilst some data can be retrospectively reported, some data from earlier in the year is likely to have been lost.
5. The error part of the data is known to be incomplete – as the focus of the data collection is on fraud and departments process for collecting data on loss from error are not as developed as those for collecting fraud, following the cross government focus on improving the data held on fraud loss. As the focus of this reporting is to enable government to better understand the picture on fraud, this is accepted as a limitation.

Levels of Fraud and Error

Fig. 2. Key 2015-16 Fraud CDR Figures[6] [7]

Detected Fraud - £73.6m

Prevented Fraud - £33m

Recoveries - £18.4m

Total Detected Fraud and Error £102.9m

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[6] Excluding DWP, HMRC and Local Government.

[7] DFID specific recoveries on fraud and error were £2.80m. Figure supplied at the department's request.

Fig 3. Detected Fraud by Department 2015-16 (includes ALBs figures)

Department	Expenditure	CDR Detected Fraud	CDR Total Detected Fraud and Error
	(£m)	(£m)	(£m)
Department for Business Innovation and Skills	21,429	17.38	17.64
Cabinet Office	743	0.00	0.48
Department for Communities and Local Government (excluding grants to Local Authorities)	5,933	0.20	0.25
Department for Culture, Media and Sport	1,679	0.33	0.60
Department of Energy and Climate Change	5,531	0.17	1.20
Department for Environment, Food and Rural Affairs	4,959	0.32	4.03
Department for Education	57,280	1.45	5.99
Department for International Development	8,742	3.20	5.05
Department for Transport	21,250	0.38	4.20
Department of Health	117,250	6.54	7.99
Foreign and Commonwealth Office	2,382	0.02	4.89
Home Office	14,084	0.89	3.31
Ministry of Defence	35,300	18.27	18.27
Ministry of Justice	9,560	24.44	28.79
HM Treasury	702	0.00	0.22
Total	306,825	73.6	102.9
Department of Work and Pensions (excluding Benefits)	6,660	0.64	0.6
HM Revenue and Customs (excluding Tax Credits)	3,527	0.14	1.51
Total	317,011	74.38	105.07

Fraud Trends: 2014/15 - 2015/16

4.1. The government is making good progress in finding more fraud. Reported fraud more than doubled from 2014/15 (£29.7m) to 2015/16 (£73.6m).

4.2. Reported fraud prevention savings rose steadily (by £5.5m) in 2015/16 after previously tripling from 2013-14 (£9m) to 2015-16 (£27.5m). As explained in paragraph 4.8, there is greater assurance around this year's figures than there has been previously.

4.3. Total Detected Fraud and Error[8] (£102.9m) in 2015/16 rose significantly against its comparator from 2014/15, 'true' Detected Fraud and Error (£72.9m). 'True Detected' was a metric developed by the Cabinet Office in 2014/15 to increase the accuracy of the fraud and error numbers, and used by the NAO in their 2016 publication. As the quality of data increased in 2015/16, this metric was no longer needed. For more information on 'true detected' see Annex A.

4.4. Recoveries dropped by a third in the same period, from £27.3m in 2014/15 to just £18.4m 2015/16. Further analysis has shown that the fall in recoveries was due to a large recovery in 2014/15, which had a disparate impact. For more information see Annex B.

Fig. 4   **2014/15 – 2015/16 Data Comparison**

£m	2014/15	2015/16	Difference	% Difference
Fraud Loss	29.7	73.6	43.9	148.2%
Error Loss	28.7	29.3	0.6	2.3%
Total Detected	72.9	102.9	30.0	41.2%
Prevented	27.5	33.0	5.5	20.1%
Recoveries	27.3	18.4	-8.9	-32.5%

Trends 2013/14 – 2015/16

4.5. Fig. 5 & 6 below show the trend in the data over the past three years. It is coincidental that four of the five trend lines start from a similar value in 2014/15. In 2013/14 the only data that was being collected was Total Detected Fraud and Error (£43.3m) and Prevented Fraud (£9m). The graphs show a steady increase across all fields except for Recoveries. Further information on collected and published fraud data from 2006 to present, can be found in Annex C.

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[8] Excluding DWP and HMRC

Fig. 5

Fraud & Error Data Trends

Legend:
- Fraud Loss
- Error Loss
- Total Detected

X-axis: 2013/14, 2014/15, 2015/16
Y-axis: £0m to £120m

Fig. 6

Prevented & Recoveries Fraud Data Trends

Legend:
- Prevented
- Recoveries

X-axis: 2013/14, 2014/15, 2015/16
Y-axis: £0m to £35m
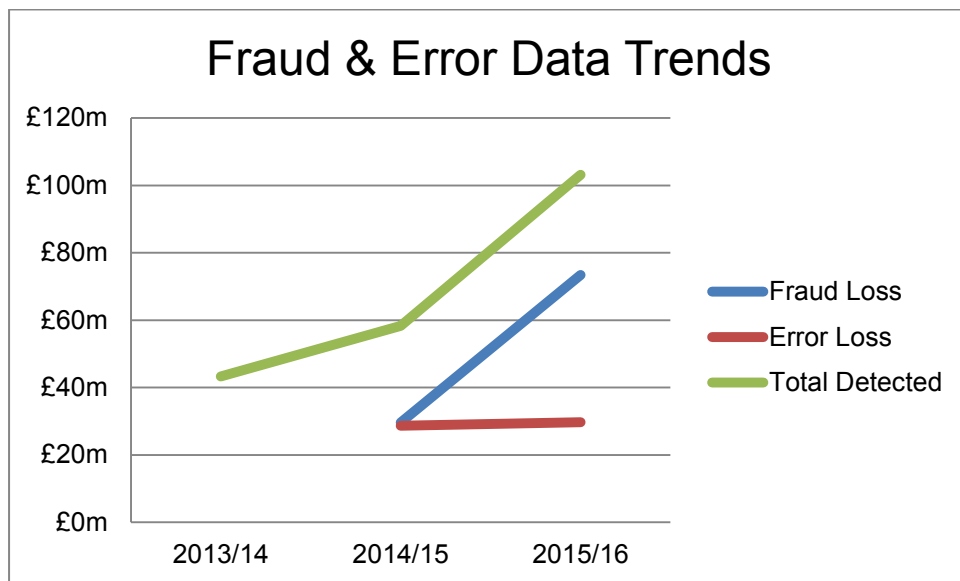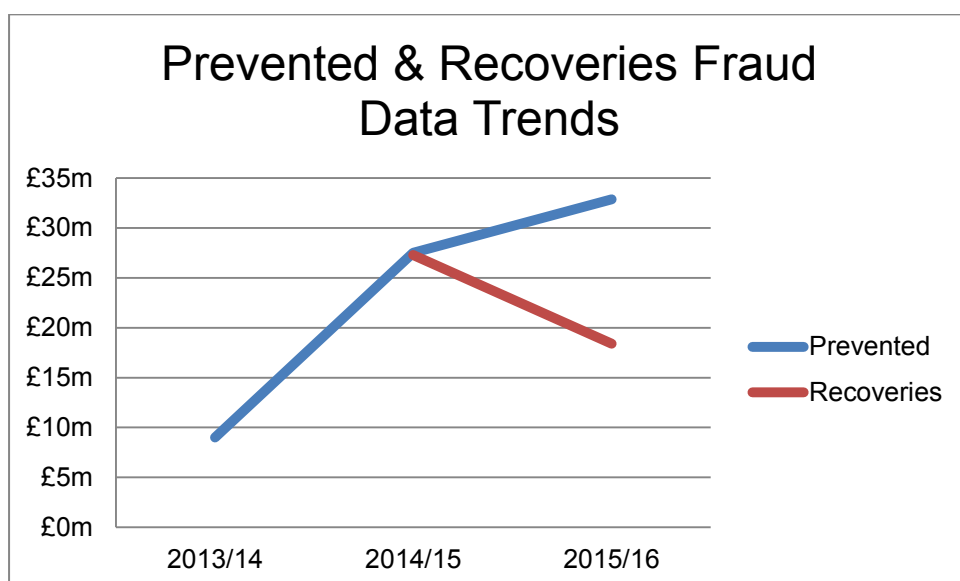
4.6. Over the next few years, the Cabinet Office will work with government departments to try and continue the increase in detected and prevented fraud.

Part Five –
Random Sampling

5.1. Random Sampling is a targeted fraud detection and measurement exercise programme that has been running since 2014.

5.2. The purpose of Random Sampling is twofold. Firstly, it is to test the 'iceberg' by investigating potentially high risk areas of spend to see if there are undetected losses in those areas.

5.3. Secondly, Random Sampling is used to broaden the range of estimated losses known to government by measuring new areas within the 'unknown' section of the fraud iceberg, and to determine the likely extent of those losses. This tests both the current theory of fraud in government, represented by the 'iceberg' and steadily increase our knowledge of fraud loss and risk in Government.

5.4. Random Sampling exercises report "irregularity" which includes fraud and error, as the distinction between a fraud and an error often requires more detailed investigation.

5.5. Random Sampling exercises include testing a random selection of payments against assessed fraud risks, with a view to extrapolating the irregularity rate to give an estimate of losses in those areas. Following the development of a proposal for Random Sampling exercises to be undertaken across government in 2014, departments agreed to undertake them.

5.6. DWP and HMRC were not requested to participate, as they already undertake extensive irregularity measurement activity, which is reported publically.

Programme Development

5.7. In 2014, the Cabinet Office invited a wide range of cross-sector experts to form a working group, tasked with developing a best practice framework for undertaking Random Sampling in the public sector. Government experts led this work alongside the NAO and external specialists including Ernst & Young, PricewaterhouseCoopers and KPMG. The best practice framework gave instruction on how to select an appropriate area of high risk to test, how to assess that area in detail for fraud and error risk, and how to report the irregularity detected.

5.8. The Cabinet Office established a panel of experts in Random Sampling to provide an independent quality review of the exercises undertaken by departments against the agreed framework. The Expert Panel, and the programme as a whole, is overseen by an Oversight Board, which brings together experts from the Department of Health, NHS Protect, NAO, DWP,

DEFRA and HMRC. The Oversight Board has an independent chair from outside the Public Sector.

5.9. Those undertaking Random Sampling exercises submit their progress to the Expert Panel at certain stages. The exercises are reviewed and a rating of Gold, Silver or Bronze is recommended. These are based on the comprehensiveness of the evidence used for validation, how thoroughly fraud and error risks have been assessed and pursued, how much the testing focussed on residual risk rather than control failure and high quality sampling methodologies.

The Programme

5.10. In 2014/15 departments were requested to complete two exercises on areas of perceived high risk. 28 exercises were undertaken across a range of areas..

5.11. 12 of the 28 exercises in 2014/15 found irregularity. The quality of exercises varied depending on what sampling methodologies were used and to what extent the testing looked at whether risks were occurring as opposed to whether controls were in place. The exercises provided an annual irregularity estimate of £79 million across the payment areas tested. However, low sample sizes used in the exercises, and varying quality of exercises means this can only be given with low confidence.

5.12. For 75% of the exercises, improvements to controls were made as a result of the random sampling.

5.13. For 2015/16, the Oversight Board requested only one exercise per department. After receiving feedback from participants in 2014/15, the Cabinet Office Centre of Expertise also offered more intensive support, running workshops with departments throughout the year.

5.14. Eight of the ten exercises for 2015/16 found irregularity. From these exercises the estimate of irregularity is £53 million per year. This estimate is of a higher precision than that in 2014/15, as sampling methodologies were more secure overall. However, confidence in the estimates remains low.

5.15. 60% of the exercises resulted in control improvements. However, two of the areas tested have now ceased taking new applicants, resulting in limited opportunity to make improvements.

Case Study – Start Up Loans Company

We participated for the Department of Business, Innovation and Skills in both of the first two Random Sampling programmes, and we are working on another exercise this year. The first year the team received a Bronze rating. In 2015/16 we team took a much more systematic approach, obtaining a Silver rating. Both exercises have given us excellent insight into the risks we face, and this has enabled the organisation to make big improvements in our fraud risk management.

The team have learned which application types have the highest rates of irregularity and the types of data checks that are the most vital to identifying irregularity. We also discovered that fraud and error could have been prevented if delivery partners had been able to flag high risk indicators. Work to ensure they are spotted in the future was recently completed resulting in considerable preventative savings.

5.16. The 14/15 and 15/16 exercises support the hypothesis that there is undetected fraud and error in the "unknown" area of the fraud iceberg, and that Random Sampling, if done well, can add value. The Cabinet Office Centre of Expertise continues to work with departments to build the capability in fraud risk assessment that is necessary to target the areas of highest risk and to improve testing methodologies. The programme for 2016/17 is currently being completed and work is ongoing to increase the level of participation from 2015/16.

5.17. Government started with a limited number of random sampling exercises to demonstrate value and to test the 'iceberg' theory. The first year suggested that good quality exercises in high-risk areas found loss. The second year focused on fewer, higher quality exercises. The Government sees value in this work, the quality of the exercises are improving and it is helping government find fraud and error loss.

Part Six –
Functional Standards for Counter Fraud

Background

6.1.   Fraud can happen anywhere in government. As such, skills and capability need to be spread across government while they are still targeted in high risk areas. All areas of government have to draw on counter fraud resources at some point. Counter fraud can be seen as a cross-government function. Functions exist to help government effectively deliver policy and services by building collaborative relationships across government and bringing specialist skills and crosscutting perspectives.

6.2.   Government has developed a set of functional standards (fig. 7) for counter fraud to ensure the minimum components are in place to help protect government from fraud. These complement the increased counter fraud expertise and capability being built through the Counter Fraud Profession. The Functional Standards were launched by the Minister for the Constitution Chris Skidmore MP in February 2017.

The Functional Standards

6.3.   The Functional Standards are the basic components that an organisation should have in place in order to effectively deal with fraud. The Standards are designed to be easily accessible and understandable to non-specialists in counter fraud.

6.4.   The Functional Standards represent the common fundamentals that organisations should have in place; they do not represent an exhaustive list of all of the activities an organisation should or can undertake to counter fraud. They are designed to help reduce inconsistency in approach and show common activity, whilst maintaining a departmentally led, risk based approach.

6.5.   It is the intention of Government in line with the transparency agenda to publish in this report every year which departments are meeting the Functional Standards.

6.6.   The standards were developed by experts from across government, and then refined and agreed on with experts from other sectors and academia. The standards were then agreed across government with departments.

6.7.   The standards collate existing guidance from Managing Public Money and other activities that departments were undertaking. These standards are a starting point and will evolve over time.

Fig. 7

All organisations that spend over £100m will:
1. Have **an accountable individual** at Board level who is responsible for counter fraud;
2. Have a **counter fraud strategy** that is submitted to the centre;
3. Have a **fraud risk assessment** that is submitted to the centre;
4. Have a **fraud policy and response plan** detailing where accountability for fraud lies within the organisation, its delivery chain and how the organisation reacts to potential instances of fraud;
5. Have an **annual action plan** that summarises key actions to improve capability, activity and resilience in that year;
6. Have **outcome based metrics** summarising what outcomes they are seeking to achieve that year. For organisations with 'significant investment' in counter fraud or 'significant estimated' fraud loss, these will include metrics with a financial impact;
7. Have well established and documented **reporting routes for staff**, **contractors and members of the public** to report fraud suspicions, and a mechanism for recording these referrals and allegations*;*
8. Will **report identified loss** from fraud and error, and associated recoveries, to the centre in line with the agreed Government definitions;
9. Have agreed **access to trained investigators** that meet the agreed public sector skill standard;
10. Undertake **activity to try and detect fraud** in high risk areas where little or nothing is known of fraud levels, including using loss measurement activity where suitable (i.e. using the Random Sampling program);
11. Ensure all **staff have access to fraud awareness training**.

Part Seven -
Building a Government Counter Fraud Profession

Background

7.1. Fraud has become increasingly complex. Tackling it therefore requires a response that goes beyond traditional investigative methods. Disciplines and skill areas such as intelligence handling, risk assessment, data analytics and setting a strong counter fraud culture (amongst others) are becoming increasingly important. The effective delivery of the disciplines requires access to a diverse set of skills and experiences.

7.2. The 2016 Fraud Landscape Review (National Audit Office) highlighted that capacity and capability in government to manage fraud was mixed. In response, the Cabinet Office is now working with people and organisations across the public sector to build a Government Counter Fraud Profession. The profession will become recognised across government as a membership body that will increase:

> the capability within government to deal with fraud and corruption;
> the quality of counter fraud work carried out in government; and
> consistency across government organisations in their approach to counter fraud.

Governance

7.3. The Government Counter Fraud Profession is led by the Counter Fraud Professionals Board, who own and sign off the work that is conducted and completed. The Professionals Board contains counter fraud specialists from across the public sector, with representation from departments including DWP, Home Office, MOD, HMRC and DH, as well as the National Crime Agency, the Crown Prosecution Service, the Serious Fraud Office and the Government Internal Audit Agency.

7.4. The Board leads the development of the profession and this is facilitated through the support of the Cabinet Office Centre of Expertise. The three key areas that the Board oversees are:

1. Developing common, agreed standards;
2. Developing an effective, value for money training and development offer; and
3. Developing the infrastructure and governance to support and build a profession.

7.5.   The Board's agreed vision for the Profession is:

to provide leadership and bring the public sector counter fraud community together and to set and maintain standards for counter fraud work that are accessible to all;

to work together to create an internationally recognized, competent and sustainable counter fraud profession that we are proud of, by:
- o addressing the capability gap;
- o increasing consistency in approach; and,
- o raising standards.

7.6.   A number of additional oversight bodies have been put in place to provide scrutiny and support. For example, a Cross Sector Advisory Group with public and private sector representation has been established to provide scrutiny and support. A training and skills committee oversee the development of training and development offers. The Professional Committee is a cross government group that meet with a focus on strategic thinking to help develop the Counter Fraud Profession. All of these (and other) bodies are subsidiary to the Professionals Board and answer, ultimately, to it.

Developing Standards

7.7.   One aspect of developing the Counter Fraud Profession is developing Professional Standards and Competencies. These are being created against the Counter Fraud Framework, which was launched in 2015, in conjunction with specialist from across government departments. The framework provides government with the basis for a consistent approach to fraud management across a range of common disciplines and sub-disciplines.

Fig.8

The Counter Fraud Framework

The Counter Fraud Framework diagram showing:

General Organisational Level:
- General Fraud Awareness: All Staff, People Managers, Process Managers, Policy Officials, Grant Givers, Board Members
- Functional Standards

Functional Management Level:
- Leadership, Management and Strategy: An awareness across all specialist areas and the capability to define an effective counter-fraud response and how to deploy the specialisms in the business

Specialisms:
- Risk Assessment, Measurement, Prevention and Deterrence, Use of Data and Analytics, Culture
- Detection, Intelligence and Analysis, Investigation, Sanctions, Redress and Punishment

Sub Disciplines:
- Bribery and Corruption, Money Laundering, Disruption, Cyber Fraud, Criminal Justice

7.8. Each aspect of the Counter Fraud Framework is being developed into a set of professional standards and competencies. These detail the skills, knowledge and experience expected of those working in the specific area. We have also developed guidance on processes and products against each discipline for organisations to have an effective counter fraud response.

7.9. The general organisational level of the framework reflects the need for all staff to have a certain level of awareness of the risks and types of fraud and how these may be identified. The Functional Standards are written at the organisational level.

7.10. The professional standards and competencies for each discipline outline the core skills and competencies required for these areas, such as intelligence, investigation, prevention and detection. The sub-disciplines are areas of related content where counter fraud specialists need additional knowledge to build upon their existing skills. For example, bribery and corruption will add to an investigator or risk assessor's core skills and competencies.

7.11. Currently, skills, resources and existing standards and guidance across government are highly focused on investigative work. This needs to change to improve government's overall counter fraud capabilities. The standards are an important part of diversifying capability.

7.12. The professional standards and competencies are important, as they will help to increase capability, which will improve government's response to known fraud. They will also provide greater insight into and evidence of unknown fraud, through improving understanding of fraud risk and enhancing skills for proactively detecting fraud. The intention is that this will help to not only deal with fraud where it is found, but also to move increasingly towards preventing it.

Progress

7.13. Standards already existed in investigations and intelligence, both at the civilian and policing levels. The Professionals Board focused on aligning the standards, updating them with latest practice and ensuring their accessibility. In other areas, such as Leadership, Management and Strategy, the Professional Board found that there is little consistent and agreed content available. As such, it has developed standards in their entirety.

7.14. As of the end of December 2016, the Professionals Board had approved the following sets of standards:

Investigation;
Intelligence and Analysis;
Sanctions, Redress and Punishment;
Risk Assessment;
Functional;
Bribery and Corruption; and
Leadership, Management and Strategy.

Establishing a Fraud Profession - Training, Development and Improving Capability

7.15. The Professionals Board is supported by an operational Training & Skills Committee (TSC), who will work on using the standards to ensure diverse and value for money training and development for those working to the standards.

7.16. The TSC is researching existing training in the public and private sectors. The TSC is also working with partners in law enforcement and the public sector to map the standards to existing qualifications. A mechanism to provide accreditation and assurance for the quality and provision of training for government, as well as tools to help monitor the capability development of those completing training will then be developed.

Annex A

The 'true detected' figure was developed by the Cabinet Office Centre of Expertise for the NAO's Fraud Landscape Review. It was calculated using the most accurate 2014/15 data from either the QDS or the CDR, plus figures that were not reported in either return but appeared in other published reports and exercises.

The true detected methodology will not be used again because reporting by departments has improved significantly and the QDS is no longer used to collect data.

Annex B

Trends without Anomalous Figures

When comparing the data from different years it is important to set it within context. Periodically there will be larger, anomalous cases in one of the data fields, which can skew the results and inflate the progress made in improving detection and reporting. This leads to unrealistic expectations for progress for the following year and creates distorted results when comparing data between years. For more information on anomalous figures and the results of the data excluding them see Annex C.

When the anomalous figures are removed below, there is a much steadier increase in the data compared to Figs. 5 & 6.

Fig. 9   Data without Anomalous Figures

£m	2014/15	2015/16	Difference	% Difference
Fraud Loss	29.7	50.9	21.2	71.5%
Error Loss	14.3	29.3	15.0	105.4%
Total Detected	58.5	80.2	21.7	37.1%
Prevented	17.6	21.5	3.8	21.7%
Recoveries	12.9	18.4	5.5	42.8%

There were five anomalous figures removed from the data; one from detected fraud, error, and recoveries and two from prevented fraud.

Trends 2013/14 – 2015/16 without Anomalous Figures

In 2014/15 almost half of detected error and recoveries came from one event; an error that was discovered immediately and subsequently recovered. This caused these fields to be relatively larger than expected when compared to the 2015/16 data. As seen below, all fields now have a more consistent increase.
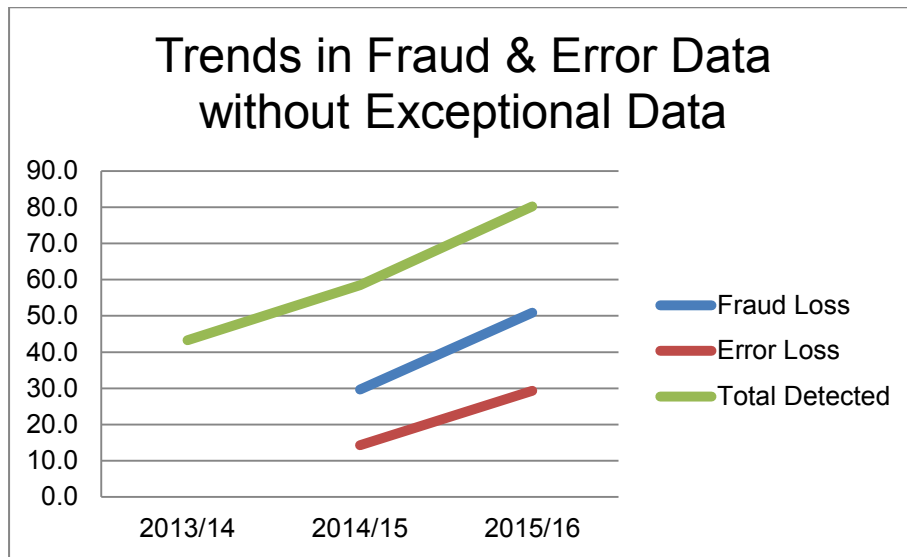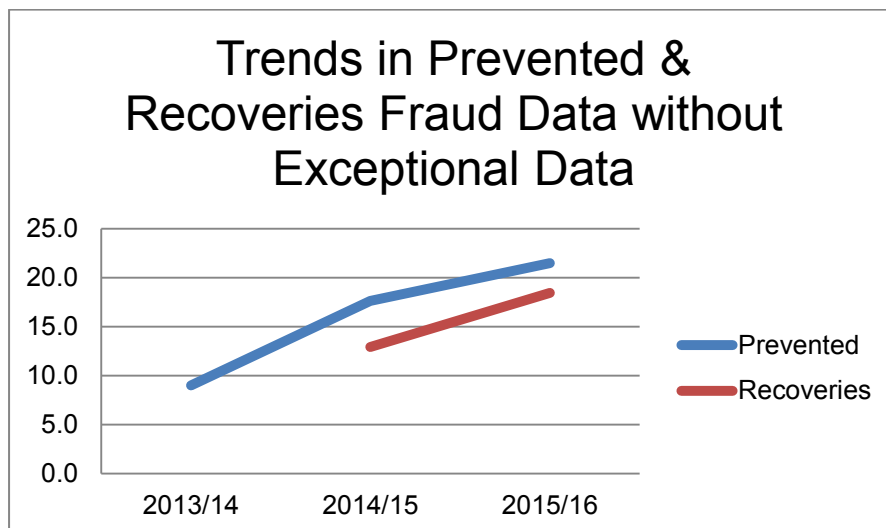
Fig. 10

Trends in Fraud & Error Data without Exceptional Data

Fig. 11

Trends in Prevented & Recoveries Fraud Data without Exceptional Data

The government's view is that the increased level of detected fraud and error are a positive development. The government, and the NAO, believe the levels of detected fraud are likely to be below the actual levels at this point in time, when comparators are considered.

The government can only tackle the fraud that is known. Therefore, the more fraud that is detected, the more government can do to recover the monies and put measures in place to prevent the fraud from happening again.

Annex C

Published Cross Government Fraud and Error Data 2006 - 2009

The data below is from cross government fraud publications by HM Treasury, the NAO and the Cabinet Office.

The data shows how the collection of fraud data has expanded from just collecting detected fraud data from 2006 to 2009 to collecting detected fraud, detected error, prevented fraud and recoveries from fraud and error from 2014. No detected fraud and error data was collected between 2009 and 2012. An estimated figure for fraud in government was published by the National Fraud Authority in the Annual Fraud Indicator from 2011 to 2013; as these are estimated figures they are not included in Fig. 12 or Fig. 13.

The data also shows an increase in amount being reported in most of the reported fields.

Fig. 12

£m	2006-07	2007-08	2008-09		2013-14	2014-15	2015-16
Fraud Loss	6.1	5.8	6.2			29.7	73.6
Error Loss						28.7	29.3
Total Detected					43.3	58.3	102.9
Prevented					9.0	27.5	33.0
Recoveries						27.3	18.4

Fig. 13

2006 - 2016: Trends in Fraud and Error Data
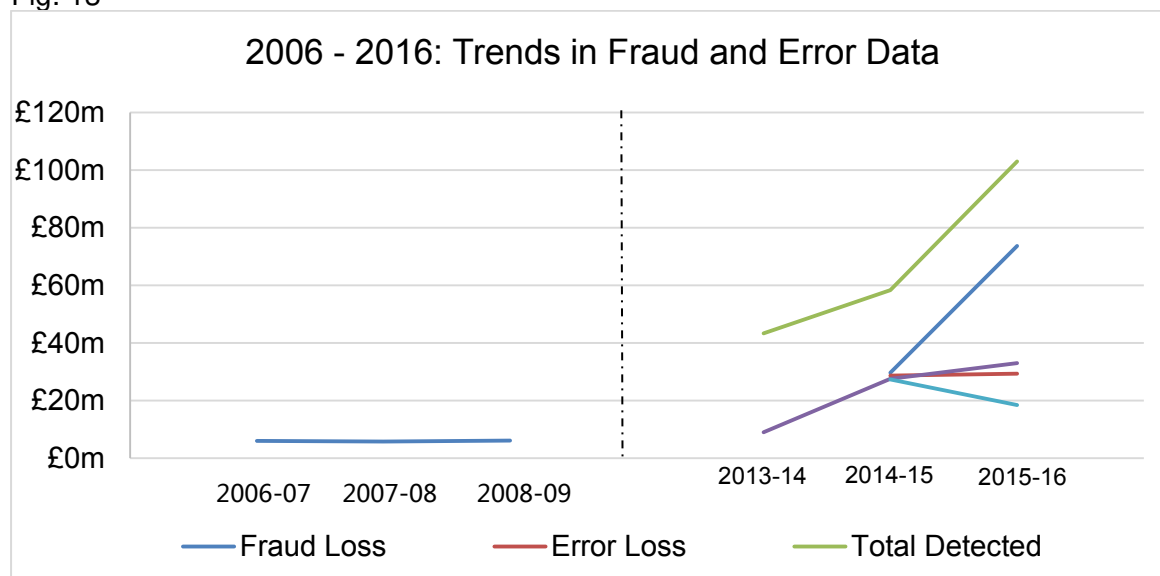
Notes
- 2006-2009 figures are taken from the HM Treasury 'Fraud Report' series that was published for three years. This data is made up of reported detected internal fraud data and reported external detected fraud of more than £20k.

- The 2013/14 data is taken from the Quarterly Data Summary (QDS). It includes collected total detected fraud and error and prevented fraud data.
- The 2014/15 data is taken from three different sources: the QDS (prevented fraud); the Consolidated Data Request (detected fraud, detected error and recoveries), and; 'true' detected fraud and error (total detected).
- The 2015/16 data is taken solely from the CDR.

This information is also available on www.gov.uk