



TACKLING FRAUD AND CORRUPTION AGAINST GOVERNMENT

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ICAEW welcomes the opportunity to submit evidence to the inquiry into tackling fraud and corruption against Government launched by the Public Accounts Committee (PAC) on 29 March 2023, details of which are available from this [link](#).

ICAEW welcomes the creation of the Public Sector Fraud Authority (PSFA)

- NAO: “The creation of the PSFA provides an opportunity for Government to improve both its understanding of fraud and the action it takes to prevent it.”
- The development of the Government Counter Fraud Profession (GCFP) is an important step towards consistency and improved collaboration.
- We welcome the emphasis on fraud prevention, risk assessment, and measurement.

The PSFA needs a broader remit, covering all parts of the public sector

- There is a need for collaboration on tackling fraud at all levels of government to ensure public bodies have the support they need to protect public money.
- Central government is reliant on local authority counter fraud teams to provide counter fraud capacity for central programmes delivered through local government.
- Consistent reporting and assurance would enhance accountability and comparability.

Extra resources for fraud prevention would more than pay for themselves

- The PSFA is unlikely to achieve its important objectives on a budget of just £16.7m.
- The sums lost to fraud and error are immense. Greater investment in central and local government counter fraud teams would result in more taxpayer money being recovered, and much less lost in the future.
- Accurate measurement is critical for effectively allocating counter fraud resources.
- Counter fraud staff are ineffectively distributed. They are concentrated in only two departments and two thirds work in fraud investigation.
- DLUHC has only six staff in its counter fraud function despite the high fraud risks in many of its programmes and the local authorities it oversees.

Investment in technology and data sharing mechanisms should be priorities

- Technology has a key role in preventing and detecting fraud.
- Better data sharing across all parts of the public sector would improve risk identification and prioritisation, as well as decision making and reduce unnecessary duplication.
- Government could improve its counter fraud capability by learning from how the private sector uses technology and data sharing to combat fraud.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of sustainable economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports, and regulates more than 165,000 chartered accountant members in over 147 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical, and ethical standards.

This response has been prepared by ICAEW's Public Sector team within the Reputation & Influence Department in consultation with the ICAEW's Public Sector Advisory Group. ICAEW's Public Sector team supports members working in and with the public sector to deliver public priorities and sustainable public finances, including over 11,000 in ICAEW's Public Sector Community. ICAEW engages with policy makers, public servants, and others to promote the need for effective financial management, audit and assurance, financial reporting and governance and ethics across the public sector to ensure public money is spent wisely.

For questions on this submission please contact our Public Sector team at representations@icaew.com quoting REP 28/23.

KEY POINTS

ICAEW welcomes the creation of the Public Sector Fraud Authority (PSFA)

1. ICAEW believes that reducing fraud in the public sector should be a high priority.
2. An estimated £33.2bn to £58.8bn of government expenditure was lost to fraud and error in 2020/21. This is taxpayers' money that could otherwise have gone towards investing in the transition to net zero, supporting the NHS or other public finances during the pandemic, or to improving the overall position of the UK public finances.
3. The transformation of the Government Counter Fraud Function (GCFF) within the Cabinet Office to the PSFA in August 2022 is a positive step. We hope it will improve the Government's ability to prevent, detect and recover fraud as well as raise awareness of the importance of understanding and addressing fraud risks amongst policy makers.
4. The [PSFA's mandate](#) includes important functions that were not carried out previously by GCFF, strengthening the UK government's response to fraud and error. This includes providing data analysis services to "targeted" departments and operating a central enforcement unit.
5. The establishment of the PSFA builds on the commendable work of the government in developing the GCFP since 2018, the first public sector counter fraud profession in the world. Through bespoke training, professional standards and sharing best practice, the GCFP has helped upskill government staff working in counter fraud and encouraged much-needed standardisation and collaboration.
6. We welcome the focus in the GCFP's recently published [three-year strategy](#) to "shift from the focus" on investigation to prevention, measurement and risk assessment. PSFA have introduced a requirement for government departments to carry out *Initial Fraud Impact Assessments* during the design of new schemes and will have a formal role in HM Treasury's approval of programmes or policies with significant fraud risks.
7. The National Audit Office (NAO) rightly state in their report on [tackling fraud and corruption against government](#) that most funds lost to fraud are not recovered so it is better value for money to prevent fraud from happening in the first place. Currently, two-thirds of staff working in government counter fraud functions are fraud investigators, so it is right that the government attempts to rebalance the composition.

The PSFA needs a broader remit, covering all parts of the public sector

8. We are concerned that the PSFA's remit, as set out in its mandate, is too narrow and does not cover a significant proportion of public spending. For example, local authorities in England spent £107.1bn in 2021/22 but are outside the remit of the PSFA.
9. Furthermore, many central government bodies required to follow the PSFA's [Government Functional Standard on Counter Fraud](#) use local authorities as partners to deliver major policies and programmes. They often depend on the counter fraud capability of local authorities, as Department for Business, Energy and Industrial Strategy (BEIS) officials told the PAC inquiry into fraud and error in 2021, despite local authorities not being subject to the Functional Standards.
10. We raised concerns in our [submission](#) to the inquiry on the BEIS 2021/22 annual report and accounts whether BEIS's statement that local authorities have the primary responsibility for recovering fraudulent or erroneous COVID-19 grant scheme payments is compliant with the requirements of Managing Public Money.

11. We endorse the Fraud Advisory Panel's calls in their report [Running on empty: how the pandemic revealed a wasted decade](#) for a cross-sector counter fraud authority to encourage a consistent and joined-up approach to combatting fraud across the public sector.
12. One of the key priorities of this body should be to challenge departments to improve how they work with local government, NHS bodies and other public sector bodies, as well as the private sector. The NAO's [report on COVID-19 business grant schemes](#) found that local authorities were not notified of schemes they were expected to deliver until they were announced publicly. In addition, there were perverse incentives that were not designed to encourage local authorities to prevent fraud and recover funds lost through fraud or error. These included league tables that prioritised speed of payment and a policy that fraud recoveries must be returned to BEIS, meaning that local authorities that invested their own resources in fraud recovery were financially penalised.
13. We believe that a cross-sector counter fraud authority would strengthen rather than hinder local accountability.
14. The Government's current approach is not working effectively. Following the end of the *Protecting the Public Purse* report with the abolition of the Audit Commission in 2014, there has not been the systematic collection and reporting of detected and prevented frauds that allows citizens to compare the performance of individual local authorities. A [2016 consultation](#) that included proposals to amend the Transparency Code for local authorities to publish data on fraud in a standardised form in a central source is still awaiting a Government response.
15. Instead of requiring local authorities to waste valuable resources preparing competitive bids for short-term funding with inconsistent assurance requirements, ICAEW advocates longer-term funding certainty and greater freedom for local authorities to spend money according to local priorities accompanied by strengthened governance, reporting and fraud prevention standards.

Extra resources for fraud prevention would more than pay for themselves

16. For a cross-sector counter fraud authority to be successful, it needs to be properly funded. However, we share the concerns raised by the Fraud Advisory Panel in *Running on Empty* that the PSFA's budget is inadequate for even its limited remit. With an annual budget of £16.7m, PSFA is tasked with:
 - Overseeing performance of public bodies including assurance activities
 - Developing counter-fraud capability through the GCFFP
 - Leading on cross-government counter fraud policy
 - Providing tailored risk assessment and mitigation planning support to all departments
 - Purchasing and developing data analytics and technological solutions
 - Operating a central enforcement unit
17. Because of its inadequate budget, PSFA is forced to limit the availability of some of its planned services. For example, "access to a common data platform and analytics services" will only be available to "targeted" public bodies and schemes rather than every public body that would find it useful.
18. We are also concerned that the PSFA will only have a formal role in HM Treasury's approval where fraud risks have been assessed as significant. With a larger budget, PSFA would be able to offer support on more schemes, reducing preventable fraud losses. Without this, we are concerned that the cumulative impact of fraud in schemes assessed as low risk could be

significant, especially as the assessments of bodies with limited counter fraud capability will likely not be as robust as those with PSFA support.

19. Increased investment in PSFA would represent value for money. PSFA's target for 2021/22 was "auditable benefits" of sixteen times its current budget showing the substantial net benefit to the exchequer of investing in counter fraud.
20. The NAO found that two-thirds of central government expenditure is not subject to any direct fraud and error measurement. The £7.5bn estimated fraud reported in 2021/22 central government annual reports and accounts does not include fraud committed against local government nor fraud in the Department of Health and Social Care's COVID-19 spending, including personal protective equipment procurement, as the levels of estimated fraud have not been calculated.
21. Furthermore, it does not include fraud estimates that are judged immaterial to the relevant Departmental accounts. However, few departments beyond the Department for Work and Pensions (DWP) and HM Revenue and Customs (HMRC) systematically report on the levels of fraud and error in their schemes, so it is unclear how this conclusion is reached.
22. PSFA's plans to only offer measurement support to "targeted" schemes and departments means that this data gap will not be addressed.
23. Accurate fraud measurement is critical to effective fraud prevention and detection. The Fraud Advisory Panel and the Tenancy Fraud Forum's recent report [Lost Homes, Lost Hope](#) highlights how the introduction of the *Protecting the Public Purse* annual report in 2009 incentivised an increase in tenancy fraud detection, only for reported detection rates to decrease once the report was no longer produced.
24. The lack of an accurate understanding of the levels of fraud against the public sector and how that fraud is distributed also hinders the Government's ability to make informed decisions about where to target counter-fraud resources.
25. The data in Figure 10 of the NAO's report on tackling fraud and corruption suggests that fraud resources are not allocated based on robust assessments of the risks faced by each Department. For example, the Department for Levelling Up, Housing and Communities (DLUHC) currently have only six staff members working in their counter fraud function and none of their staff are members of the GCFP. Many of DLUHC's schemes would appear to have high fraud risks as they involve, for example, grants to community organisations and payments to households for hosting Ukrainian refugees. In contrast, there are 5,105 staff working on counter fraud in DWP, of whom 1,362 are members of the GCFP.
26. We agree with the NAO that the "lack of prioritisation" of fraud prevention in some departments "leaves Government particularly exposed to emerging and unknown risks". The high levels of fraud in the Bounce Back Loans Scheme and COVID-19 grant schemes show the false economies of the underinvestment in BEIS' counter fraud capability. We welcome that BEIS had increased its central counter fraud team from two to 15 but question whether this is sufficient as BEIS' three successor departments move their focus from policy to delivery.
27. We are particularly concerned that some local authorities in difficult financial situations may identify counter fraud teams as a back-office function that can be cut in an understandable attempt to protect frontline services. For example, [local media](#) report that Thurrock Council's counter fraud team may face cuts due to the authority's significant debts from failed investments.
28. Overall, we believe that greater investment in counter-fraud capability and strengthening financial controls would be an effective allocation of resources as it is likely to result in net benefits to the Exchequer. The [Lost Homes, Lost Hope report](#) found that reductions in local

authority fraud capability contributed to a fifty percent reduction in the detection of social housing tenancy fraud between 2013/14 and 2019/20 with an estimated cost to the public purse of £155m in 2019/20 alone.

Investment in technology and data sharing mechanisms should be priorities

29. Alongside evidence-led allocation of resources between departments, ICAEW would also like to see a shift in the composition of those resources towards fraud prevention and risk assessment. The Association of Certified Fraud Examiners' [Report to the Nations on Occupational Fraud 2022](#) found the "presence of anti-fraud controls is associated with lower fraud losses and quicker fraud detection".
30. In addition, there are clear links between upfront counter-fraud investment and reduced costs on responding to fraud when it occurs. PwC's Global Economic Crime and Fraud Survey 2020 found that companies with a "dedicated fraud programme" reported spending 42% less on responding to fraud and 17% less on remediation compared to those without such a programme.
31. Technology has a particularly key role in preventing fraud by, for example, stopping the processing of suspicious transactions until they are reviewed, and implementing automated procurement processes, to minimise the possibility for human intervention and the risk of manipulation.
32. Technology can also help alleviate resourcing challenges as automation can be used to carry out tasks that have traditionally be carried out manually by fraud investigators including digitising data and information or prepopulating forms.
33. Better data sharing across public sector bodies is also critical. It would enable a more comprehensive picture for the identification and mitigation of fraud risks and would create efficiencies as risks could be addressed collaboratively, rather than multiple times separately. This would also facilitate intelligence-sharing across the public sector.
34. We welcome that PSFA's mandate includes a specific commitment that it "will work with departments to access and implement the Digital Economy Act". We recommend that it considers whether further investment in data sharing mechanisms or changes to legislation are needed to strengthen Government's capability in responding to fraud risks and countering emerging threats.
35. There is scope for the Government to learn from the private sector on how it uses technology and data sharing to combat fraud. For example, the approach of the [Insurance Fraud Bureau](#) could provide insights into sharing intelligence and data. Sectors such as financial services face similar challenges to the public sector including around legacy systems. ICAEW stands ready to facilitate discussions between the PSFA and private sector organisations if helpful.