



National Audit Office

The Importance of Monitoring Fraud and Error

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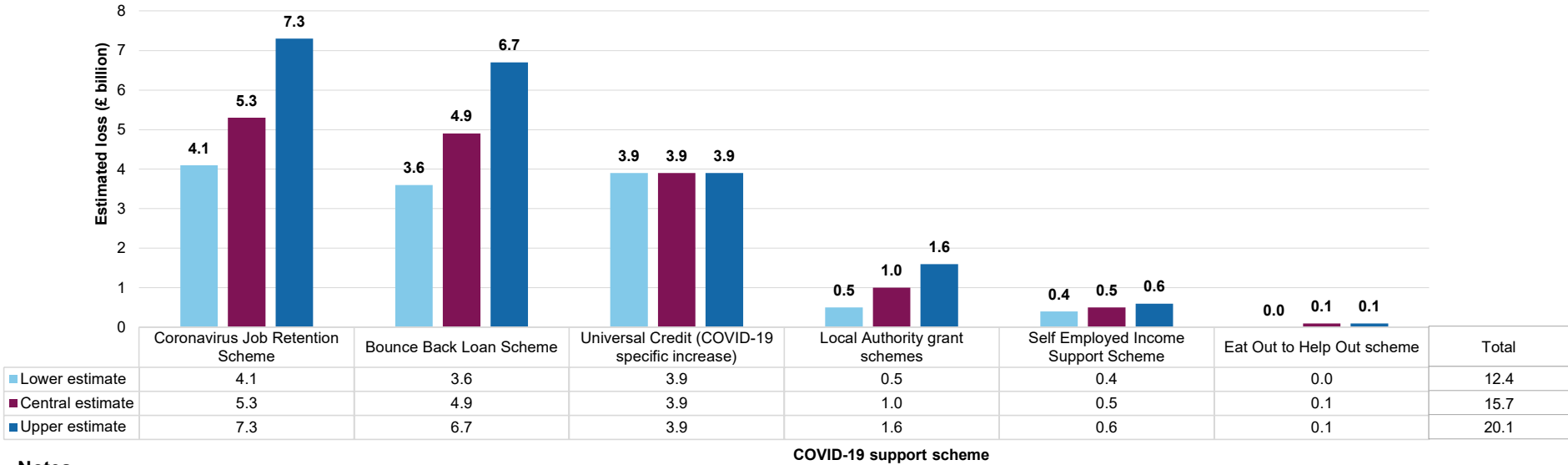
21 April 2022

What did we expect this time last year?

- Early indications were that fraud and error had risen by billions of pounds as a result of government's response to COVID-19
- Due to the increased risk of fraud and error, several of the new schemes set up in response to the COVID-19 pandemic may result in qualified financial statements
- The actual amount of loss will only become clearer as departments measure the level of fraud and error across specific initiatives

Through our work auditing the 2020-21 accounts we have helped Departments to identify £15.7 billion that was lost to fraud and error in COVID-19 support schemes

Range of estimated fraud and error loss as reported in 2020-21 accounts, by COVID-19 support scheme



Notes

1. The Local Authority schemes estimate includes the Small Business Grant Fund, Retail, Hospitality and Leisure Grant Fund and Local Authority Discretionary Grant Fund.

Source: NAO analysis of annual reports and accounts



This central estimate is highly uncertain and government continues to refine its estimates based on sampling exercises and loan repayment data.
 The estimated range of fraud and error losses is £12.4 billion to £20.1 billion.

Government does not know the potential value of fraud and error across all COVID-19 expenditure

The £15.7 billion estimate excludes some potential large areas of fraud:

Fraud in COVID-19 spending where the identified risk of fraud and error was not material to the accounts

Although most COVID-19 schemes were exposed to fraud and error risks, many of our audits did not find any indication that the loss was material to the accounts. Only fraud material to the accounts affects the Comptroller and Auditor General's audit opinion of, and requires separate disclosure in, the accounts.

For example, our *Investigation into the Culture Recovery Fund* found low levels of reported or suspected fraud in grant payments. These did not require reporting in the accounts.

Good practice is for public bodies to estimate the level of fraud where it is significant to the expenditure, even if this is not material to the entity's overall accounts.

Fraud in COVID-19 procurement

In January 2022 we reported a heightened fraud risk in COVID-19 procurement driven by a significant increase in new suppliers, a lack of timely checks on the quality of goods received and poor inventory management. The Department for Health & Social Care was not able to quantify potential fraud and error in its COVID-19 procurement.

DHSC Annual Report and Accounts 2020-21

Some possible types of fraud and error

For example "Possible" frauds are not included within the estimated figure for the three local authority schemes as they require further investigation to determine whether the payments were made outside of the scheme criteria. BEIS reported that checks performed were also not capable of finding "complex" frauds.

The figure for BBLS does not include an estimate of businesses who took out a loan but were not "adversely impacted" by the pandemic. It also does not include cases of suspected turnover inflation (to access a greater loan value) or misuse of funds, for example to purchase a car instead of support business cash flow.

BEIS Annual Report and Accounts 2020-21, The Bounce Back Loan Scheme: an update

Some of the loan guarantee schemes and business support grants

BEIS did not produce a separate estimate for losses arising from fraud in the Coronavirus Business Interruption Loan Scheme or Coronavirus Large Business Interruption Loan Scheme though it considers the risk of fraud to be "normal".

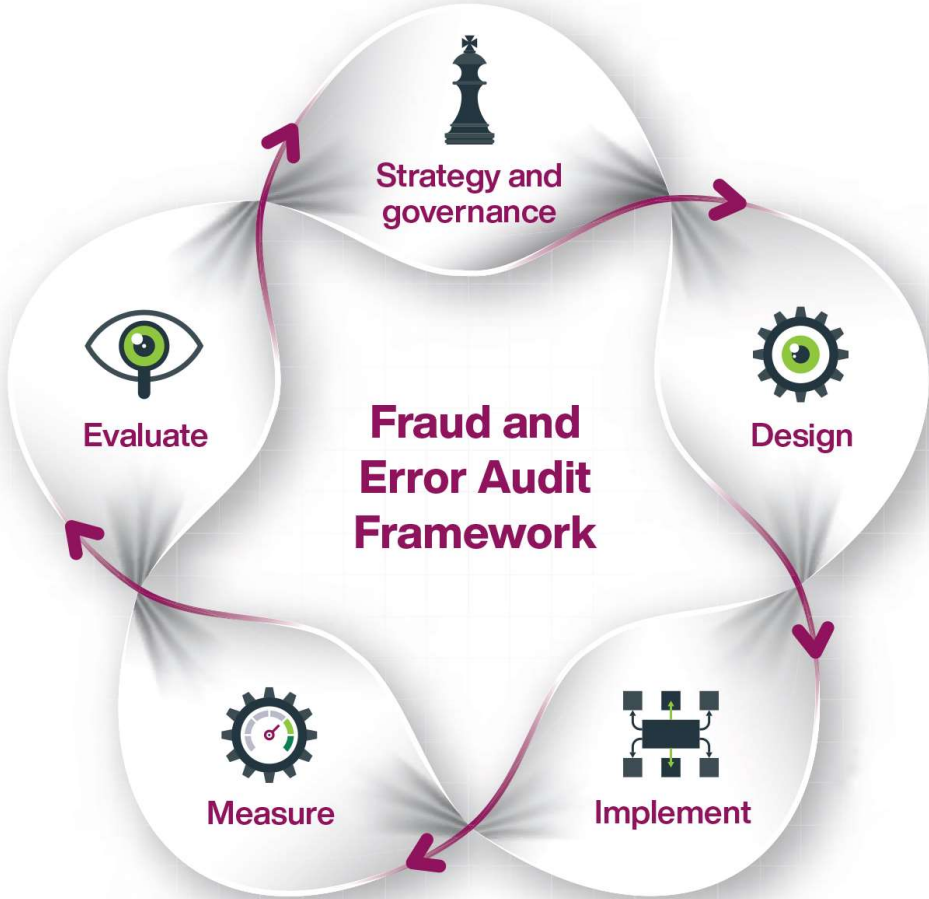
Currently, no work has been completed on the Closed Business Lockdown Payment, Christmas Support Package, Additional Restrictions Grants, or Local Restrictions Support Grant schemes.

BEIS Annual Report and Accounts 2020-21

Fraud and error losses on COVID-19 spending outside the 2020-21 financial year

There is no estimate of potential fraud and error for the first month of the pandemic in March 2020. Government has also yet to estimate the level of fraud and error losses on COVID-19 related spending in 2021-22 and beyond

The NAO Fraud and Error Audit Framework



The importance of monitoring fraud and error

Measuring and **evaluating** are key parts of ensuring a cost-effective control environment.

Good measurement is:

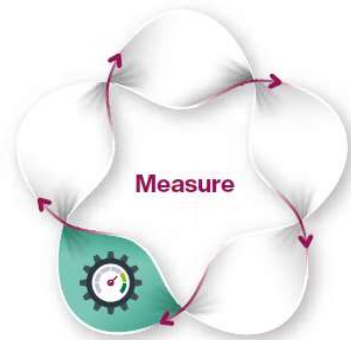
- **Statistically robust** - meaning confidence can be placed in it
- **Timely** - produced so that it can inform management decisions
- Structured to provide **useful** intelligence about whether controls work

Benefits of good monitoring:

- Helps to determine how best to use limited counter fraud resources
- Improves transparency
- Ultimately saves taxpayer money, enabling more spending on crucial frontline services

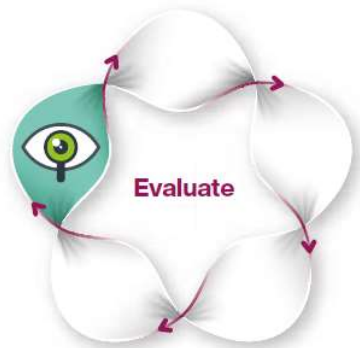


What does good measurement look like?



Measurement	What would 'good' look like?
1 Is a measure of fraud and error properly estimated?	<ul style="list-style-type: none"> Material levels of fraud and error are measured regularly using robust estimation techniques. The measurement is properly documented and quality-assured. Where fraud and error is not measured, a clear rationale is set out for why not, such as proof that it is immaterial. This needs to be reassessed regularly to ensure that it remains the case. Measurement of fraud and error is further sub-categorised by cause and type – for example, organisation error, customer error, or fraud. The process for measuring fraud and error is regularly reviewed to ensure it is appropriate. Any significant changes to the measurement are quality-assured and appropriately signed off.
2 Is the estimate appropriately reported?	<ul style="list-style-type: none"> The fraud and error estimate is disclosed in line with reporting requirements, such as inclusion in the Annual Report and Accounts. Significant variances over time and between cause and type are explained. Any limitations in the measurement are clearly understood and explained. Where appropriate, an additional statistics publication is produced, accompanied by a published methodology. Performance against targets is reported.
3 Are other relevant measurements captured that supplement the overall estimate?	<ul style="list-style-type: none"> There is regular measurement of detected fraud and error, including both overpayments and underpayments. Supplementary 'real-time' key performance indicators are measured and monitored, such as the number of staff and public fraud referrals to provide additional intelligence on fraud and error risks.
4 Are individual controls properly measured?	<ul style="list-style-type: none"> Key performance indicators are set out for each control measured. New data sources are regularly considered to incorporate into the measurement of control performance. Measurement is conducted on a regular basis appropriate for that control. Measurement of controls should allow comparison of the cost-effectiveness of controls.

What does good evaluation look like?



Evaluation	What would 'good' look like?
<p>1 Are controls evaluated to look at how risks are being tackled and to identify new and emerging risks?</p>	<ul style="list-style-type: none"> ● Each control is evaluated against its key performance indicators, the measures of fraud and error, supplementary information and feedback from staff. ● Root cause analysis is used to identify any new fraud and error risks. ● Key performance indicators are updated in light of the evaluation. ● Internal and external assurance are used effectively to evaluate the control environment. ● The risk assessment methodology is reviewed when there are significant differences between the preliminary assessment of fraud and error risk and the measured level.
<p>2 Are controls evaluated against each other to assess the cost-effectiveness of different methods for tackling fraud and error?</p>	<ul style="list-style-type: none"> ● The cost-effectiveness of each control is evaluated. ● Evaluation of different controls is based upon consistent measurement where possible. ● Evaluation clearly sets out whether controls are preventing and detecting fraud and error.
<p>3 Has the organisation demonstrated that it is doing all it can to achieve the cost-effective level of fraud and error?</p>	<ul style="list-style-type: none"> ● The organisation has processes in place to consider what might be the cost-effective level of fraud and error and regularly evaluates its progress towards that level. This evaluation would be supported by robust evidence. ● The organisation evaluates (at least annually) its progress in reducing fraud and error to the cost-effective level. ● Gaps between the cost-effective level and the actual level of fraud and error are evaluated to understand how the control environment might need to be refined. ● The strategy is regularly refined to consider results from the fraud and error estimate and other available analysis. ● The organisation benchmarks itself against other relevant bodies.



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