



Fraud Practice Network



National Audit Office

Understanding and Managing Fraud Risk in Central Government

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Overview

- ***Fraud Risk is a significant cost to the Public Purse – work has been carried out by the National Fraud Authority to work out just what this does to the provision of cost effective public services***
- ***The changing shape of government materially affects the fraud risk profile of government – for instance, what impact has the government’s programmes to support the economy/ financial sector done to risk profile and the ability of government to manage it?***
- ***The changing ways in which public services are delivered, for instance through third parties, the private sector and charitable organisations also impacts on fraud risk and measures to mitigate it***

Risk Management/ Mitigation – Current Assessment

- HMT has lead role through responsibility for Managing Public Money and for the Financial Reporting and Risk Management Framework
- Good in terms of coverage, but tendency for a somewhat boiler plate approach more to demonstrate compliance than deliver an ‘intelligent’ response – shown to a degree in SICs
- Good practice is clear in departments which feel that they are most exposed – e.g. HMRC, DWP etc. but the extent to which best practice is shared and information flows effectively is limited

The Overview Problem

- Currently focus is very much on organisational/ departmental silos with HMT at the centre
- No overall risk mapping to understand total risk and need for overall response
- Articulation of risk appetite – and what, for instance should Northern Rock, or Bank Support do to appetite across rest of government?
- Difficulties of managing political risk – e.g. Individual Learning Accounts, NHS IT, Tax Credits

National Fraud Authority

Attorney General's Fraud Review 2006

- recommended a government led and co-ordinated approach to fighting fraud, moving from reactive to proactive approaches to countering fraud
- public and private sector involvement considered essential
- NFA (executive agency of the AGO) assigned lead role to develop a National Fraud Strategy (published March 2009)
- City of London Police appointed as the National Lead Force for fraud and funded to recruit extra staff (mainly investigators and forensic specialists)
- National Fraud Reporting Centre (NFRC) currently a pilot organisation

IMPLICATIONS FOR CENTRAL GOVERNMENT ?

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Changing Nature of Government

- Unprecedented expansion of government, particularly caused by need to intervene in banking and financial crisis
- Treasury might be aware of HMT Fraud Risk, but did they fully understand risk posed by the Mortgage Book of RBS, for instance
- Proliferation of arms length bodies – what does this do to fraud risk management – are ALBs best placed to target response?
- Economic impacts – what happens to fraud risk with significant expansion to levels of activity (e.g. payment of benefits and credits), or need to avoid/ delay payments (tax) or claims coming from sources previously unexpected (grants, guarantees etc.)
- General Election – talk of savings/ cuts – what will the impact be on fraud risk management systems?

Delivery of Public Services

- What is the delivery model for public services and what does this do to fraud risk? May be that partners have a different risk perspective or appetite
- What is the financial capacity of delivery partners – what is their funding base ? When were they set up?
- Reliance on key partners might mean that government fails to have a full picture of the levels of fraud or the risk of fraud – ways of protecting confidence

Delivery of Public Services

- Two case study examples:
- Personal care budgets
- EU Funded Rural Development Expenditure
- Impact of fraud risk and risk management and why ?

Personal Care Budgets

- Personal care budgets to be spent on pretty much anything – dangers of unclear rules (as demonstrated by MPs expenses) and lack of assurance over regularity of payments
- Wider concerns about who picks up the pieces when things go wrong
- Entrusting funds to people with a lack of capacity to manage resources effectively, or those open to abuse
- Minimum standards of care

Rural Development

- Move from centrally delivered programmes to delivery through small local agents
- Lack of capacity, track record, redress, inadvertent fraud as much a deliberate
- No understanding of who you are doing business with
- EC estimate of impact on fraud levels from between 0.5 – 1.5% to 11-15%

Conclusions

- Compliance good, but does this deliver benefits – does it actually mitigate risk effectively
- Overall appetite for risk – understood ? Or reactive ?
- Risk focal points work effectively across government but are they at the right level to join up and provide consolidated picture as well as a mapped understanding of risk?
- Delivery models are of fundamental importance