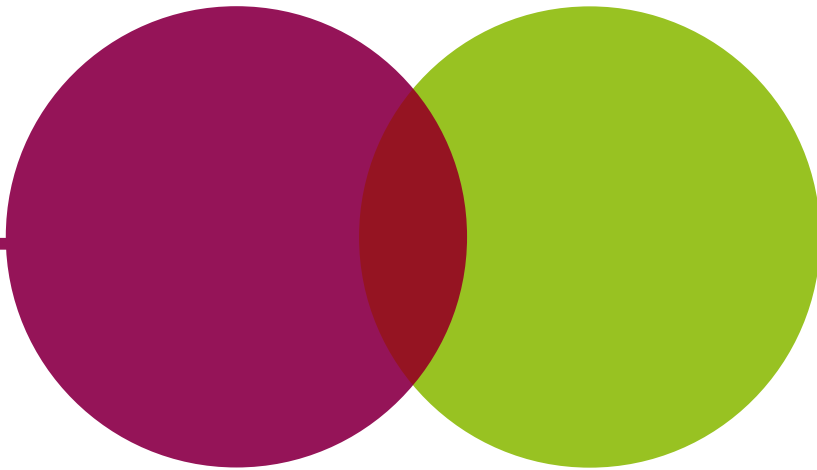




INSIGHT

Lessons learned: tackling fraud and protecting propriety in government spending during an emergency

Cabinet Office and HM Treasury

Overview

What is propriety?

Achieving propriety in public spending means meeting high standards of public conduct, including robust governance, and the relevant parliamentary expectations, especially transparency. This includes managing the risk of fraud and that the right amount of money reaches the right people and businesses.

Why does protecting propriety matter in an emergency?

Emergency spending to support individuals, families and businesses and to buy necessary equipment can carry a higher risk of fraud and impropriety.

Things may have to be done more quickly than usual. Inevitably, the government's response may not have been fully planned for and will be in addition to its usual responsibilities. The government will need to make difficult decisions, based on imperfect information, and it may not be possible to conduct processes such as full risk analysis or normal levels of due diligence. Fraudsters may target emergency spending believing there are greater opportunities to exploit initiatives that have been set up at pace. Accounting officers will need to make judgements about the trade-offs between speed, accuracy and risk.

But, while the government will need to take risks in an emergency, the fundamental principles of good governance and *Managing Public Money* will always apply. The impact of actual or perceived impropriety may persist for some time after an emergency, even if proven to be incorrect. This can undermine public trust in the government.

What can the government do to prepare for future emergency spending?

We have seen evidence of the government learning lessons from recent emergencies and improving its approach. However, there is more work to do to complete the analysis and bring it together into a single clear 'playbook' for all of government for how concerns around propriety would be managed in a future emergency.

We have identified seven high-level lessons where action can be taken now to prepare for future emergency spending. We believe that government departments can usefully develop a 'playbook' for how to manage propriety in a future crisis. We make recommendations for what might be in these playbooks and steps that can be taken now so that government bodies are better prepared to make emergency payments.

Seven lessons that the government should apply now to prepare for emergency spending



Lesson 1: Be clear on governance and rules

To respond in an emergency, public bodies may need to streamline their usual decision-making and governance arrangements so that they can make faster decisions. They need to do so in ways that still allow for robust oversight, are within the normal public spending rules, and which delivery partners can understand. Bringing in the right experts early may help to make robust decisions at speed. We make the following recommendations.

- a HM Treasury should **publish, disseminate, and maintain the *Spending in a Crisis* guidance.**
- b Departments should **develop internal ‘how to guides’ (‘playbooks’) to aid future responses**, working with HM Treasury, the Cabinet Office and the Public Sector Fraud Authority (PSFA).
- c Departments should **include in the playbooks how they will keep delivery partners up to date on the relevant rules.**
- d Cabinet Office, working with HM Treasury and PSFA, should **continue to develop training on meeting public spending rules** in an emergency.



Lesson 2: Prioritise, but communicate that you will return to things you cannot cover immediately

Accounting officers cannot forgo any of their responsibilities regarding propriety but need a framework within which to make difficult judgements on competing issues. This will require them to prioritise. Where the requirements of delivery mean a normal expectation cannot be fully met, accounting officers should signal how and when they will come back to meet that requirement. Likewise, departments should be clear with partners that they are prioritising but will return to the remaining issues later. We make the following recommendations.

- e HM Treasury should strengthen existing guidance to support accounting officers to use **accounting officer assessments to structure their thinking and record their judgements about the balance of priorities with respect to propriety.**
- f HM Treasury should strengthen existing guidance to **clarify that, where a ministerial direction is used, accounting officers should still use the accounting officer assessment process to set out how propriety will be managed.**
- g HM Treasury should strengthen existing guidance to encourage accounting officers, where they believe it is appropriate to take risks with propriety or proceed with incomplete information or process, but have not sought a ministerial direction, to **publish a summary of their accounting officer assessment.**
- h Departmental playbooks and training should stress the need for departments to **agree up front with delivery partners the principles by which fraud and propriety will be managed**, even if the full terms and conditions relating to issues such as inspection, monitoring, and clawback cannot be agreed before the scheme is launched.



Lesson 3: Embed the fraud risk management cycle

It is crucial that the government sets a clear tone from the outset as to how the risk of fraud will be managed during a crisis. This can be achieved by setting out as part of the approval process a costed plan for how the fraud risk management cycle will be implemented. Where the government delegates delivery, mechanisms for managing fraud need to be built into agreements with delivery partners. We make the following recommendations.

- i HM Treasury should require business cases to include **a budget and high-level milestones for implementing the fraud risk management cycle.**
- j **Cabinet Office should update model contracts and grant agreements with standardised clauses** to embed the fraud risk management cycle, particularly to enable inspection, measurement of fraud, clawback, and reporting.
- k The PSFA and the Crown Commercial Service should **establish a framework contract to allow public bodies to draw in suitably qualified private sector expertise to support fraud measurement activities.**
- l The PSFA should **maintain a library of good practice controls** it can suggest to mitigate fraud risks.



Lesson 4: Create a flexible counter-fraud capability

The government will need an effective centrally-coordinated counter-fraud capability that can be flexibly deployed at pace, prioritised according to risk, to a range of crises. The government recognises that it needs to improve its counter-fraud capability and approach to managing impropriety during emergency situations. We make the following recommendation.

- m The PSFA should **develop and test a plan** so that in an emergency it can provide: clarity over the key counter-fraud priorities; visibility over where people with the right skills are; strong bonds across the Government Counter Fraud Profession so that it can form effective new teams in an emergency; and influence over their deployment.



Lesson 5: Plan for the data you will need

Effective management of fraud and impropriety risks associated with emergency payments requires the government to maintain and share key datasets. The government also needs to quickly establish what data it needs to measure fraud risks, check eligibility, verify payments, and support the recovery of improper payments at the outset of emergency responses. There can be insufficient time to collate or agree how these data can be shared during an emergency. We recommend the Cabinet Office's Central Digital and Data Office work with departments and the PSFA to extend the remit of the Essential Shared Data Assets plan to:

- n work out now **what current datasets might be needed in an emergency** to make payments and fight fraud;
- o **review the extent to which these datasets are readily shareable** within government; and
- p **consider what data sharing-arrangements could be set up now.**



Lesson 6: Increase transparency

Transparency is an essential tool for preventing fraudulent or improper behaviour, while a lack of transparency may fuel public perceptions of impropriety even where decisions are fair. Emergency spending increases the need for transparency. Public bodies need to be ready to account for how they have made decisions over public spending to Parliament. Emergencies also require greater transparency over who has been the recipient of funding via grants and contracts. We recommend that Cabinet Office and HM Treasury should:

- q **embed into their guidance and training the expectations of how decisions on public spending are to be recorded** during an emergency to uphold accountability and emphasise the importance of prompt transparency during an emergency to staff;
- r seek to **automate transparency over spending** so publication requires little or no human involvement; and
- s adopt a **presumption of transparency** around the recipients of emergency payments.



Lesson 7: Plan how to buy in a seller's market

During a crisis, the government may need to buy goods and services in a seller's market. Its commercial leverage will be reduced, and it may need to respond to a large number of offers from businesses that it would not normally deal with. It needs a clear playbook for buying from such a market with a plan for how to: triage potential leads; establish norms of transparency and accountability of the sellers; and document the management of actual or perceived conflicts of interest. We make the following recommendation.

- t The Government Commercial Function should **produce guidance for commercial staff, to sit alongside its outsourcing and construction playbooks, on how to buy in a seller's market.**

Introduction

What is propriety?

1 Propriety is one of the four fundamental standards that public spending should meet, along with regularity, value for money, and feasibility. Accounting officers, who are accountable to Parliament for spending, must scrutinise significant policy proposals against these standards. HM Treasury defines propriety as meeting high standards of public conduct, including robust governance and the relevant parliamentary expectations, especially transparency. This includes managing the risk of fraud and that the right amount of money reaches the right people and businesses.

Why does emergency spending increase the likelihood and perception of impropriety?

2 In an emergency, public bodies may need to react quickly to protect life, safeguard critical infrastructure, and support the economy. They will need to do so quickly, possibly without having a plan ready, and in addition to their usual responsibilities. They will need to make difficult decisions, based on imperfect information and involving trade-offs between speed, accuracy and risk. They may face challenges in terms of scale, the need for innovative approaches, and managing the increased demands on the organisation's workforce. Fraudsters may target emergency spending believing there are greater opportunities to exploit initiatives that have been set up at pace. All these factors can increase the risk of impropriety and irregular spending, including fraud and error.

3 While the government may necessarily take greater risks with public money, the fundamental principles of good governance and *Managing Public Money* will always apply. Parliament and the public expect the government to protect propriety, spending money in accordance with high standards of transparency and ethics.

4 The COVID-19 pandemic (the pandemic) saw a large increase in spending as the government sought to protect life and support the economy. The amount of fraud reported in the accounts we audit rose from £5.5 billion in the two years before the pandemic to £21.0 billion in the two years after – £7.3 billion of the £21 billion relates to temporary COVID-19 schemes, most of the rest relates to benefit fraud.

5 The impact of actual or perceived impropriety may persist for some time after the emergency. This is true even if perceived impropriety is subsequently proven to be incorrect. This can undermine public trust. Following the pandemic, the UK has fallen from 11th to 20th (out of 180) in the Transparency International survey of public and business perception of corruption.¹

How is the government learning from the pandemic?

6 There are a number of government organisations responsible for preparing for and responding to an emergency, including the Cabinet Office and central government departments. These bodies have already taken steps to learn lessons from the pandemic and other recent emergencies, including their approach to protecting propriety (**Figure 1** on page 11). In May 2021, the government announced that an independent public inquiry would be set up to examine the impact of the pandemic and the UK's response to learn lessons for the future.

The scope of this lessons learned report

7 In May 2021, we published a report on initial learning from the government's response to the pandemic.² This covered the lessons from our initial reports on the government's response to the pandemic under six themes: risk management; transparency and public trust; data and evidence; coordination and delivery models; supporting and protecting people; and financial and workforce pressures. We said we would refine that thinking as we developed our work.

8 This report focuses on protecting propriety in an emergency. We do not look at wider aspects of responding to an emergency. We draw on lessons from our work and what the government has already done to identify lessons itself. The report does not seek to repeat our previous audit findings to assess how well the government managed recent emergencies. Instead, it sets out lessons and recommendations for how the government can go further to improve its approach for protecting propriety in future emergencies.

¹ Transparency International Corruption Perceptions Index, accessed on 1 February 2024. Available at: www.transparency.org/en/cpi/2023

² Comptroller and Auditor General, *Initial learning from the government's response to the COVID-19 pandemic*, Session 2021-22, HC 66, May 2021.

9 We reached our conclusions following our analysis of evidence collected primarily between August 2023 and November 2023. Our audit approach is set out in Appendix One. As part of this fieldwork we:

- reviewed more than 60 reports published by the National Audit Office and the Committee of Public Accounts (PAC). Most of these were on the pandemic response, but we also looked at our reports on other emergencies (Appendix Two);
- examined the government's progress against our recommendations and its response to PAC's reports;
- interviewed officials from 18 departments that played a role in the response to recent emergency situations and reviewed lessons learned documents where provided by departments; and
- held cross-government workshops to provide challenge for our findings.

10 The following pages (pages 12 to 38) set out our recommendations from this work across seven lessons.

Figure 1

How the government is learning lessons on how to protect propriety in emergency spending

The government is revising its guidance so that protecting propriety features in its emergency planning

Organisation	Role or function	Lesson learning activity
Central government departments	Responsible for the response to an emergency depending on the type and stage of emergency.	Government departments are undertaking individual lessons learned exercises. These lessons learned activities vary in scope and detail. The focus is often not explicitly on how to protect propriety, but some findings are directly relevant.
Public Sector Fraud Authority (PSFA)	Set up in 2022 to work with departments and public bodies to understand and reduce the impact of fraud.	The existence of the PSFA is in itself a response to fraud and impropriety during the pandemic. The PSFA brings together expertise to support the government and help modernise its fraud and error response. PSFA now leads the Government Counter Fraud Function and Profession. The PSFA has conducted an internal lessons learned exercise on managing fraud during the COVID-19 pandemic.
The Boardman review into pandemic procurement (Cabinet Office)	Nigel Boardman, a non-executive board member of the then Department for Business, Energy & Industrial Strategy, was asked to review government procurement activity during the response to the COVID-19 pandemic.	The Cabinet Office accepted the 28 recommendations from the Boardman review covering Cabinet Office's procurement processes and the way the government manages actual and perceived conflicts of interest. This includes revising existing policy and guidance which will be applicable to all central government bodies.
Cabinet Office Briefing Rooms (COBR) Unit	Leads the government's response to acute emergencies, domestic and international, malicious and non-malicious, and drives further professionalisation of emergency management in government.	Updating the Central Government Concept of Operations ('ConOps'). The ConOps sets out arrangements for responding to and recovering from emergencies that require co-ordinated central government action. The update sets out the expectations for how emergency spending is managed including the role of accounting officers. Delivering the Crisis Management Excellence Programme. Cabinet Office is delivering targeted training to top crisis leaders so that they are prepared for future emergencies. This includes a short module on spending public money in a crisis.
Resilience Directorate (Cabinet Office)	Plays a strategic role in national resilience and leads work across government to strengthen it.	Updating the Lead Government Department (LGD) guidance and best practice. Departments designated LGDs are responsible for leading work to identify serious risks and emergency planning, response and recovery. The Cabinet Office Resilience Directorate is updating LGD guidance and expects to publish this in Summer 2024.
Treasury Officer of Accounts (HM Treasury)	The team act as advisers to the Treasury and other government departments to ensure they act in ways which are consistent with <i>Managing Public Money</i> and the accounting officer standards.	Following the Boardman review, HM Treasury produced internal guidance based on learning from the decisions and actions taken regarding spending controls in response to the COVID-19 pandemic. Propriety features throughout the guidance. For example, it reiterates that the usual spending control framework operates in an emergency unless temporary flexibilities have been agreed.
UK COVID-19 Inquiry	The Inquiry will examine, consider and report on preparations and response to the pandemic and identify lessons to inform preparations for future pandemics.	The Inquiry will examine several areas that our work shows are of relevance to protecting propriety. These include how decisions were made, communicated, recorded, implemented; and legislative and regulatory control and enforcement.

Note

1 Selected lessons learned work shown. Does not include all changes to the government's emergency preparedness structure.

Source: National Audit Office analysis of published documents and interviews with central government officials