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Committee of Public Accounts

Tackling overseas expenditure

Fifty-fifth Report of Session 2016–17

*Report, together with formal minutes relating
to the report*

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The Committee of Public Accounts

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Summary

The risk of fraud in the UK Government's overseas expenditure has changed considerably in recent years, primarily as a result of the Department for International Development's (DFID's) budget rising by more than a quarter since 2011 to nearly £10 billion, and a requirement to spend half of this in 'fragile' countries which are among the world's most corrupt states. The Foreign & Commonwealth Office (FCO) and the British Council also work in challenging environments overseas, yet all three bodies report remarkably low levels of fraud. DFID's recorded losses to fraud in 2015–16 were only 0.03% of its budget and the FCO and the British Council reported losses of only £16,000 and £35,000 respectively. DFID has improved its approach to countering fraud, but has more to do, particularly where it spends money through other bodies such as multilateral organisations and local delivery partners. DFID, the FCO and the British Council all meet HM Treasury's minimum requirements for reporting fraud in their Annual Report and Accounts by publishing details on all fraud cases over £300,000. However, public confidence in the Government's ability to protect its overseas expenditure would be increased if the three bodies were more open about the instances of fraud they identify and what actions they take in response.

Introduction

In line with its commitment to spend 0.7% of gross national income (GNI) on Official Development Assistance (ODA), the Government spent £12.133 billion on overseas aid in 2015. To meet this commitment, DFID's budget rose from £7.722 billion in 2011 to £9.767 billion in 2015, a 26.5% increase. In 2015, the Government published its Strategic Defence and Security Review, which committed DFID to spend at least half of its budget in 'fragile states and regions', places that are more likely to be vulnerable to fraudulent activity. DFID currently concentrates its bilateral funding in 32 countries, 15 of which are ranked as among the most corrupt according to Transparency International's Corruption Perception Index, a widely recognised measure of fraud risk. Traditionally, the FCO and the British Council have focused on internal fraud risks, such as business processes and personnel, including locally-employed staff across 268 posts and 115 countries respectively. More recently the FCO's ODA budget has risen to £466 million, bringing its fraud risks more in line with those faced by DFID.

Conclusions and recommendations

1. **Reported levels of fraud in DFID, FCO and British Council expenditure do not seem credible, given the risks they face overseas.** The significant increase in overseas expenditure coupled with the requirement to spend half of its budget in some of the most corrupt states in the world have changed the risk of fraud. But DFID's recorded losses to fraud in 2015–16 were only 0.03% of its budget, significantly lower than other departments operating in the United Kingdom such as the Department for Work and Pensions and HM Revenue and Customs, whose estimated losses to fraud were 0.7% and 3% respectively. The FCO (with a budget of £1.9 billion) and the British Council (with income of £1 billion) reported losses to fraud of only £16,000 and £35,000 respectively. DFID obtained expert advice on improving its measurement of fraud risks, which noted the difficulty of providing a single estimate of the value of all fraud because of the complex environment in which DFID operates. But there are additional techniques that all three bodies could use to better analyse the risks of fraud in different areas of their spending, such as data analytics; for example, in the banking and visa application systems of the countries in which DFID operates.

Recommendation: *Within six months, all three bodies should report back to the Committee setting out what more they will do to provide better estimates of the likely levels of fraud.*

2. **DFID has adapted well to manage its rising fraud caseload but further improvements can be achieved.** DFID's work to raise fraud awareness among its staff and partners has contributed to a four-fold increase in the number of allegations of fraud to 429 in 2015–16. DFID assigns each allegation a priority level, based on the potential financial or reputational risk. A rise in the fraud caseload has mainly been in the lower priority cases to date, many of which DFID regards as trivial, although the number of the most serious cases has recently risen significantly. The counter-fraud team has responded well to this increasing caseload but is reviewing how it can better prioritise the more serious cases.

Recommendation: *DFID should review how it prioritises fraud allegations to focus on the areas of greater financial and reputational risks.*

3. **DFID needs to do more to determine the effectiveness of its delivery partners' counter-fraud measures.** More than half (55%) of DFID's expenditure is through multilateral bodies, where the Department has less control over measures to counter fraud risks. DFID and the multilaterals that it funds also use non-governmental organisations (NGOs) and other partner organisations to actually deliver aid in-country. DFID has limited visibility over these activities, although it has employed third parties to provide independent assurance. To enhance fraud awareness measures, DFID has assessed the competency of its larger multilateral partners to determine their capability to handle fraud risks. However, a large proportion of DFID's fraud cases have occurred in the NGOs, but DFID has not yet undertaken a similar assessment of the competency of its principal NGO partners to tackle fraud.

Recommendation: *DFID should undertake an assessment of the ability of its principal non-governmental organisation partners to manage fraud risks, which it should use to inform future spending decisions.*

4. **The FCO's and the British Council's counter-fraud activities do not yet match the risks they face. In particular, the FCO does not yet have adequate controls in place for assuring its increasing programme funds.** To date, the FCO has largely focused on internal fraud risk, in line with how it spent its budget. However, the FCO faces new fraud risks from its rising programme expenditure (up by 22% since 2011). The FCO needs to have adequate controls in place to manage these new risks, but it was not clear how it would achieve this. The British Council only established its counter-fraud team in June 2015, despite being a body with an annual income of £1 billion and 11,000 employees in 115 countries. The FCO and the British Council should learn from DFID's experience in improving its counter-fraud approach by, for example, assessing and prioritising fraud allegations, and including fraud reporting as a mandatory requirement in contracts and grant agreements.

Recommendation: *The FCO and the British Council should each publish a clear plan setting out how they will improve their counter-fraud activities.*

5. **DFID, the FCO and the British Council publish limited information on confirmed cases of fraud and how they were resolved.** DFID, the FCO and the British Council all meet HM Treasury's minimum requirements for reporting fraud losses in their Annual Report and Accounts, including reporting on individual fraud cases valued at over £300,000. The FCO and the British Council do not publish any additional information on individual fraud cases. DFID has previously included some information in its Annual Reports and Accounts, but this is now published separately on the Department's website, and there is currently no link to this in its Annual Report. DFID takes a range of actions in response to fraud, such as suspending contracts with partners and dismissing members of staff. However, it does not make information available on sanctions applied to the perpetrators, which could act as a deterrent for others. Although there are potential legal and cultural sensitivities in reporting extensively on specific fraud allegations, general information on fraud cases and sanctions applied would build public confidence in how well overseas expenditure is being managed.

Recommendations: *All three bodies should publish more detailed information on their fraud cases for 2016–17, including any sanctions applied for each case. Each body should include a link to this information in its next Annual Report and Accounts. The Treasury should also review its guidance for reporting fraud, and specifically whether its minimum requirements are appropriate for DFID, the FCO and the British Council.*

1 The changing risks to overseas expenditure

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from the Department for International Development (DFID), the Foreign & Commonwealth Office (FCO) and the British Council, on tackling fraud in overseas expenditure.¹

2. Two significant developments have changed DFID's exposure to the risk of fraud. The first was the government's commitment to spend 0.7% of gross national income (GNI) on overseas aid, which amounted to £12.133 billion in 2015. To achieve its share of that commitment, DFID's budget has increased by 26.5% since 2011, reaching £9.767 billion in 2015. Secondly, the 2015 Strategic Defence and Security Review committed DFID to spend at least half of its budget in 'fragile states and regions', which are more vulnerable to the risk of fraud.²

Challenges in estimating actual levels of fraud

3. The number of fraud cases reported by DFID has more than quadrupled from 102 in 2010–11 to 429 in 2015–16. Similarly, the number of suspected fraud cases in the FCO doubled between 2011–12 and 2015–16 to 50 cases.³ The British Council has only been collecting reliable data on its fraud caseload since 2016, but by March 2017 it had recorded 44 fraud cases for 2016–17, more than twice the 20 cases reported on average in previous years.⁴ Despite these increases the loss to fraud remains low: DFID reported losing 0.03% of its budget to fraud in 2015–16, before any recovery action was taken. The FCO reported gross fraud loss of £16,000 in the same period (0.001% of the £1.9 billion it spent) and the British Council reported an equivalent figure of £35,000 in 2016 (0.004% of its £1 billion income).⁵ These figures are significantly lower than other departments operating in the United Kingdom, such as the Department for Work and Pensions and HM Revenue and Customs, whose estimated losses to fraud were 0.7% and 3% respectively.⁶

4. A study published by Centre for Counter Fraud Studies, University of Portsmouth, estimated that the fraud loss rate is between 3% and 5% across government organisations.⁷ With this in mind, we questioned all three bodies as to whether their current estimates of fraud loss were credible, given the size of their budgets and the nature of their expenditure.

5. DFID noted that, while its reported fraud figure was an accurate reflection of what had been identified, there were no reliable independent sources of evidence to estimate the level of undetected fraud.⁸ We questioned DFID on how it could improve its estimate of likely fraud levels. DFID told us that it had commissioned the Centre for Counter Fraud Studies in 2011 to determine how it could improve its measurement of fraud risk. The

1 C&AG's Report, *Department for International Development: Investigation into the Department's approach to tackling fraud*, Session 2016–17, HC 1012

2 C&AG's Report, paras 5, 6

3 C&AG's Report, para 4.7, & 4.18, Figure 6 & 8

4 Q36; C&AG's Report, para 4.20

5 Qq6, 11, 29; C&AG's Report, paras 4.11–4.12, 4.18, 4.20

6 C&AG's Report, para 4.12

7 Q 9; Jim Gee and Professor Mark Button, *The Financial Cost of Fraud 2015: What the latest data from around the world shows* (2015)

8 Q6

Centre had concluded that measuring the total value of fraud would be “too complex and expensive” to achieve given that DFID operates through lots of intermediaries, in dozens of countries and spends its budget in a number of different ways.⁹

6. Subsequently, DFID had received updated advice on methodologies it could apply to improve its estimates of fraud loss and had acted on those recommendations, for example, by running a sampling exercise on payroll and the use of corporate credit cards. But DFID admitted it could still do more on this area; it was exploring whether fraud loss measurement techniques could be applied in areas such as procurement.¹⁰ It was also exploring how it could use predictive data analytics to scrutinise different areas of expenditure, such as the banking and visa application systems in the countries where it operates. However, DFID noted that there were limits to the use of predictive data analytics in countries that primarily use paper records.¹¹

7. We asked DFID why it had reported so few fraud cases in some of the countries considered to be the most corrupt according to Transparency International’s Corruption Perception Index, a widely recognised measure of fraud risk. DFID attributed this to the actions it takes to mitigate the risks involved in operating in these challenging environments. DFID told us that it has to accept a certain level of risk in order to provide life-saving assistance to those who need it, but considers its understanding of the environment and due diligence of its partners to be key to reducing the risk of significant loss. For example, DFID does not use the government of Nigeria to spend its funds as it has a known corruption problem, but provides funding in other ways.¹²

8. The British Council acknowledged that its actual level of fraud was higher than reported as it was implausible to believe that it detected 100% of fraud. Despite operating in 115 countries worldwide, and having an annual income of £1 billion, the British Council reported fraud losses of only £35,000 in 2016. The British Council told us that the amounts lost to fraud varied considerably year to year, but that it had reported £868,000 of losses over the past four years. When we pointed out that the average annual loss, around £200,000, was six times higher than the 2016 losses, the British Council conceded that: “You have to start from the point of view that there is an undetected fraud out there”.¹³ The British Council noted that its fraud risks were different from DFID because it operates in simpler environments with shorter supply chains. The British Council told us that only 28% of its £1 billion income was in countries deemed as high risk in terms of being vulnerable to fraudulent activity. The majority of the larger frauds the British Council has reported to the Charity Commission over the last four years nonetheless took place in high-risk countries.¹⁴

9. The FCO maintained that its reported level of fraud was credible. The FCO reported total losses for 2015–16 of £16,000 across the whole of its network of operations in 268 countries.¹⁵ The FCO explained that 80–90% of its budget relates to payroll, rent and utilities, where it has more control over its spending, and therefore believes it is less

9 Q9

10 Qq21–23

11 Q39

12 Qq3–4, 26–27

13 Qq29–30, 38

14 Q38

15 Qq11, 14, 16; [C&AG’s Report](#), para 4.18

exposed to fraud risk.¹⁶ However, in managing its Official Development Assistance (ODA) budget of £466 million (up from £391 million in 2015) the FCO faces similar challenges to DFID in terms of relying on delivery partners, including in fragile states, where it has much less oversight.¹⁷

16 Q11

17 Q19

2 DFID's counter-fraud strategies and management of fraud risk

Counter-fraud strategies

10. In 2011, the Independent Commission for Aid Impact (ICAI) published a report on the Department for International Development's (DFID's) approach on anti-corruption. The report found that DFID did not have a coherent and strategic response to fraud risk on overseas aid.¹⁸ DFID told us that since then it had worked to reinforce a 'zero tolerance' approach to fraud, by increasing awareness among staff and delivery partners through training and fraud awareness sessions. It had also re-written its contracts with suppliers and delivery partners to make it mandatory for them to report fraud. According to DFID, despite a four-fold increase in its fraud caseload, these and other initiatives have led to the recovery rate rising from an average of 67% of gross losses since 2003, to 92% in 2016–17.¹⁹

11. We asked whether DFID's counter-fraud team would be able to deal with the growing number of cases. DFID told us that the increase in caseload was putting pressure on resources available for investigating fraud allegations, although DFID had increased its counter-fraud team four-fold, and improved the team's skills and processes, since the ICAI report. DFID also noted that, compared to the time taken in 2007–08, there had been a three-quarters reduction in the average time taken to complete a fraud investigation.²⁰

12. DFID's counter-fraud team assesses each case using a triage system, assigning each allegation a priority level based on its potential financial and reputational risk.²¹ Given that the rise in caseload has mainly been in lower priority cases, we asked DFID whether it thought that the triage system was fully effective. DFID accepted that a considerable number of lower priority cases were trivial, but noted that they often get mixed up with more important cases. DFID also told us that it was reviewing how it prioritises and deals with cases in the future, which is particularly important given the recent rise in the number of the most serious cases.²²

Assurance over fraud risks in delivery partners

13. More than half of DFID's expenditure is through multilateral organisations, where DFID's funds are pooled with other donors' funds.²³ As DFID has less visibility over expenditure through these organisations, we asked DFID how it gains assurance over fraud risks. DFID emphasised how critical it had been of multilaterals in this regard over the years. However, it now had agreements in place requiring its partners to report all suspicions of fraud, and it undertakes annual assessments of each of its multilateral partner's competency to manage fraud risks. DFID told us that it provided more funds to those multilateral organisations that it rates as being 'very good', and ceased or reduced funding, where it could, for those it rates as being 'poor' or when its has identified systemic

18 Independent Commission for Aid Impact, [DFID's Approach to Anti-Corruption](#) (November 2011)

19 Qq1, 2, 5; [C&AG's Report](#), paras 2.5, 5.4

20 Q24; [C&AG's Report](#), para 4.9–4.10

21 [C&AG's Report](#), paras 4.2–4.3

22 Qq24–25; [C&AG's Report](#), para 4.8

23 [C&AG's Report](#), paras 1.3

fraud. DFID added that it had seen improvements in the financial systems of some of its United Nations partners, but expressed concerns that the procurement area, in particular, was still vulnerable.²⁴

14. Nearly 40% of DFID's fraud cases have occurred in non-governmental organisations (NGOs).²⁵ NGOs deliver aid in countries where they have particular experience or those considered to be too risky for DFID to have a direct presence. DFID told us that, while it undertakes an assessment of its multilateral partners to manage fraud risks, it does not do this to the same degree of rigour with its NGO partners. DFID has agreed to explore this further.²⁶

24 Qq40–43, 49–53

25 [C&AG's Report](#), paras 4.17

26 Qq44–46

3 The FCO's and the British Council's counter-fraud strategies

15. The fraud risks the Foreign & Commonwealth Office (FCO) faces are increasing. Historically, the FCO largely focused on internal fraud risks, as 80–90% of its budget was spent within the Department on salaries, rents and utilities across its 268 posts. However, the amount of Official Development Assistance (ODA) funding the FCO is now responsible for has increased from £391 million to £466 million. This brings new risks for the FCO as it uses partners to deliver programmes, who provide less visibility on spend compared to that put through its own network of embassies. The fraud risks the FCO must manage for ODA expenditure are therefore now more in line with those faced by the Department for International Development (DFID).²⁷

16. The FCO stated that it was conscious that it would need to change its approach for this new area of work, and was determined to get it right, but did not provide detail on what that meant in terms of staff resources.²⁸ The FCO believed it was vital that its staff receive the proper training to enable them to address fraud risks when they design and monitor programme spending.²⁹ The FCO added that it was putting programme staff through new, bespoke training, with 121 personnel completing the training in 2016, and a further 350 having done training in other departments.³⁰

17. Like DFID, the FCO takes a 'zero tolerance approach' to fraud, and it confirmed that it was working with DFID in developing its approach to tackling fraud in ODA expenditure. The FCO has designed its counter-fraud systems for ODA spend in cooperation with DFID, and has DFID staff seconded to the FCO. The FCO also stated that "a lot of leadership comes from DFID" and that the two Departments work very closely together.³¹

18. Although it has operations in 115 countries, 11,000 staff and an annual income of £1 billion, the British Council only established its dedicated counter-fraud team in June 2015.³² We asked the British Council whether it had a plan to improve its counter-fraud activity. The British Council told us it planned to focus on fraud prevention as a key element of its approach, by promoting awareness and creating an environment in which people were more vigilant. It was providing 5,000 of its staff with fraud awareness training. Alongside this, it planned to have trained investigators in each of its seven regions, with additional dedicated investigators in some of the bigger country offices such as China and India. This, the British Council noted, was because it was anticipating its caseload to increase as a result of its work to raise fraud awareness.³³

19. The British Council also noted that it works closely with DFID, as it receives around £40 million a year in DFID funding. For example, the British Council aims to emulate DFID's practices in its own commercial contracts with partner organisations, and the two bodies are jointly organising a lessons learned conference on counter-fraud which international development charities will attend.³⁴

27 Qq11, 19, 67; [C&AG's Report](#), para 1.9

28 Qq33, 67–68

29 Q19

30 Q33

31 Qq32–33

32 [C&AG's Report](#), para 2.13

33 Qq70–73

34 Qq31–32

4 Responding to Fraud

Reporting on fraud cases

20. Although the Department for International Development (DFID), the Foreign & Commonwealth Office (FCO) and the British Council meet the mandatory requirements set by HM Treasury for reporting on fraud and losses in their Annual Report and Accounts, the information that these documents provide on fraud cases is limited, and is less than some other organisations provide.³⁵ For example, the charity Plan International publishes the dates, location, allegations, net loss, lessons learned and actions taken for all its fraud cases. DFID, the FCO and the British Council do include fraud cases in their disclosures on losses, but only report detail on individual losses greater than £300,000 (for DFID and the FCO) or £20,000 in the case of the British Council.³⁶

21. We asked DFID about the information it reports publicly on its fraud cases. DFID confirmed that it had previously included more details of cases in its Annual Report and Accounts, but now chose instead to publish this information separately on its website. DFID noted that the decision to remove the detail from the Annual Report was taken in response to Treasury requirements for departments to make their Annual Reports shorter and more consistent with each other. DFID confirmed that it would be happy to include more information, and agreed to consult with Cabinet Office and Treasury as to what might be possible. In addition, DFID told us it would explore what other government departments disclose on their fraud cases.³⁷

22. DFID considered that information on its fraud cases was easy to find on its website, and noted that detail for last year's confirmed cases was available, including the location (country) and amount lost.³⁸ DFID did not believe this information necessarily needed to be in the Annual Report, and that it was more important that people could find it easily online.³⁹ DFID agreed that there should be a link from its Annual Report and Accounts to the fraud information on its website.⁴⁰

23. We asked the FCO and the British Council whether they would make a similar commitment to provide more information publicly about their fraud cases, particularly in light of the additional ODA budget the FCO is now responsible for spending. The FCO told us that it was conscious that ODA expenditure on this scale was a new challenge for its staff, and agreed it was important to be transparent about how these funds are used.⁴¹ The British Council confirmed that, although it earns most of its income acting as a registered charity, it does receive £150 million of grant funding from the UK taxpayer. The British Council supported a yearly fraud report from charities to improve transparency and promote lessons learned, and was talking to international development charities about this.⁴²

35 Qq54, 64

36 [C&AG's Report](#), paras 6.2–6.5, 6.9, 6.11

37 Qq54, 64, 89–90

38 Q89

39 Qq57, 91

40 Qq55–59

41 Qq82–85

42 Qq85–88

Information on sanctions

24. DFID told us that it takes a range of actions when fraud is discovered, both to recover funds lost and to sanction the perpetrators. It has stopped dealing with some organisations where it had concerns over their governance arrangements. For example, DFID told us it has stopped financing the government of Malawi and helped prosecute around 70 civil servants and politicians who had been defrauding the budget as a result of inadequate controls. Over the last two years, around half a dozen organisations have effectively had to close because DFID withdrew funding as a result of fraud concerns.⁴³ DFID noted that the decision to withdraw funding from an organisation was not taken lightly, as the programmes it runs may be providing life-changing aid; for example, financing children's education. DFID would prefer to work with organisations to improve their capability to manage fraud and to pursue those responsible, and would only decide to close a programme completely if there was a systemic fraud problem.⁴⁴

25. We asked DFID why it does not publish information on the actions it takes to sanction those who commit fraud, to give the wider public confidence that fraud is tackled properly when it is uncovered. We understand that in the UK, the Department for Work and Pensions and local councils provide more information on their fraud cases including, in some cases, more details on what happens to the perpetrators of frauds, both to inform and to deter others.⁴⁵ DFID told us that it did take some cases to court; for example, it prosecuted dependants who continued to claim the pensions of former colonial civil servants after their deaths. These cases are in the public domain and DFID was keen that the public know it will take legal action where it considers this the most appropriate course. It does not prosecute in all cases if the evidence is not strong enough to recover all of the funds lost, or if it can recover a higher proportion of funds through other routes.⁴⁶

26. We challenged DFID further on why it does not actively publicise the sanctions it applies. There is public concern about overseas expenditure and greater availability of information about sanctions would both act as a deterrent to others, and help counter some opinions that too much aid money is wasted or used inappropriately.⁴⁷ DFID acknowledged that it would be helpful to show that there are consequences for organisations who do not look after its funds, but it did not want to publish too much information on specific cases which may indicate how frauds could have been committed or highlight weaknesses in the Department's controls.⁴⁸ DFID explained that the Treasury and the Cabinet Office determine what can be published. However, DFID agreed to explore what might be possible for cases of public interest, such as those with significant monetary loss.⁴⁹

43 Qq49, 51

44 Qq51–53

45 Qq54, 60, 62

46 Qq60, 61

47 Q62

48 Qq62–63

49 Q64

Formal Minutes

Monday 24 April 2017

Members present:

Meg Hillier, in the Chair

Mr Richard Bacon	Anne Marie Morris
Charlie Elphicke	Bridget Phillipson
Kwasi Kwarteng	Karin Smyth
Nigel Mills	

Draft Report (*How DfID tackles fraud*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 26 read and agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Fifty-fifth of the Committee to the House.

Ordered, That the Chair make the Report to the House.

[The Committee adjourned.]

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

Wednesday 15 March 2017

Question number

Sir Mark Lowcock KCB, Permanent Secretary, Department for International Development, **Sir Simon McDonald KCMG KCVO**, Permanent Secretary, Foreign and Commonwealth Office, and **Sir Ciarán Devane**, Chief Executive, the British Council

[Q1-97](#)

Published written evidence

The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

HDT numbers are generated by the evidence processing system and so may not be complete

- 1 CroweClark Whitehill ([HDT0002](#))
- 2 Department for International Development ([HDT0003](#))

List of Reports from the Committee during the current session

All publications from the Committee are available on the [publications page](#) of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2016–17

First Report	Efficiency in the criminal justice system	HC 72 (Cm 9351)
Second Report	Personal budgets in social care	HC 74 (Cm 9351)
Third Report	Training new teachers	HC 73 (Cm 9351)
Fourth Report	Entitlement to free early education and childcare	HC 224 (Cm 9351)
Fifth Report	Capital investment in science projects	HC 126 (Cm 9351)
Sixth Report	Cities and local growth	HC 296 (Cm 9351)
Seventh Report	Confiscations orders: progress review	HC 124 (Cm 9351)
Eighth Report	BBC critical projects	HC 75 (Cm 9351)
Ninth Report	Service Family Accommodation	HC 77 (Cm 9351)
Tenth Report	NHS specialised services	HC 387 (Cm 9351)
Eleventh Report	Household energy efficiency measures	HC 125 (Cm 9351)
Twelfth Report	Discharging older people from acute hospitals	HC 76 (Cm 9351)
Thirteenth Report	Quality of service to personal taxpayers and replacing the Aspire contract	HC 78 (Cm 9351)
Fourteenth Report	Progress with preparations for High Speed 2	HC 486 (Cm 9389)
Fifteenth Report	BBC World Service	HC 298 (Cm 9389)
Sixteenth Report	Improving access to mental health services	HC 80 (Cm 9389)
Seventeenth Report	Transforming rehabilitation	HC 484 (Cm 9389)
Eighteenth Report	Better Regulation	HC 487 (Cm 9389)

Nineteenth Report	The Government Balance Sheet	HC 485 (Cm 9389)
Twentieth Report	Shared service centres	HC 297 (Cm 9389)
Twenty-first Report	Departments' oversight of arm's-length bodies	HC 488 (Cm 9389)
Twenty-second Report	Progress with the disposal of public land for new homes	HC 634 (Cm 9413)
Twenty-third Report	Universal Credit and fraud and error: progress review	HC 489 (Cm 9413)
Twenty-fourth Report	The sale of former Northern Rock assets	HC 632 (Cm 9413)
Twenty-fifth Report	UnitingCare Partnership contract	HC 633 (Cm 9413)
Twenty-sixth Report	Financial sustainability of local authorities	HC 708 (Cm 9429)
Twenty-seventh Report	Managing government spending and performance	HC 710 (Cm 9429)
Twenty-eighth Report	The apprenticeships programme	HC 709 (Cm 9413)
Twenty-ninth Report	HM Revenue & Customs performance in 2015–16	HC 712 (Cm 9429)
Thirtieth Report	St Helena Airport	HC 767 (Cm 9429)
Thirty-first Report	Child protection	HC 713 (Cm 9429)
Thirty-second Report	Devolution in England: governance, financial accountability and following the taxpayer pound	HC 866 (Cm 9429)
Thirty-third Report	Troubled families: progress review	HC 711 (Cm 9429)
Thirty-fourth Report	The Syrian Vulnerable Persons Resettlement programme	HC 768 (Cm 9429)
Thirty-fifth Report	Upgrading emergency service communications	HC 770 (Cm 9433)
Thirty-sixth Report	Collecting tax from high net worth individuals	HC 774 (Cm 9433)
Thirty-seventh Report	NHS treatment for overseas patients	HC 771 (Cm 9433)
Thirty-eighth Report	Protecting information across government	HC 769 (Cm 9433)
Thirty-ninth Report	Consumer-funded energy policies	HC 773 (Cm 9433)
Fortieth Report	Progress on the Common Agricultural Policy Delivery Programme	HC 766 (Cm 9433)

Forty-first Report	Excess Votes 2015–16	HC 954 (Cm 9433)
Forty-second Report	Benefit sanctions	HC 775
Forty-third Report	Financial sustainability of the NHS	HC 887
Forty-fourth Report	Modernising the Great Western Railway	HC 776
Forty-fifth Report	Delivering Restoration and Renewal	HC 1005
Forty-sixth Report	National Citizen Service	HC 955
Forty-seventh Report	Delivering the defence estate	HC 888
Forty-eighth Report	The Crown Commercial Service	HC 889
Forty-ninth Report	Financial Sustainability of Schools	HC 890
Fiftieth Report	UKTI and the contract with PA Consulting	HC 772
Fifty-first Report	HMRC's contract with Concentrix	HC 998
Fifty-second Report	Upgrading emergency service communications	HC 997
Fifty-third Report	The HMRC Estate	HC 891
Fifty-fourth Report	Department for International Development: investing through CDC	HC 956
First Special Report	Protecting the Public's Money: First Annual Report from Chair of Committee of Public Accounts	HC 835

Public Accounts Committee

Oral evidence: How DFID tackles fraud, HC 1034

Wednesday 15 March 2017

Ordered by the House of Commons to be published on 15 March 2017.

Watch the meeting <http://www.parliamentlive.tv/Event/Index/b0f3474d-925e-4337-885e-7651efece09a>

Members present: Mr Richard Bacon (Chair); Philip Boswell; Chris Evans; Kevin Foster; Kwasi Kwarteng; Nigel Mills; Bridget Phillipson; Karin Smyth.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, and Tom McDonald, Director, National Audit Office, and Richard Brown, Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-97

Witnesses

I: Sir Mark Lowcock KCB, Permanent Secretary, Department for International Development, Sir Simon McDonald KCMG KCVO, Permanent Secretary, Foreign and Commonwealth Office, and Sir Ciarán Devane, Chief Executive, the British Council.



Report by the Comptroller and Auditor General

Investigation into the Department's approach to tackling fraud
(HC 1012)

Examination of witnesses

Witnesses: Sir Mark Lowcock, Sir Simon McDonald and Sir Ciarán Devane.

Q1 **Chair:** Good afternoon, and welcome to this meeting of the Public Accounts Committee, where we are taking evidence on the National Audit Office Report on and its investigation into the Department for International Development's approach to tackling fraud. We are joined by Sir Mark Lowcock, the permanent secretary of the Department, whom I think we can call a frequent flyer; Sir Simon McDonald, whom I don't think we have seen before—you are very welcome—and Sir Ciarán Devane, the chief executive of the British Council.

I am going to start off the questions, but then very rapidly hand over to Kwasi Kwarteng, who will lead the questioning for the first section. May I start by asking why the number of fraud cases has quadrupled over the four years to 2015-16?

Sir Mark Lowcock: You will recall, Chair, that in my first hearing with you in my current role—it was in July 2011—you examined me on the Department's financial improvement plan. One of the things I said was that I thought we needed a much stronger strategy across the Department to deal with the risk of fraud, and the prevention of fraud and recovery.

The Report does a very good job of setting out the strategy that we put in place, one of the aims and intentions of which was deliberately to obtain a much higher degree of suspicions referred into the centre of the Department, so we developed a new strategy.

I dramatically increased the capability of my internal audit department by 80%. I had a fourfold increase in my counter-fraud team. I caused there to be training for every single senior responsible officer in the Department who was responsible for managing things on fraud awareness. We changed the terms and conditions of our grant agreements to everybody to whom we give money to deliver programmes for us. The result of that was to get a larger number of referrals, as was the intention.

You will also have observed, Chair, that there has not been an increase in the proven losses, but there has been an increase in recovery. One of the things that my anti-fraud team does is not just identify losses but recover the losses as well. By implementing this strategy, we have been successful in preventing things that would otherwise have happened, which is one of the reasons why the gross loss number has been kept down. We have changed the culture of the Department essentially and the delivery organisations we work with to have a much higher degree of awareness and sensitivity—and that was the idea.



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Q2 Chair: So are you saying that in effect it was always going on, but, because you are trying much harder and you put in place agreements for grants where people are obliged to report if they have suspicions of fraud—previously they were not obliged to—and because you have more staff working on it, you have pulled back the curtain on a great viper’s nest of corruption that was there all the time, but which you previously did not know about?

Sir Mark Lowcock: No, I am saying something else, Chair. I am saying that we have changed the incentives people have to report things when they have any worries. So inside the Department for International Development now, if you think something may be going wrong, it is a sin not to report it to the counter-fraud team so that they can identify whether there is a problem, what degree of investigation it needs and, if necessary, prove a loss and then recover the loss. There is a lot of speculation about the scale of things that might go on that we do not know about. I will not put a number to that, because there is no evidence base other than for things I can investigate.

What I would say to the Committee is that the environment in which my Department works has got a bit more challenging over the last five or six years, partly because of the spike in conflict in the middle east and parts of Africa where we have to have a humanitarian response, and partly because we are observing that organised criminal gangs involved in arms smuggling, people trafficking or modern-day slavery. All those evils have also got a bit more of a beady eye on other places where the international system is, so we have to be more alert than we used to be.

Q3 Chair: Are you saying they see DFID and other people coming with large pockets of cash? Some of them are referred to in the figure 2 bar chart where the bar jumps. The first one on the left is Rwanda, where the little red bar represents £100 million. Ghana’s bar represents £60 million. India’s is at £150 million and Ethiopia’s looks like it is at about £340 million. Are you saying that all those actors, including the organised criminal gangs, see this coming and are targeting it?

Sir Mark Lowcock: I am saying that if you want to provide assistance to people suffering enormous poverty and humanitarian crises in the kinds of countries where we operate, you had better be aware of the risk environment. You had better be aware of the environment you are operating in and you’d better mitigate the risk. There is another figure in the document—figure 11 on page 32—that basically compares the perceived level of corruption with the number of cases that get reported to me. If we were taking no action to mitigate the risk, I posit you would see a very high relationship, a strong correlation, between the corruption level in the country and the number of cases referred to me.

Q4 Chair: Indeed. I have cross-referred figure 11 and figure 2 for precisely that reason.

Sir Mark Lowcock: If I may finish my point, you will see there is no relationship between those two things because we are aware of the environment in which we operate, and our mitigation is dealing with a



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large proportion of the risk. If I saw a high correlation between those two things, I would be saying to myself, "We have not got the mitigation right."

Q5 Kwasi Kwarteng: You lost me in your answer to the Chair, when he asked you about the increased numbers. The reason you did is because to me it is very simple. If there are any statistics where there is an increase of—was it quadruple?—four times, either the numbers are genuinely going up or there is more reporting. Those are the only two options. Where do you see the balance? What accounts for the numbers? Please, very succinctly, because I did not really get any feel for that.

Sir Mark Lowcock: I am sorry not to be clear. What I was saying is that there has been a big increase in reporting, which was what the strategy we put in place six years ago was trying to achieve.

Q6 Kwasi Kwarteng: So you would say that the reporting was quite an important element.

When it says that the figure is 0.03%, in terms of the different aid expenditure related to fraud, how confident are you that that is an accurate reflection of what is going on?

Sir Mark Lowcock: It is a 100% accurate reflection of what we identified, but as the NAO has said, there are no reliable independent sources of evidence on which you can construct an estimate of what you can't identify—everybody who looks at this reaches the same judgment. Transparency International, the leading lobby group and think-tank on this, say the same thing. There is no meaningful way to assess absolute levels of corruption in countries on the basis of hard, empirical data, and that is because the people involved in corruption are trying to keep it secret from everybody else.

Q7 Kwasi Kwarteng: Okay. With regard to 0.03%, I am not a statistician, but statistically that is not significant. 0.03% is almost zero. Statistically, that is zero.

Sir Mark Lowcock: That is absolutely roughly opposite to the view I take. There is £3 million of gross losses in the 2015-16 year that I found—

Q8 Kwasi Kwarteng: Of the £9 billion you spent.

Sir Mark Lowcock: Yes. That is what I found through looking at 467 cases. I have a team of hardworking people who went after that £3 million of losses, as well as preventing quite a lot of other things, and got back 65% of it. Every time we find a loss or a fraud, we are going to go after it and we are going to try to recover the taxpayers' interest.

Q9 Kwasi Kwarteng: Academic studies suggest that in this sort of environment, fraud can account for between 3% and 5%. There was a University of Portsmouth study. Your reported figure isn't even a tenth of that; it is about a hundredth of that. You are saying to me that of your £9 billion spend, you believe a 0.03% rate of fraud reflects a true picture of what is going on.



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Sir Mark Lowcock: I am going to give you a proper answer to this, because I have worked hard on exactly this point since I had similar questions on 4 July 2011. You are referring to the rather excellent 2015 “The Financial Cost of Fraud” report, done, as you say, by Pannell Kerr Forster and a rather brilliant professor at the Centre for Counter Fraud Studies in Portsmouth, Mark Button. I also commend to everyone the 2016 and 2017 reports.

Those reports look at 10 OECD countries. They look at certain categories of expenditure, for example the pension system, the social security system and parts of the Government payroll.

In 2012, because I took seriously the questions you all posed to me in 2011, I asked Mark Button to do a piece of work for me to see whether it was possible to develop an evidence base and a methodology to do that fraud loss measurement exercise on my budget, in the same way that you could do it for parts of the Government budget, as is reported in the study you referred to and elsewhere. His conclusion was that we had to reject attempts to measure total fraud in that kind of super-measure, because it is too complex and expensive to achieve. Basically, because what I am doing is so diverse—first, in operating through lots and lots of intermediaries; secondly, in operating in dozens of different countries; and thirdly, in doing myriad different sorts of things—it is not possible on the available evidence to draw up the same percentage figure that is possible for fraud loss measurement sampling exercises in other areas of public expenditure.

As it happens, Mark Button was kind enough to come to see me again a month ago. I asked him again, “What has happened in the last five years? Have things evolved and developed?” and I asked whether there would be new ways that we can go after the unknown losses, which are what you and I are worried about, beyond when he did his first piece of work for me. He said, “A few things have changed,” and he gave me good advice on things that I am pursuing. However, his earlier judgment was that for the DFID budget, there is not an evidence base comparable to the excellent one that is available in the report you read to enable us to put anything out there in numbers that would not be spurious.

Q10 Chair: I have Mark Button’s report and you certainly quote it accurately. He rejects attempts “to measure total fraud in a ‘super measure’ on all the bilateral donor budget”—the bilateral bit is the simple bit; it is not the multilateral bit—“as this is too complex and expensive to achieve.” For a scrutiny Committee looking at value for money for the taxpayer, that leaves a bad taste in the mouth, because it feels as though that is inaccessible—that we simply cannot dig deeper or get further. It is also counter-intuitive if one thinks what one would do oneself on the ground in country if one were sniffing around.

When it is only 0.03%, I appreciate that there is “no evidence base”, but it leaves one feeling that perhaps we should be working a little harder on getting an evidence base. On this point, may I turn to Sir Simon? In your



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official development assistance through the Foreign Office, you spend £391 million—that's right, isn't it? It is in paragraph 1.8.

Sir Simon McDonald: That figure is going up every year. We are now at £466 million.

Q11 **Chair:** So on Mr Kwarteng's point, but in relation to your part, is it really credible that you had 50 fraud cases totalling only £16,000? Is that a credible figure for an organisation that in total, in addition to the official development assistance, which is only part of that, spends £1.9 billion worldwide? Is £16,000 a credible figure?

Sir Simon McDonald: We believe it is. Our Department is very different from the Department for International Development. We have 268 different posts around the world across our global network. Some 80% to 90% of our budget is for salaries, rents and utilities, so the amount in our bilateral budget that is fraudable is a lot smaller than it looks.

Q12 **Chair:** But the £391 million is ODA.

Sir Simon McDonald: That is the ODA part.

Q13 **Chair:** And that is included in the £1.9 billion, isn't it?

Sir Simon McDonald: It is included.

Q14 **Chair:** Therefore, the £16,000 reflects all of the £1.9 billion, including the £391 million.

Sir Simon McDonald: This is true.

Q15 **Chair:** You may remember that this Committee took evidence on 15 February 2006 on a fraud in the embassy in Tel Aviv. It was described by one of your predecessor, Sir Michael Jay, as "the largest fraud that the Foreign Office has been subjected to". The total amount of money involved was £790,000. The Foreign Office basically said that it could not get back £732,000 of that because it had been disbursed among 255 locally engaged employees of the Foreign Office over a period of many years. This isn't in the Report, but I remember it because I was on the Committee at the time, but can you just remind us who the British ambassador to Israel was at the time?

Sir Simon McDonald: As I am sure the Chair knows, I was the British ambassador at the time.

Q16 **Chair:** So you are asking us to believe that although you experienced directly a single fraud of £790,000 in one office over a number of years, the £16,000 figure for £1.9 billion of spending across over 200 offices around the world is credible.

Sir Simon McDonald: What I have learnt, Mr Chairman, is that fraudsters are endlessly imaginative and ingenious. We have frauds from time to time in the Foreign Office. They are different from each other. We learn the lessons of each and apply them across our system, but I remember the fraud in Tel Aviv very well. It consisted of two parts, neither of which



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had been attempted before. One involved receipts for the processing of diplomatic bags, where a locally engaged member of staff had stolen a receipt book from British Airways and was putting a figure through our account every week on a Wednesday.

Q17 **Chair:** Even though British Airways was not charging.

Sir Simon McDonald: They were not charging. What happened was, with the management systems we have in place, from time to time the local accountant phones up suppliers to check their rates. She was startled to discover that British Airways was not charging us anything at all, so everything came tumbling out—

Q18 **Chair:** And the other one was the rest home payments.

Sir Simon McDonald: And I was the ambassador so the first things I did were, first, we tell London today and, secondly, we crawl through our accounts and look at every other transaction with which this man is involved. That is how we came across the rest home allowance.

Q19 **Chair:** But my point is, that was an internal Foreign Office—admittedly, locally engaged employees—matter in one of your offices around the world. The £391 million of ODA—which you have just told us is now going up to £466 million, and will continue to rise, because of the 0.7% legal requirement—is at one, two or several removes through partners over whom you have much less control and much less oversight of the management systems than you do over your own embassies. Whether you have good ones or not is a matter you can change if you do not like it and it turns out to be rubbish, but you are talking about something at far further remove than that and—back to my question—you are asking us to believe that this £16,000 number, on that huge amount of money that is more outwith your reach than the stuff inside your own embassies is, is a credible one.

Sir Simon McDonald: As you know, Mr Chairman, a lot of that money is spent through partners like the United Nations, so all of our fees for the UN, our peacekeeping subs, are processed through that part of the budget, but the key thing for us, as we design these programmes, is that people have the proper training to make sure that the programmes are robust. They are mindful of the possibility of fraud, so in the design and monitoring of programmes we mitigate against fraud.

Q20 **Kwasi Kwarteng:** I just want to go back to something the Chair mentioned with respect to bilateral aid. My understanding from the early report you cited was that bilateral aid was the portion of the piece that you find very difficult to work out, or more difficult than the multilateral aid piece. Am I right in thinking that?

Sir Mark Lowcock: I have more worries about the limitations on the levers we have to improve the handling of the fraud risk in the multilateral system than I do in the bilateral system, because in the Department we control more on the bilateral than we do through organisations that are governed by up to 200 member states.



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Every organisation in development or humanitarian response that is working in the kind of countries in which we work needs to be aware of the risks, and it does not matter whether you are multilateral or bilateral. But as the report says, certainly parts of the multilateral system—the UN, for example—know that they have got a bigger problem than they are gripping. The CAG audits some of them, so he knows this very well. They are on an improvement journey. If I am honest, the bit of the multilateral system that worries me most is the EU programmes, because OLAF—I am sure the Chair knows this—investigates only 20% of the referrals, which my Secretary of State and I are very unhappy about. We have written again to the Commission to try to get something done about that.

The banks, which are the other big part of the multilateral system, are a little bit variable. Because they are very big, in absolute terms they will find more than some other organisations find, but they ebb and flow in terms of the level of the effort they make on anti-fraud is what I would say. There was a very strong effort made by a World Bank president three or four presidents ago which has not been sustained over the last cycle.

- Q21 **Kwasi Kwarteng:** Let us just boil this down. The report says very specifically—it has been read before, so pray indulge me on this—that we should: “Reject attempts to measure total fraud in a ‘super measure’ on all the bilateral donor budget as this is too complex and expensive to achieve.” Broadly, you agree with that.

Sir Mark Lowcock: I found the smartest and most knowledgeable person I could to advise me on how to do better after my hearing on 4 July 2011, and that was him and that was his advice to me. You have not yet listed—perhaps we will get to it—the bunch of things that we could do, and we have done all those things.

- Q22 **Kwasi Kwarteng:** But in terms of your measure of fraud, this really does concern me when you say that it is 0.03%, which I pointed out statistically is effectively zero—on a £9 billion budget, £3 million is a very small amount. This report is suggesting that for the bilateral portion it is difficult to measure fraud, and the bilateral portion is something like 65% of your aid commitment. There is this big black box as it were, which represents 65% of your spending, and you are saying that is far too difficult to measure fraud on, so let us just look at a smaller piece, then you come up with a figure of 0.03%.

Sir Mark Lowcock: No, the 0.03% is a number for the whole of the budget, and that is what we find in the previous loss.

Kwasi Kwarteng: I understand that.

Sir Mark Lowcock: What I was saying earlier is that there are multilateral bits of that and bilateral bits of that. There are some elements of the programme that we run where it is possible to use the kind of techniques that Mark Button and Jim Gee recommend for other jurisdictions—the fraud loss sampling technique, in other words—and we do that. Every year I run a sampling exercise on things like the payroll and use of corporate credit cards, because those are bits of my budget where



those techniques apply. The advice is that you cannot use those techniques for a loss of budget, so you have to do other things.

Q23 Kwasi Kwarteng: And what are you doing?

Sir Mark Lowcock: The first thing I have done is to change the culture of the Department so that there is a lot more referral of suspicions. That means you investigate more things when you think there may be a problem. Secondly, I am interested in trying to extend our ability to use those fraud loss measurements into a few more areas. I think that is a good thing to do; maybe we will be able to do that in one or two procurement areas.

The third thing—this is really Mark Button’s top recommendation—is to invest more in fraud resilience in the countries in which we operate and through the organisations with which we operate, because the better they get at preventing, and then detecting and recovering, the more we will expose, but also the fewer unexposed cases there will be.

Q24 Kwasi Kwarteng: With regard to the growing number of cases, which is clearly what we are seeing, do you feel that your counter-fraud team will be able to deal with that increase?

Sir Mark Lowcock: Well, my counter-fraud team are a fantastic group of people. If I may draw your attention to figure 8 on page 28, what you will see is that there has been a three-quarters reduction in the time it takes the counter-fraud team to pursue investigations. You will see there was a blip—some high numbers around ’07-08, as we were scaling up—but as we have grown the capability of that team, with the fourfold increase I told you about, their processes have improved, their skills have improved and they have got faster at investigating cases. Crucially, they are able to focus more time on what I call, and what the Report calls, the priority one cases—the cases where we think there could be a really big problem. We focus most of the effort there and we triage, and we are able to do a faster job—still serious and professional, but faster—on the lower priority cases.

Q25 Kwasi Kwarteng: Do you want to talk a bit more about the triage system? Do you think that is working?

Sir Mark Lowcock: Sure. There is another picture that portrays it—this is figure 7 on page 27. What you will see is that the biggest increase in referrals has been for the priority three cases. One thing I am doing—my next phase of improvement—is to unpick the priority three cases, because there is too much in there that is completely trivial. During the Ebola outbreak in Sierra Leone, we were having reports of things like soap and wellingtons being stolen from treatment facilities. That was all being mixed up with lots of other, more important priority three things, so I am going to split out priority three. These are things that look not to be systemic and not that big, although maybe there are important lessons for the organisation concerned.



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At the other end of the spectrum, I've got my priority one cases. There are about 20 of those on the go at any time, and those are the kinds of cases that are ultimately going to appear in my £3 million loss figure—two thirds of which I recover—and where I may well be having conversations with the Serious Fraud Office, the National Crime Agency, or those kinds of people.

- Q26 **Kwasi Kwarteng:** The Chair referred to this earlier—again, I was slightly confused by your answer; I didn't see the wood for the trees, as it were—but the Report says something that is quite counterintuitive. It basically says that there are fewer fraud cases in countries that are more corrupt. You gave an answer, saying that because they were more corrupt, you had things in place, but that did not really sound plausible to me. Could you explain that a bit more?

Sir Mark Lowcock: Maybe I could give an example, Mr Kwarteng. Nigeria is obviously a country with a big corruption problem. Everyone knows that: the President was elected on a platform to do something about it. We do not put money through the Government of Nigeria budget, because everybody knows there is a massive fraud leakage problem, especially on procurement. The chance of my losing money by mis-procurement through the Government of Nigeria is zero because I do not put any money into that system.

That does not mean that I cannot, as I am doing today, provide life-saving food assistance to more than 1 million people suffering the potential famine in north-east Nigeria. I just do it in other ways. It does not mean that I cannot finance an education for hundreds of thousands of girls and boys in northern Nigeria. I just do it in other ways.

The trick is to have a good understanding of the environment you are working in; to have good due diligence on the potential partners; and to know what level of risk you are going to take. We do have losses—

- Q27 **Kwasi Kwarteng:** Not big ones, according to your numbers.

Sir Mark Lowcock: Well, there was publicity four or five years ago about £0.25 million loss that I had to take in Somalia, during the famine there, where al-Shabaab basically stole about £300,000-worth of Plumpy'Nut, which is the therapeutic food babies and children are given when they are severely acutely malnourished, to help them recover.

That was not the fault of the implementing organisation, which is a world-class NGO. As it happened, I thought they should probably take a share of the loss, so they did, but we took the bulk of the loss. The only way to have avoided that would have been not to go into Somalia and not to have played a part in the international effort that saved more than a million lives.

That is my point about the risk appetite. You have to know what your risk appetite is and then mitigate and design programmes within that risk appetite. You have to communicate that down the whole of your system. One thing is for the 3,000 people who work in the Department for



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International Development, to know what the deal is. The next thing is for that to be written into our grant agreements, to be communicated with all our partners.

One reason I attach a lot of priority to recovery is because, if all of my implementing agencies know that, if there is a problem, I am going to come after them for recovery, it has a significant effect on the incentives they feel they have to look after the money well. You have to do all those things but still recognise that you may take some losses.

Q28 Kwasi Kwarteng: The thing that concerns me about your answer is that you seem to separate the level of risk dealing with a Government and the level of risk dealing with other actors you have not really mentioned in your answer, and how you get round that.

You spoke very eloquently about you get round working with the Government. We all know that when there is a regime or country that is corrupt, the corruption is not just about the central Government and that it extends all through society.

You said rather glibly—forgive me—that we just dodge the Government and everything is fine because we have got local actors or whoever. That concerns me because the nature of corruption is a bit more complicated than the one you describe.

Sir Mark Lowcock: You are exactly right. In fact, the biggest category of losses we end up taking is through NGOs. That is because their systems tend to be a bit weaker and sometimes they are the only partner you can use.

You are exactly right to say that our due diligence systems and our conditions, grant agreements and the expectations we place on whoever we work through, need to be attuned to the capability of the organisation you are working through. That is true whether it is an NGO, a UN organisation, a Government, the private sector, whoever it is. You need the same sort of mind set and appropriate systems and processes.

Q29 Kwasi Kwarteng: Sir Ciarán, I read that you have a billion turnover and yet in your fraud cases there is a loss of £35,000, which is very much akin to the 0.03% figure. Does that strike you as a plausible account of the fraud situation in your Department?

Sir Ciarán Devane: I share a lot of what Mark said. You have to start with the belief that there is always more fraud. The idea that we detect 100% of fraud is implausible, so the number is higher. When I look at the cases that we report to the Charity Commission every year, over the past four years we have reported £868,000. That average is clearly higher than the £35,000. It is volatile.

Q30 Kwasi Kwarteng: That average, for the sake of clarity, is £200,000, compared with £35,000—it is about six times, or whatever, higher.



Sir Ciarán Devane: Exactly. You have to start from the point of view that there is an undetected fraud out there. As Mark described, preventing that is a major part of it and responding to it is a major part of it.

The thing we've gone through over the last number of years was that there was a big activity in 2011 around what was called zero-tolerance policy, which was saying, "You will be subjected to disciplinary action. There will be legal redress if you're a contractor or offender."

The second thing was to implement one single instance of the finance system. Making that work in the 115 countries—many of them the same ones that Mark's team operate in—is a key part, because we can see what's going on. And allied to that was cash management and if you're not handling cash in some of these places, it can't be stolen.

There is a combination of being alert—that there is more; there is some fraud out there you have not found—and what you can do about it. One of the things we're doing at the moment is putting our staff through fraud awareness training. So, as of last week, 4,956 members of our staff have been through that training, because if they're alert to it and saying, "These red flags"—as they're described in the training course—and if you're seeing these things, as Mark was suggesting, report it, because just the alertness will itself highlight things if they're real but they'll also deter people if they're not.

Q31 **Kwasi Kwarteng:** This is really addressed to Sir Simon and to you, Sir Ciarán: are there any lessons that you've learned from DFID in terms of your approach to tackling fraud? Are there specific things?

Sir Ciarán Devane: We are at the receiving end of some of the activity that Mark is doing in counter-fraud, in terms of contracting, and we emulate that ourselves in our contracting, because of that. I think we share a lot of information between our organisations; our counter-fraud people talk to each other. We are organising a conference very shortly, jointly with DFID, the Charity Commission and the National Crime Agency, where we will be having the international development charities in, to share what we know with them.

So that idea of sharing among ourselves but also sharing with other people who are involved in this, and passing on some of the best practice that has been delivered, whether it is by us, DFID or the Foreign Office, or indeed by others, is key to that. So I accept the premise totally.

Q32 **Chair:** When you said you are on "the receiving end" of it, do you mean because you, as the British Council, bid for and accept DFID contracts?

Sir Ciarán Devane: Yes. There is £40 million a year roughly in Nigeria, much of it over the last few years.

Sir Simon McDonald: Similarly, in the FCO we work very closely with DFID. As the Chairman has pointed out, official development assistance is an increasing part of our budget. It is a relatively new part of our budget, so our systems have been designed with DFID. We have a lot of DFID



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people seconded to us, so a lot of the leadership comes from DFID, and the two Departments work very closely together.

- Q33 **Kwasi Kwarteng:** I get that you are learning from different Departments, but the FCO has considerable brainpower and talented officials. Are there any improvements to this approach that you might have thought of, or generated, in your Department, or are you just simply taking the kind of hand-me-down from DFID?

Sir Simon McDonald: "Hand-me-down" doesn't capture our spirit. This is new for us. I accept the contention that the Foreign Office is full of clever people, but this is a new area of work for us. So, as well as working alongside DFID, there is a lot of new bespoke training that we have through the diplomatic academy. We are putting all staff who are involved in programme management through bespoke training. So, 121 staff members completed that programme last year; 350 have done training in other Departments. This is new; it's an important part of our work; and we are determined to get it right.

- Q34 **Chair:** Sir Ciarán, you used to run Macmillan Cancer Support. I was just googling Macmillan Cancer and fraud, and I see there was a conference in December, where one of your fraud advisers at Macmillan Cancer spoke. It's reported in *Third Sector* magazine. Plainly, fraud was a sufficiently significant problem at Macmillan Cancer that you employed advisers. How significant financially was it for you?

Sir Ciarán Devane: It was very small and it was, I'm afraid, in the points of percentages. Of course, we had the advantage that we were only working in one country, with very good systems—

- Q35 **Chair:** You had an income of £189 million, I think it was—that may be an out-of-date figure. How many pounds were subject to fraud?

Sir Ciarán Devane: I think we were reporting in the tens of thousands, through the year, to the Charity Commission.

- Q36 **Chair:** So a similar figure to the British Council's £35,000 for £1 billion of income? Here is Mr Kwarteng's problem and my problem: you have a much, much bigger organisation than Macmillan Cancer, and yet the numbers are equally tiny.

Sir Ciarán Devane: I am sure that by the time we get to the end of the financial year we will be reporting more. We think we have 44 cases in the financial year so far.

- Q37 **Chair:** But only worth £35,000. I am talking, for the avoidance of doubt, about the British Council now. It just feels a bit small for a billion-pound operation. How many offices do you operate around the world?

Sir Ciarán Devane: In 115 countries.

- Q38 **Chair:** Right. For 115 countries and a billion-pound organisation, £30,000 sounds a little light.



Sir Ciarán Devane: Over the previous four financial years, the average has been about £200,000 a year. The attitude that we must be paranoid that there is a fraud out there that we have not yet detected is a very healthy one, I think, and we will continue to chase that.

There is a lot for us. If I look at our £1 billion, in a slightly different way from DFID, it is much more controllable, because there are a lot of salaries. We run and invigilate examinations for 4 million people a year around the world. The exam fees from that are cash that we pass on to some of the well known universities here in the UK. That is a very short supply chain which we understand. Equally, only 28% of our expenditure is in those high-risk countries which have been referred to. Staff costs are a third of that and board fees are roughly 18%, so we begin to come down to a relatively small number of £29.5 million of contract disbursements in the high-risk countries. So we begin to get to a point where the major fraud set we have reported to the Charity Commission over the last four years were all in those high-risk countries—the seven major ones. They were all effectively within that £29.5 million. It is a bigger percentage of that number, because much of the rest of it is very controllable, because of a single instance of SAP, because we are paying UK universities, because of work overseas and so on.

Q39 **Chair:** It is fair to say, is it not, that the less complex the environment—you are painting a picture of a relatively simple environment, with short supply chains—the easier it is to detect and avoid fraud? In your case, Sir Mark, you have a much more complex picture. If there were large-scale undetected fraud going on, how would DFID begin to estimate it?

Sir Mark Lowcock: Well, that is a question that I have been asking every academic I can find to help me on for the last six years. If anybody has a methodology to help estimate, with a decent evidence base, the stuff that we cannot identify, I am absolutely in the market for it. What I am not going to do is put a spurious number out there, speculatively, in the absence of an evidence base, because it does not help with anything. I want to focus my effort on the next phase of working out where the risks may be. There are some new tools. I am having an interesting conversation with the Chartered Institute of Public Finance and Accountancy—I should probably fess up to being a member.

Chair: That is not a crime.

Sir Mark Lowcock: I am glad to hear it. They are doing some very interesting work on using predictive data analytics—particularly in the UK, but they are also helping UN bodies and the US Government—where you put together different data sources and try to make patterns of them, to find risks that you could not crystallise before. There are two sources of data that I am particularly interested in for the work I do in the countries that we operate in, which are increasingly automated. One is the banking system and the other is the data you get from immigration systems—visa systems.



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My hypothesis, which Rob Whiteman and I are discussing, is that maybe that is a useful area for us to go into. There are limits to the use of this predictive data analysis in the countries where I work, because a lot of stuff is still done on paper, with paper records—it is not automated. This tool doesn't yet have the potential power that it has in the UK. That is just an example of where I am trying to push the frontier in a way that I can make a difference.

Q40 Kwasi Kwarteng: Let us just recap. There is obviously the bilateral spending, which we know is difficult, and the multilateral spending, in terms of the delivery partners, the UN and other bodies that you operate through and co-operate with. Can I just ask a couple of questions about your assessment of some of those delivery partners? Do you think, for instance, that the UN, as an organisation, is well placed to detect the kind of fraud we have been discussing?

Sir Mark Lowcock: I have been quite critical in public over the years about this, including in front of this Committee; it has been a source of worry to me. I detect some change in that. The report that was published last year by the Joint Inspection Unit, which the NAO quoted in its Report, identified a risk of significant underreporting and has led to quite a lot of activity across the UN's systems. They made 16 recommendations that basically added up to each agency needing better policy strategy, controls, whistleblower systems, investigations capability, trained staff and annual reporting on progress.

Each UN agency is going through a process of implementing those recommendations. The World Food Programme has implemented 13 out of the 16 recommendations; other organisations are at different places in that. Right now, in what is called the Fifth Committee of the United Nations, which is where all the member states get together to talk about budgets and money and things, there is a resolution being negotiated basically to reinforce the importance of the recommendations and to track the progress on them.

I would say that there is an improvement journey there at the UN, which is corroborated by work I have commissioned myself. Eighteen months ago, I commissioned a firm of accountants to look at the financing systems of the World Food Programme, the UN Office for the Co-ordination of Humanitarian Affairs, the UN High Commissioner for Refugees and UNICEF in three countries where we were dealing with crises. We found some improvement in better management information on costs—something else the Committee has been interested in and asked me questions on over the years—bearing down on administrative costs and a bit of progress on results-based management. But we also found that there is quite a lot still to do, for example on procurement, which is an area I am still worried about in some of these agencies.

Q41 Kwasi Kwarteng: Can you remind the Committee how much money goes through the multilateral agencies of your budget? It is about 18% of your spend, isn't it?



Sir Mark Lowcock: It is about 40%, Mr Kwarteng. The core contribution is about 40%.

Q42 **Kwasi Kwarteng:** 40% of £10 billion is roughly £4 billion.

Sir Mark Lowcock: £4 billion, yes. To add one more layer to the way we go after this with them, the NAO did a review some years ago of our approach to improving governance in the multilateral system. We had done a review of all of the multilateral development agencies, looking at their relevance to our interests and their effectiveness. We had a big focus on financial management and counter-fraud and so on. We have pursued that with successive iterations of the same thing. That gets into the governance and the operations. We have a variety of tools to keep pushing this along. It would be good to have more other countries—member states of the UN—with the same level of interest.

Q43 **Kwasi Kwarteng:** But you appreciate that this is critical. You have said that you have openly asked questions about their fraud detection process, and you have also said that 40% of your spend—roughly £4 billion—goes through those channels, which is a considerable amount of taxpayers' money.

Sir Mark Lowcock: Absolutely. Having been banging my head against this brick wall for a long time, what I am starting to see in the UN, which is reinforced by the agenda the new Secretary-General, António Guterres, is bringing, is that we are getting a bit more traction on this agenda. That encourages me that we should keep going with it.

Q44 **Chair:** Comptroller and Auditor General?

Sir Amyas Morse: I remember that Report well. We were very impressed with the leadership role that DFID was undertaking in scoring NGOs for governance and other controls. I am delighted to hear you have continued with that. Does that mean that you primarily use agencies that score highly, or are you still using a very wide range of NGOs?

Sir Mark Lowcock: This is on the multilateral. Basically, the organisations that performed well, like the Global Alliance for Vaccines and Immunisation, found that we were willing to fund them more generously. Those performing poorly, like UNESCO, found that other than paying our subscription, which we had to pay if we wanted to stay in, we were not willing to provide more financing. So yes, there was quite a direct relationship between the findings and the subsequent financing.

Q45 **Chair:** That is very interesting to hear. Would you like to expand on that? You mentioned the vaccines NGO. Which are the top NGOs for you in terms of their compliance or adherence to your standards?

Sir Mark Lowcock: I am talking, here about multilateral agencies, not NGOs. We have not done exactly the same exercise, with the same degree of rigour, across all the NGOs we work with.

Q46 **Chair:** Although you could.



Sir Mark Lowcock: I could do, and maybe it is something we should explore; but there are thousands of them, so it is bigger.

On your question on the multilaterals, in December the Secretary of State published both a forward reform plan for the 40, I think, largest multilaterals we support, and the latest results of the assessment. It was the third time we had done this assessment. You examined me on some years ago, so we did it twice after the examination. There are two different sorts of doing well. There are those who were improving fast—I am keen on those; a significant number of UN agencies were not in a good place to start with—and improved significantly. Then there were those who were good to start with and stayed good. The World Bank and GAVI were in that category. The Global Fund to Fight AIDS, Tuberculosis and Malaria, which gets a lot of attention partly because it is exceptionally open—it is incredibly transparent so they parade everything—

Q47 **Chair:** This is the Gates Foundation-funded one.

Sir Mark Lowcock: Gates are a big funder. The UK is a big funder. The US Government is—

Chair: I should declare an interest; I went to Rwanda with them about two years ago.

Sir Mark Lowcock: I don't know what you found, but—

Chair: They were very good.

Sir Mark Lowcock: My experience in the field is that they are very good. That is an organisation, I would say, who have particularly impressed me because they have good systems and processes, but when they found a problem they went after it aggressively, and they wanted continuously to improve. That is the kind of mindset and culture I would like to see more widely.

Q48 **Chair:** One thought, and then back to Mr Kwarteng: to what extent, therefore, do you share this work with and apply even greater pressure by talking to the other big donor countries—the Swiss, the Norwegians, the Canadians, the Germans—and then as a consequence have even more pressure on those multilaterals of which they are also subscribing members?

Sir Mark Lowcock: Yes, and not just with them, but also the likes of the Chinese and the Arab countries that have bigger finances. We are trying to interest everybody in exactly that agenda. The group that is most interested, if I am honest with you, is the OECD countries. There is this thing called MOPAN—I can't now remember what it is the acronym for; it is "multilateral programme of assessment something"—which has a similar tool to our one but is an active and enthusiastic consumer of our product. Lots of these countries take into the governing boards of the agencies the findings from the latest review, and pursue a dialogue about it. That is one of the things that contributed to the work of the joint inspection unit, I



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submit to you, which has got the UN on to this forward improvement plan that the C and AG has been talking about.

- Q49 **Kwasi Kwarteng:** You have stressed the positive side in terms of the organisations that you think do well and that you are quite happy to work with. I would like to ask about the flip side: are there any organisations that you have stopped dealing with because you felt uncomfortable with their governance?

Sir Mark Lowcock: There are several every year who, basically, we decide we should no longer finance. One of the biggest cases in recent years arose when there was a big scandal in Malawi on the operation of the budget. Substantial numbers of Malawian civil servants and politicians were basically pillaging the budget because the integrated financial management system was not set up in the right way, and the controls around it were inadequate. We stopped at that point financing through the Government in Malawi, and we helped them pursue, I think, 70 prosecutions. There were a lot of convictions. So that is an example.

We had to close down a major education programme last year. In fact, that led to the organisation having to close, because it was a big deal for them. Every year there are two or three.

- Q50 **Kwasi Kwarteng:** Where was the education programme?

Sir Mark Lowcock: For reasons I am happy to explain out of the public hearing I cannot give you that one. I don't mind writing to you, but—

- Q51 **Kwasi Kwarteng:** Just off the top of your head, in the last two years—let's take an arbitrary timeframe.

Sir Mark Lowcock: Something like half a dozen organisations have effectively had to close because we have stopped financing them. That is just a subset of the other stuff we stop. We close down a lot of projects and programmes every year for a variety of reasons. What I described to you is the number of cases in which that leads to the organisation having to close because it has got a systemic problem, not just a little problem.

- Q52 **Kwasi Kwarteng:** Forgive me—we are talking specifically about fraud?

Sir Mark Lowcock: Yes. That's what I am talking about.

- Q53 **Kwasi Kwarteng:** When you say that there are lots of other programmes that you close, is it fraud-related or is it for other reasons?

Sir Mark Lowcock: We close a few programmes every year for reasons to do with fraud. Obviously, it is a big decision to close a programme that may be financing education for tens or hundreds of thousands of kids. You do that only when there is a big systemic problem; otherwise, you want them to clean up their system, improve their capability and controls and go after the people who defrauded them. Closing the whole programme is a big decision if it is not a systemic problem. That is obviously not what we do in the UK when there is a problem with public spending.

- Q54 **Kevin Foster:** Part of the point of having counter-fraud operations is



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about building public confidence, first, that we identify where money is being wasted, and secondly, that we take action to recover it. Why doesn't DFID publish information on the action it takes to sanction the perpetrators of fraud?

Sir Mark Lowcock: There was a concern that we had in the past been publishing some things we are no longer publishing. That is not true. The only thing that has changed is where we publish it. We used to publish more things in the annual report than we do now. The reason that changed is that the Treasury wanted all Government Departments' annual reports to look the same and to be shorter, so we put some stuff on the website. The second part of your question—

Q55 **Chair:** On that first point, do you put links in your annual report to the relevant part that is published outwith the annual report?

Sir Mark Lowcock: Yes. I will double check, but I'm pretty sure there are links.

Q56 **Chair:** Because I was told there aren't. If you can go back and check, that would be good.

Sir Mark Lowcock: I will check.

Q57 **Chair:** But you believe there should be links.

Sir Mark Lowcock: Yes, if it is feasible. The most important thing for me is that it is easy to find on the website. It is a bit like if you have a concern, how to get in contact with us is on the front page of our website. If you go into what we call the development tracker, which is the information on what we do in every country, there is a red button on there, and you can link to how to lodge your concerns.

Q58 **Chair:** The National Audit Office has a view on this, I think.

Tom McDonald: In paragraph 6.3, we say: "DFID provides the balance of information" about these cases "on its website, but there is no link to it from the annual report."

Sir Mark Lowcock: Okay. Fair enough.

Q59 **Chair:** You said, "If it is feasible", but it's a technical, simple matter. You are saying to this Committee that you think there should be a link.

Sir Mark Lowcock: I think there should be a link.

Chair: Thank you.

Q60 **Kevin Foster:** Just to be clear, in my time with local councils, one of the ways of dealing with benefit fraud—the DWP, of course, publish their own cases—was very much about making it very visible that when fraud is reported, this is what happens and these are the sanctions that apply, not just to deter but to inform.

Sir Mark Lowcock: Absolutely. We take a proportion of cases through the courts, and by definition that is highly public.



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Q61 **Kevin Foster:** There is a slight difference between relying on there being a reporter sat at the back of the court proceedings and actively going out and seeking to publicise what sanctions have been applied to fraud.

Sir Mark Lowcock: We have prosecuted a couple of cases in the last couple of years in the UK. One of the things my Department does is to pay pensions to former colonial civil servants or their dependants. There are 10,850 recipients of those pensions, which cost us £74 million a year to pay. We had a couple of cases a couple of years ago of a pensioner dying and their dependants continuing to claim the pension. We found that and we prosecuted it. That is the kind of thing that we want everyone to know we do. There are some cases where we decide not to prosecute—for example, where think that the evidentiary basis is not going to be strong enough to get back all we think we have lost through the court and we can get back more in ways other than through prosecution. That is one reason we might not prosecute. The second reason we might not prosecute is if we do not have sufficient degree of—

Q62 **Kevin Foster:** I am conscious, Mark, that the decision about whether to prosecute someone is a different point that could take us off into issues around public interest, and is not really what I was going to question you about. This is more about people having the confidence that if fraud is there it is tackled, and seeing sanctions applied. We could argue that with one or two areas you cover—for example, FGM has had debate here in this country; yes it is illegal, but prosecutions have been like a hen's tooth—we could discuss the actual enforcement. It has been very clear and easy to find information that when there is fraud, it has not just been reported and analysed but people can see cases where sanctions were applied—partly because it is a deterrent and partly because of the debate we have in this area that money is being wasted. Therefore, if fraud is being identified and people are seen to be punished for it, it helps to counter that perspective.

Sir Mark Lowcock: I agree with all that. Paragraph 5.5 gives a good list of all the things we do to draw attention to the fact that we apply sanctions, go after people and seek recovery and redress. From my point of view, that is one of the things that is extremely helpful about the Report. Hopefully the wide world will see that we are investigating roughly 400 or 500 suspicions a year, and whenever we find something we go after it very energetically; if an organisation has not looked after our money well, there are consequences.

Q63 **Kevin Foster:** Just to bring this to a close, because I am conscious of some of the evidence you have already given, you made a comment about things being on the website. To be clear in my own mind, what you are saying is that you would look to have specific cases with easy references to the fraud that was identified, how it was pursued, and—potentially—the sanction that was applied to the offender.

Sir Mark Lowcock: I am not going to publish details of every little way in which people try to defraud us, because I do not want to—

Q64 **Kevin Foster:** That was not the point of my question, Sir Mark, as you



fully well know. I am not expecting things like, "Someone was suspected of nicking a pair of welly boots and soap in Sierra Leone, so this is the process we went through." What I would suggest is that, as the DWP and local councils manage to do, where a case has involved a not insignificant fraud—we are not talking welly boots, but we are talking money. Where someone has actively gone out and defrauded the taxpayer or where there is another public interest reason to do this, you would look to have information easily available and published. That would be in the same way as others do, all applying the prosecutor's code—whether it is in the public interest to put that information out. I accept that in some cases you might decide it is in the public interest not to do that because of how the information was achieved to get the fraud.

Sir Mark Lowcock: Let me take that away, Mr Foster. What gets published at the moment is the same for every Government Department, and is determined by the Treasury and Cabinet Office. Personally, I can see a case for publishing more of the kinds of things you describe, but that is a choice best with the Treasury—so let me take it away.

Kevin Foster: Perhaps that can be taken away, but it is worth saying that both the DWP and local councils manage it with their fraud investigators, so there is a model there that can be taken.

Q65 **Philip Boswell:** Something that occurred to me when we were looking at identifying and managing fraud risk is clarification on how DFID defines fraud. It is worth quoting at length paragraph 1.13 on page 12 of the National Audit Office Report which says, "The UK delivers aid to many countries that operate with significantly different cultural and economic value systems, which in many respects the UK taxpayer would regard as fraudulent practices. For example, some societies operate within cultural norms that expect bribes to be paid to officials for access to services, including justice; where family members"—it goes on, and finishes with—"where senior officials take a percentage of the salaries of junior staff members." Does DFID tolerate such cultural and economic value systems that the UK taxpayer would ordinarily regard as fraud?

Sir Mark Lowcock: No.

Q66 **Philip Boswell:** So that is an absolute no—it is our standards, and not the cultural standards of the country in which we are operating.

Sir Mark Lowcock: That is correct.

Q67 **Chair:** That is quite reassuring, I am sure. Sir Simon, as your money spent in this area through your overseas development assistance goes up significantly—you mentioned that at the beginning—and continues to, are you expecting a concomitant ramping up of your anti-fraud capacity?

Sir Simon McDonald: Yes.

Q68 **Chair:** Can you speak to what that means in terms of staff resources?

Sir Simon McDonald: Not in detail today, Mr Chairman, but we are vigilant for fraud. As I explained at the beginning, our model until the big



ODA increase was relatively easy to police. That is changing, so we must change along with it. We are conscious of that. We have started this, but we are working very closely with DFID, who are ahead of us and I know have a lot to teach us.

Q69 **Chair:** Sir Mark, you have a great deal of fraud identification done through your delivery partners. They have made a big step forward in changing your terms and conditions for donor agreements so that the fact of a suspicion alone places an obligation on the counterparty to raise it with you, but do you think the fact that so much of it comes through partners means that you have the right balance between what you do yourselves proactively and what you passively react to?

Sir Mark Lowcock: It is set out in figure 5 on page 20. You are right, Chair; two thirds of what we investigate is referred to us by our partners. To be honest, that is roughly what I would expect. The first place where there should be a suspicion or worry is the front line of delivery of the programme. If they are alert, I would expect them to be in a better position than my staff, who will monitor the programme but will not be running it all the time, to spot a problem.

We also attach a lot of importance to the fact that our whistleblower system generates more than it used to. Of course, when we do spot checks in our monitoring missions—my internal audit team travel the world and invite themselves without notice to go look at things—we occasionally find things as well, but this balance in figure 5 is what I feel comfortable with.

Q70 **Chair:** Sir Ciarán, do you have a plan to ramp up your fraud management activity? Sir Simon said he didn't, or not one that he could talk about today.

Sir Ciarán Devane: We have two things coming in the pipeline. One is to have trained investigators in each of our regions. We have got—

Q71 **Chair:** You have 115 countries; how many regions is that?

Sir Ciarán Devane: We have seven.

Q72 **Chair:** So you would have seven investigators, one in each region? How would that work?

Sir Ciarán Devane: No, we will have more. Some of the big countries—China, India, Nigeria—will have their own, but each region also will, including the UK.

Q73 **Chair:** It sounds a lot for £36,000 of fraud.

Sir Ciarán Devane: They won't necessarily be investigating fraud full-time, obviously, but we are seeing an increase in the numbers, to go back to some of our earlier conversations. Because we are promoting awareness, the case load is going up. We are expecting maybe 50% more cases in the current financial year than in the previous year.



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But it is all about prevention. Where we have the 5,000 people going through training and workshops in each region, and where people know there is an investigator within reach, that begins to create a cultural environment, which I think is what we are really after, of making sure that people are vigilant.

Q74 **Chair:** Sir Mark, I would like to ask you a question that has troubled me for a long time. It is about stuff that would not actually be pointed out and defined as fraud, but that most people—certainly taxpayers—would at the very least think of as gilding the lily. It might be some form of multilateral agency, or perhaps a recipient Government where there is still budget support, ordering a fleet of Mercedes.

I remember visiting the Agriculture Ministry in Tanzania when I worked there for VSO. I should say that I worked for a very small non-governmental organisation that was so poor that it did not even have a building but squatted in another NGO, which itself had a beaten-up 20-year-old Land Rover. We turned up at the Ministry of Agriculture, and it looked like a Toyota dealership, with more brand-new, top-end Toyota Land Cruisers than the eye could see or than you could quickly count. Every single one had the white leather trim of the top-end model. I am sure that in any auditor's definition, this would not have qualified as "fraud", but it certainly looked to me, as a visiting layperson, like gilding the lily. You must see that all over the place in many different countries. What is your attitude to that, and how do you approach dealing with it?

Sir Mark Lowcock: My word for that is waste. That is wasteful expenditure. Organisations working in those countries need decent places for their people to work in and they need to be able to get around and about, but they need a high degree of sensitivity to what the level of appropriateness is. Expenditure on luxury vehicles obviously has an opportunity cost.

That is one of the things we look at when we are looking at budget programmes we are going to finance. We have made a really big effort over the last five to 10 years to drive down procurement costs. I talked to you before about the success we have had with big reductions—90% reductions—in the cost of antiretrovirals for people who have HIV/AIDS. I have talked to you before about how we have been very successful in driving down the cost of reproductive health commodities—condoms and other family planning services for women in particular. Vaccines are another example: the price of vaccines plummeted because the purchasers—us, the Gates Foundation and the US Government and others—have got together and worked really hard to exercise market power on the suppliers.

The UN has an operation in Copenhagen where it does a lot of its procurement from—I don't know whether you have ever been there. What that should be doing is testing out whether the spec for the vehicles for whatever country is appropriate, that there is a proper competitive process for it, and that people have in their heads that this is taxpayers' money, for which the opportunity cost is high. That is part of what we are



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getting at when we are trying to change the culture of lots of these organisations.

Q75 **Chair:** Sir Simon? Did you have something to add?

Sir Simon McDonald: I agree.

Chair: You were looking pensive. Mr Boswell, you had another question.

Q76 **Philip Boswell:** Following on from Mr Bacon's questions, I have a couple of questions around delivery partners and staff reporting and the obligations thereon.

The third bullet point of paragraph 2.1 on page 14 of the NAO Report states that fraud prevention involves "undertaking due diligence over potential delivery partners". What exactly does that due diligence entail?

Sir Mark Lowcock: It entails going to the organisation and going through their books—various forensic and other sorts of external investigation. It entails checking out with various other sources of information available to my Department what is known about that organisation. It also entails making sure that if this is an organisation that works with us in lots of different places that experience in one place is available to the team dealing with the same organisation in another place. It then entails a sort of aggregation and proper scrutiny of all that information before a funding decision is taken.

Q77 **Philip Boswell:** It sounds quite substantial and that lessons learned are taken. Can it be improved? How robust is the process? Could it be better?

Sir Mark Lowcock: I sort of alluded to this in one of my earlier answers. One of the things I am asking my colleagues to pay more attention to is the capability of organisations we work with that are offering to deliver services or provide aid to people in conflict situations or where we know there is a lot of organised crime or where there is a terrorism problem. Do those organisations really have the capabilities to operate effectively in those kinds of environments?

We are doing something else alongside, which is basically third-party monitoring—you might think of that as another form of due diligence. We contract independent organisations to wander round, say, for example, Somalia. They are not spending any money for us; they are looking, in a way that is not evident to the delivery partners we have contracted, at what the delivery partners are saying they are delivering and whether it is true.

We are also making greater use of satellite technology and GPS and so on to ground truth—whether schools or clinics or wells that we have been told have been built have in fact been built.

You are basically asking a question about the various ways in which we get assurance and how due diligence helps with that. It is not just about the individual organisation we look at. We do other things as well.



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Q78 Philip Boswell: Excellent. Paragraph 3.3 on page 20 of the NAO Report states: “DFID requires all of its staff to report fraud and, where it can, includes this as a mandatory requirement in its contracts”. For me, the “where it can” bit is quite interesting. How often is DFID unable to make reporting fraud a mandatory requirement in contracts with suppliers and delivery partners?

Sir Mark Lowcock: That is a really good question. I don’t know whether Tom can help on any case where we don’t do that.

Tom McDonald: Well, no. We didn’t check all the grants and contracts that you have, to do a full audit of it. I know it is significantly different from when I last looked at this, in 2011, but as far as I know, there is no overall register of all the arrangements.

Sir Mark Lowcock: I’m going to find out, Mr Boswell, whether there is anywhere we don’t do it, and if it turns out there is, we will be having a conversation.

Chair: Perhaps you can write to us either way.

Q79 Philip Boswell: Supplementary to that, the follow-up question would be: what percentage of contracts do have clauses making the reporting of fraud by suppliers or delivery partners mandatory, and why is that not mandatory in all of them?

Sir Mark Lowcock: What a good question; I will be pursuing it.

Q80 Chair: I may be misinformed—it sounds as though I am—but I understood that for new contracts it was mandatory. Is that not so?

Sir Mark Lowcock: That may be the difference, but I am going to pursue this anyway, because I want to make sure there is not a loophole.

Q81 Chair: It seems to me that there is no case for not having it like that.

Sir Mark Lowcock: That’s where I am, Mr Bacon.

Q82 Chair: Good. Sir Simon, where are you on this?

Sir Simon McDonald: I’m in the same place as you and Sir Mark.

Q83 Chair: Great. So you want more transparency.

Sir Simon McDonald: Yes.

Q84 Chair: So you are going to commit the Foreign Office now to providing greater transparency than we have had hitherto, particularly with this new ODA money, are you?

Sir Simon McDonald: I am puzzled that you think that you have not had transparency from the Foreign Office to date.

Q85 Chair: Well, there has not been a huge amount of information hitherto, but now that you are going to get extra money through the ODA programmes that you did not really have before, are you going to provide the required level of transparency in relation to that?



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Sir Simon McDonald: We are very conscious that this is taxpayers' money and that it is money that we have not had before and in quantities that we have not had before, so yes, we will be assuring ourselves and you that this is properly spent.

Chair: Sir Ciarán?

Sir Ciarán Devane: We are having conversations between our head of counter-fraud and those of some of the international development charities. The centre of gravity for them, recognising that we are not a Government Department, is that a yearly fraud/counter-fraud report from charities individually or collectively would be a good thing for the lessons-learned type of approach we were talking about.

Q86 **Chair:** You are technically a registered charity.

Sir Ciarán Devane: We are.

Q87 **Chair:** None the less, you receive public money.

Sir Ciarán Devane: That is 15% of our income; 85% we earn ourselves, in one way or another.

Q88 **Chair:** Eighty-five per cent. you earn yourselves, so £150 million a year comes from the taxpayer.

Sir Ciarán Devane: Yes, off grant funding.

Chair: We are coming to an end, but I think Mr Kwarteng has one or two more questions.

Q89 **Kwasi Kwarteng:** I have a couple of questions about the issue of transparency, because clearly that has emerged towards the end of our hearing as an important one. With regard to fraud cases, how would you describe your levels of transparency? Is there something that we can access or—

Sir Mark Lowcock: I got tested out on how easy it is to go on to our website and find all the fraud cases I registered last year, and that is not difficult to find. They are listed: all the countries are listed and the amounts are listed. I will take away, as I promised I would, Mr Foster's question: is there anything that other bits of central Government are doing that we are not doing? We will consult the Treasury and the Cabinet Office on that. I am in favour of transparency.

Q90 **Kwasi Kwarteng:** What about your annual report? That would be the obvious place to have some reporting on fraud or some of the measures that you have taken against it.

Sir Mark Lowcock: As I said previously, we used to publish more in the annual report, but the Treasury changed the marching orders for Government Departments. It wanted annual reports to be shorter and wanted stuff that had been in annual reports to be published separately, so we followed the instructions.



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Q91 **Kwasi Kwarteng:** But do you think it would be a good idea to have this in the annual report?

Sir Mark Lowcock: As long as it is easy to find on the website, I am relaxed about that.

Chair: Mr Boswell, you have one or two more questions.

Q92 **Philip Boswell:** Yes, just a couple of minor points. The NAO Report states on page 12 that DFID engages in “the cross-government sanctions initiative which prevents anyone dismissed for fraudulent conduct from being re-employed in any participating department for a five-year period.” Why is the ban just for five years?

Sir Mark Lowcock: Where are you on page 12? Do you have the paragraph number?

Philip Boswell: It is the second bullet point in paragraph 1.10.

Sir Mark Lowcock: I will have to look into that. I am not sure what the rationale for that is.

Q93 **Chair:** It’s not about human rights, is it?

Sir Mark Lowcock: I will look into it.

Q94 **Philip Boswell:** I just wonder why it’s only five years if they have committed fraud in something like this in a job such as that.

Finally, I have a couple of points on Brexit. Given the likely exposure of Brexit in DFID, what are your main concerns in relation to any additional work for your Department?

Sir Mark Lowcock: The first thing Ministers are considering is the future relationship we will have with the EU on development programmes and humanitarian assistance. One thing the EU does very well is humanitarian response. The EC humanitarian office is a good outfit and we collaborate well with it. When we are no longer paying into the budget, there is a question about what our collaboration with it will be.

Q95 **Chair:** It is fair to say that it does humanitarian much better than it does regular aid, is it not?

Sir Mark Lowcock: That is correct in my opinion, although, within the regular aid, I would say the European development fund in the 72 countries in Africa, the Caribbean and Pacific is of better quality than the budgetised programmes. That would be my observed judgment.

The broader issue is how we want to collaborate with the EU, once we are no longer in the EU, on development policy and programming. If you are a recipient country and you are dealing with lots and lots of different donors, some effort among them to join up is useful to you, particularly if your administration is not overflowing with millions of capable people to handle every inquiry. We need to think that through.

Q96 **Chair:** Presumably that is a continuation of what exists already, because



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there is already collaboration between major donor countries that are not EU members, such as Canada, and the various EU members. That happens already, doesn't it?

Sir Mark Lowcock: It does, but let me give you an example. About 15 or so years ago, we closed our bilateral programme in the Pacific because there is a large EC-managed programme in the Pacific. So we will have a choice to make. That is just one example. There are lots of other examples where there will be different choices to make once we have left the EU.

Q97 **Philip Boswell:** Interface management aside, which I can see would be an issue, my particular concern is that you have planned activities and forecasts going forward—planned events, activities, resources allocation, manpower histograms and so on—but with the possible additional demands of Brexit, what impact would that have on that resource planning and what mitigating plans will you put in place? What are you doing about the prospect of greater demands?

Sir Mark Lowcock: I suppose the biggest area for the Department will be what role we play in trade capacity building in the phase where—it is not at all clear yet how this will be and what the arrangements will be—the UK is no longer in the EU and we have different arrangements with the EU, but where some space is created for a different kind of trading arrangement with lots of developing countries. A good use of a development programme, as we said in the economic development strategy that the Secretary of State published six weeks ago, is to help countries trade more: meeting standards required by importers, for example, or building capability for trade negotiations or other sorts of institutional things that poor countries need if they are to trade effectively. There will be a new set of opportunities and responsibilities that we will need to get into.

Chair: Mark, Sir Simon, Sir Ciarán, this has been a very thorough hearing on a subject of great importance. You know there is great public support for the work of your Department and for the other Departments. There is also considerable public concern among some people. All people are concerned about the quality of the spending and that taxpayers' money is well spent. They are very clear that they want to see constant pressure against fraud and that when they pay tax to the Government who spend it in this way, it should be well spent. So we hope very much that you will continue your work and continue to apply pressure in your anti-fraud programmes and that, as the volume of expenditure increases, because of the new legal commitments under the 0.7% of GNI, which is now statutory law in this country, that pressure is maintained. Doubtless in due course we will return to the subject in the years to come to see how you are doing. In the meantime, thank you very much indeed for coming.