



Supporting Fraud Risk Assessment (FRA) submissions

Fraud and error
23 October 2024



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Delivery Partner Counter Fraud Team

Objective: To provide a proactive counter fraud function to help minimise fraud and ensure compliance with policy across both Schemes

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Please direct all fraud-related queries to the DP Counter Fraud Team mailbox: uk_dpcounterfraud@pwc.com

For urgent queries, call 07701 297424 (Keith)

Fraud Risk Management

Fraud Risk Management

Key elements of a 'good' fraud risk management programme



Policies and procedures are formally documented and communicated on a regular basis to relevant personnel.

Responsibilities and accountabilities for fraud risk management are defined, communicated and understood.

Tone from the top and management styles.

The fraud risk assessment is formally documented and reflects the structure and organisation of the business.

The risk assessment considers a variety of internal and external risk factors including consideration of the likelihood of occurrence and magnitude of impact.

The risk assessment is regularly reviewed and updated.

Controls and processes aligned to the relevant fraud risks have been implemented consistently throughout the organisation.

Training programmes are in place for all staff.

Suspicious activity monitoring is an integrated part of the fraud risk management process.

Where transactions are identified, these are communicated to the relevant persons on a timely basis.

An incident response plan is in place and consistently implemented throughout the organisation.

An automated case management system is in place which is aligned to the size of the company and fraud risks.

Fraud Risk Assessment

“Fraud Risk Assessment covers how to effectively identify, describe and assess individual fraud risks and develop these into a comprehensive fraud risk assessment for the entire organisation. It covers how to identify and evaluate mitigating controls, including understanding their limitations.”

Government Counter Fraud Professional Standards and Guidance - Fraud Risk Assessment Core Discipline



Fraud Risk Assessment (“FRA”) principles

Purpose : *inform a risk owner of the fraud risks currently facing their organisation along with an assessment of which are the most urgent and why.*

- FRA is a process aimed at proactively identifying and understanding vulnerabilities (internal and external) to fraud;
- Must be completed by suitably experienced staff members:
 - Understand core business processes; and
 - An understanding of fraud risks and effective controls.
- FRA will:
 - Identify the inherent risks associated with the grant scheme for the organisation;
 - Consider the controls in place which mitigate against these risks; and
 - Provide an assessment of the residual fraud risk after the controls have been implemented - categorised according to likelihood and impact.
- The FRA for the grant scheme will draw upon the wider organisational fraud risks identified as part of the organisation’s FRA and will feed into Fraud Management Plan (FMP); and
- Must be submitted during application stage and updated every quarter (and re-submitted) to reflect the changing fraud landscape.
- Please use the template FRA provided to you.

Fraud Management



SHDF

- FRA due to be submitted to the DP counter fraud team on a regular basis - recommended quarterly;
- FMP not required under scheme rules, but will be reviewed by DP counter fraud team, if required.

HUG

- FRA and outline FMP to be submitted prior to DAC;
- Full FMP to be submitted within 3 months following DAC
- FRA to be submitted to the DP counter fraud team on a regular basis - recommended quarterly.

Please ensure that FRAs are submitted to the DP counter fraud team, by emailing them to hug_shdf@salixfinance.co.uk

Fraud Risk Assessment (FRA) and Fraud Management Plan (FMP) review

Approach

- A consistent approach using a FRA/FMP checklist is applied to all FRAs/FMPs
- Draws from Government guidelines and best practice.
- Feedback report is provided to the GR via SPOCs.
- GRs then send back their updated FRA/FMP for us to re-review

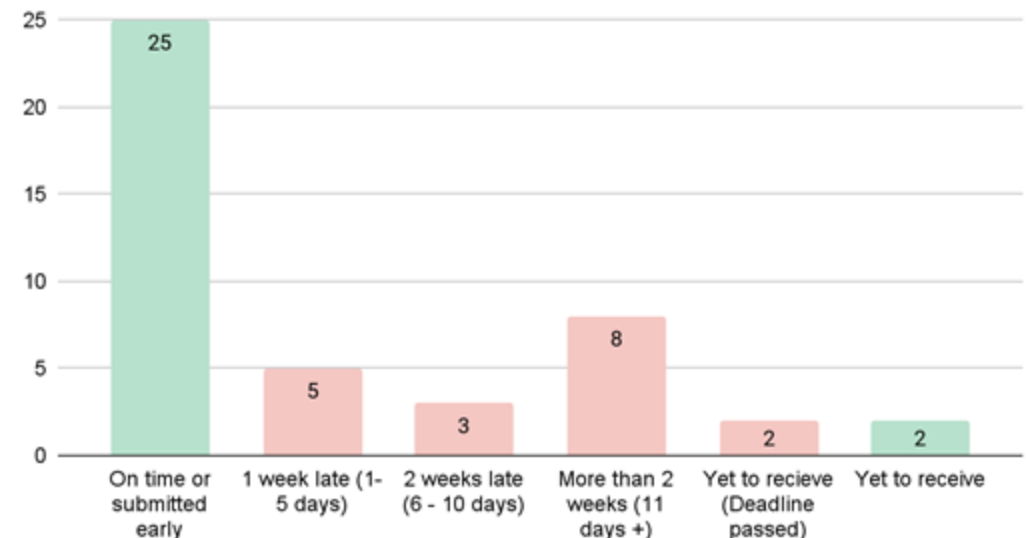
FMP	Original	Updated
Green	68%	90%
Amber	30%	9%
Red	2%	0%

In over 90% of cases, FRAs/FMPs improved from their initial RAG rating. Where they do not, we meet with the GR or provider further, bespoke guidance.

FRA	Original	Updated
Green	55%	80%
Amber	36%	16%
Red	9%	4%

- 15 one-to-one sessions have been held with GRs.
- All GRs have been receptive to advice and implemented the changes.
- Helpful where those completing the FRA and FMP do not have much experience in counter fraud.
- Inbox queries continue to be responded to. Any fraud/error related queries can be sent to uk_dpcounterfraud@pwc.com

FMP Submissions received on time and delayed



FRAs

Pillars for fraud risk assessment

	SCHEME PROCESS/ ADMINISTRATION	CUSTOMER/ BENEFICIARY	PROPERTY	MEASURE/PRODUCT/ SERVICE	INSTALLER/ SUPPLIER
PROMPTS	<ul style="list-style-type: none"> Is funding being allocated and spent in line with expectations? (i.e. going to the right people; for the right measures/services?) Do transactions and decisions comply with scheme rules/law? Are there conflicts of interest in the process/admin of the scheme? 	<ul style="list-style-type: none"> Are they eligible for the scheme? Are they a legitimate applicant? Do they act in good faith? Are there any conflicts of interest? 	<ul style="list-style-type: none"> Is it eligible for the scheme? Does it exist? Is it owned by the applicant? 	<ul style="list-style-type: none"> Is it eligible for the scheme? Does it meet any standard requirements? Does it meet any pricing requirements? Is it appropriate for the property/beneficiary? 	<ul style="list-style-type: none"> Are they eligible to participate in the scheme? Are they a legitimate company? Do they act in good faith? Are there conflicts of interest?
RISKS	<ul style="list-style-type: none"> Internal Fraud Diverting Funds Bribery 	<ul style="list-style-type: none"> Fake or hi-jacked ID used to gain access to scheme False declaration of eligibility Collusion with supplier/auditor to make false claim 	<ul style="list-style-type: none"> It is ineligible/non-existent False ownership declaration Measures already present/funded by previous scheme 	<ul style="list-style-type: none"> It doesn't meet the scheme requirements Sub/non-standard measures Inflated pricing 	<ul style="list-style-type: none"> Non-competent/qualified in relevant measure/service Inflates prices/overstates work Claims for incomplete/non-existent work
CONTROLS	<ul style="list-style-type: none"> Financial governance Division of duties Staff vetting Bank account checks Compliance audits 	<ul style="list-style-type: none"> Identity check Benefits verification 	<ul style="list-style-type: none"> Ownership verification Confirmation of physical characteristics Previous measure check 	<ul style="list-style-type: none"> Standards compliance check Installation audits Pricing reference guide 	<ul style="list-style-type: none"> Checks on company/directors Confirmation of registration with standards body Installation audits
DATA	<ul style="list-style-type: none"> DBS Experian 	<ul style="list-style-type: none"> OGD Data - HMRC, DWP, etc. Experian, Verify, etc. 	<ul style="list-style-type: none"> Land registry EPC Previous measures register 	<ul style="list-style-type: none"> Industry pricing reference data 	<ul style="list-style-type: none"> Companies House London Gazette Trading Standards

Common grant scheme risks

- Suppliers charge for costs which have not been incurred, are inflated or are not attributable to the grant.
 - Inflated measure costs - Cavity Wall Insulation within a number of properties were valued at over £15,000 against an average value of £3,000.
- Suppliers charge for inflated labour costs or hours which have not been incurred, for example fictitious employees, contractors or consultants.
 - Suppliers charging for hours of work not performed
- Beneficiary (resident) incorrect declaration of benefits and income
 - Individuals not declaring other forms of income
- GRs / suppliers falsifying test results, outcomes or other data.
 - Changing baseline on a monthly basis to paint a picture that performance is in line with baseline.
- Uses the funds outside of the scheme requirements.
 - A landlord was accidentally claiming for non-SHDF properties in a wider scheme of works.
- GRs misrepresenting a project's status
- GRs deliberately failing to comply with grant conditions (including post-payment), through the non-delivery of agreed elements, removal of agreed elements, or delivery to an inadequate standard.
- Suppliers substituting approved materials with unauthorised products.
- Conflict of interest in relation to GR and installer(s).
- GRs / suppliers provide inaccurate or incomplete information, such as an incorrect Energy Performance Certificate (EPC)
- Changes the bank details to their own or to a connected party.
- Uses the funds for illegal activities including terrorist activities, or unethical behaviour (such as human rights and ESG issues).
- Collusion between the GR and suppliers.
- Bribery / corruption.
- Cyber security risks.

Common grant scheme controls

- Guidance and defined procedures on how grants are to be set up and managed.
- Requirement for those involved to undertake fraud risk training.
- Appropriate segregation of duties including as a control.
- Procedures to identify and prevent conflicts of interest.
- Independent manual outreach will occur to confirm the supplier is an authorised agent to deliver the requirements of the scheme.
- Legal right to apply penalties and sanctions to suppliers.
- Warnings of the consequences of making false declarations.
- Regular eligibility and due diligence checks.
- Reviews of payments against invoices.
- On-site inspections, including having the right to continue to inspect for specific periods of time in the future once a grant payment has been made to ensure grant conditions are maintained.
- Legal right to undertake inspections or request documentation and to effect recovery where irregularity is established.
- Strategy to recover overpayments.

Common themes

Missing Information

- **Incomplete "Index" tab-** The "Index" tab of the FRA is frequently left blank. This section is crucial as it details key information, including:
 - The name of the individual who prepared and reviewed the document
 - The date of the last update
 - The current version
- **Lack of process description-** FRAs often lack a description of the process undertaken to perform the FRA. This should include:
 - Individuals/teams consulted during the preparation of the document
 - Any workshops conducted
 - Research or analysis performed
- **Missing individual risk owners-** Many GRs often do not include an individual risk owner.
- **Gaps in key sections-** Frequently see missing content in :
 - Rationale &/or Evidence Used for Risk Assessment Scores
 - Residual Risk - Tolerated (Y/N)
 - Additional Planned Action' (When residual risk not tolerated).

Common themes

Quality/Detail Issues

- **Insufficient quantity of risks and controls** - Often, there is a lack of the quantity of risks and controls required to ensure themes are green RAG rated suggesting a lack of completeness in risks and controls.
- **Inconsistent detail across GRs** - Risk and control detail varies across GRs - the range varies from very simplistic sentences with a few words to highly detailed.
- **Combining multiple risks and controls** - Several GRs have submitted FRAs where multiple risks and controls are combined into one line and all given one score, when they should be separated into individual lines and scored separately.
- **Misplacement of 'Control' wording in risk column** - Some FRAs are submitted with 'control' wording in the risk column. Ideally, we should see risks in the 'Description of Fraud Risk' Column and associated controls/countermeasures in the 'Assessment and Description of Controls in Place' Column.

Case Study: FRA Example 1

Common themes

Qualities of a 'Good' FRA

- **Adherence to the FRA template-** Ensure the use of FRA template provided by the Department.
- **Complete and clean content-** A good FRA should have:
 - No blank cells,
 - No yellow highlighting
 - No outstanding comments
 - No placeholder text
 - All risk scores populated.
- **Clear and understandable risks-** Each risk should be detailed yet easy to understand. Someone within the organisation without in-depth fraud knowledge should be able to read and understand the document.
- **Specific and detailed control descriptions-** Control descriptions should be specific i.e.
 - Who is operating the control
 - Who is providing the oversight
 - When the control is performed. Avoid vague statements like "fraud checks will be carried out" which is not detailed enough.
- **Unique identification and scoring of each risk-** Each risk should be uniquely identifiable and scored separately.
- **Inclusion of both internal and external risks-** A comprehensive FRA should cover:
 - Internal (GR staff/employees)
 - External risks (installers, homeowners).
- **Structured by Actor, Action, and Outcome-** Risks are structured by actor, action and outcome.

Case Study: FRA Example 2

Available resources

Relevant Government Standards

GovS 013 Counter Fraud:

- Sets the expectations for the management of counter fraud, bribery and corruption activity in government organisations;
- Provides guidance on Fraud Risk Assessments, fraud reporting and record keeping.

GovS 015 Grants:

- Sets the expectations for the management of grants, and to promote efficient and effective grant making to ensure funding is used as intended and provides value for money through high quality delivery;
- Provides guidance on counter fraud measures in Government grant schemes.

Cabinet Office Guidance for General Grants Standard 7 - Risk, Controls & Assurance:

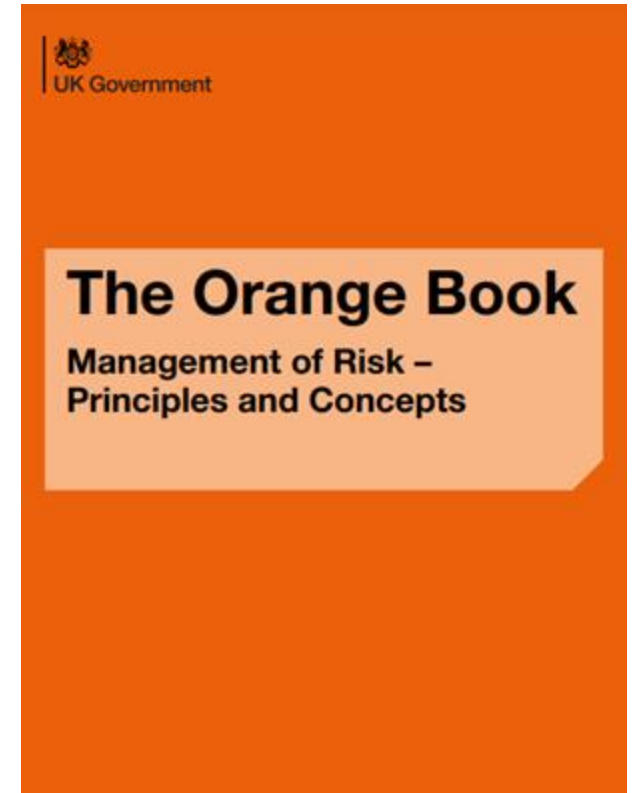
- Provides detail on the creation and maintenance of a risk, controls and assurance management framework including counter fraud and due diligence activities.

Government Counter Fraud Professional Standards and Guidance - Fraud Risk Assessment Core Discipline:

- Contains the agreed professional standards and guidance for those persons and organisations undertaking FRAs within central government.

UK Gov Orange Book:

- Sets out a principles-based approach that provides flexibility and judgement in the design, implementation and operation of risk management, informed by relevant standards^[1] and good practice.



If you have any further queries, please contact the DP Counter Fraud Team at: uk_dpcounterfraud@pwc.com

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