



National Audit Office



REPORT

# Tackling fraud and corruption against government

HM Treasury, Cabinet Office

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SESSION 2022-23  
30 MARCH 2023  
HC 1199



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# Tackling fraud and corruption against government

**HM Treasury, Cabinet Office**

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## **Report by the Comptroller and Auditor General**

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**Gareth Davies**  
**Comptroller and Auditor General**  
**National Audit Office**

**24 March 2023**

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The National Audit Office study team consisted of:


James Ball, Heather Boal, Araz Enayati Rad, Sam Haithcock, Robyn Hepton, Jacob Hopkins, Tosin Omole, Mark Parrett and Katie Sargeant, under the direction of Joshua Reddaway.

For further information about the National Audit Office please contact:

National Audit Office  
Press Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

 020 7798 7400

 [www.nao.org.uk](http://www.nao.org.uk)

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## Key facts

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**£33.2bn  
to £58.8bn**

the Public Sector Fraud Authority's (PSFA's) estimate of the extent of fraud and error across all of government in 2020-21.

This is out of £1,106.1 billion of expenditure and £608.8 billion of tax income

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**£21bn**

estimated level of fraud as set out in the 2020-21 and 2021-22 Annual Report and Accounts, compared to £5.5 billion in 2018-19 and 2019-20.

This is in addition to tax lost to evasion and criminal attacks and excludes loss from error

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**£7.3bn**

of the £21 billion estimated fraud set out in the 2020-21 and 2021-22 Annual Report and Accounts relates to temporary COVID-19 schemes

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**89%** of the £33.2 billion that PSFA estimates is the minimum fraud and error lost across government expenditure relates to tax and welfare spending

**Two-thirds** of central government expenditure is not subject to any direct fraud and error measurement

**£22 million** HM Revenue & Customs' (HMRC) and the Department for Work & Pensions' (DWP) approximate estimate of how much they spend on measuring fraud and error in tax and welfare each year in staff time

**84%** of government counter-fraud staff work for DWP or HMRC, where the largest known risks are

**14%** PSFA's assessment of the proportion of government bodies that both understand and have sought to measure the fraud risks they face

**27%** PSFA's assessment of the proportion of government bodies with signs of a mismatch between counter-fraud resources and likely risk

**6%** PSFA's assessment of the proportion of government bodies reporting a strong return on their counter-fraud investment, with a clear target to show this

# Summary

**1** Since the start of the COVID-19 pandemic, government has recorded a higher level of fraud in the accounts we audit. This reflects the nature of the government's response to the pandemic, including the rapid implementation of large new spending and loan programmes that came with an unusually high risk of fraud. This report sets out the recent trends from our audits and reports, reviews how well-placed government is to understand and tackle fraud and corruption across government and sets out insights from our work and engagement with experts on what more government can do to better prevent fraud and corruption.

**2** This report follows our previous work which found government did not have a good understanding of fraud before the pandemic. In our 2016 *Fraud landscape review*, we found a large disparity between the level of fraud and error that the UK government reports and the level reported in other countries and the private sector.<sup>1</sup> We also found there were few incentives for departments to record and report the true scale of potential fraud; a lack of data or metrics to evaluate performance in detecting and preventing fraud; and mixed capability across departments to tackle fraud.

**3** In part, the growing level of fraud against government reflects wider social trends that we have separately reported on. The Home Office is responsible for policy on preventing and reducing crime, including fraud against individuals and businesses. It works alongside bodies with responsibilities to tackle fraud and corruption including the: National Crime Agency, which hosts the multi-agency National Economic Crime Centre; Serious Fraud Office; and police forces. Our recent report on the Home Office's *Progress combatting fraud* found that fraud made up 41% of all recorded crime, but less than 1% of police resources were devoted to tackling it.<sup>2</sup>

**4** While some fraud and corruption against the taxpayer is inevitable, all public bodies have a responsibility to minimise it. The accounting officer, the lead official in each public body, is responsible for managing their organisation's response to fraud and error risks as part of their overall control environment. In 2018, Cabinet Office set up the Government Counter Fraud Function (GCFF) to provide a structure for those working in counter-fraud, with a functional centre in the Cabinet Office, and the Government Counter Fraud Profession (GCFP) with membership across the public sector. In 2022, in response to concerns over the level of fraud during the COVID-19 pandemic and the lack of a coordinated response, government established the Public Sector Fraud Authority (PSFA). PSFA acts as its centre of expertise for the management of fraud against the public sector, leads the GCFF and GCFP, and reports to both HM Treasury and the Cabinet Office.

<sup>1</sup> Comptroller and Auditor General, *Fraud landscape review*, Session 2015-16, HC 850, National Audit Office, February 2016.

<sup>2</sup> Comptroller and Auditor General, *Progress combatting fraud*, Session 2022-23, HC 654, National Audit Office, November 2022.

## **Scope of this report**

**5** This report focuses on fraud and corruption against government and therefore the taxpayer. Fraud is an act of deception carried out for personal gain or to cause a loss to another party. It may be committed internally by staff or externally by suppliers, contractors or members of the public. For the purpose of this report, corruption, which includes bribery, is the abuse of a public or private office for financial gain or the avoidance of personal loss. Both can lead to the loss of taxpayer money (such as benefit or tax fraud) or an inefficient allocation of resources (such as falsely claiming a loan even if intending to pay it back). We also include regulatory fraud – the abuse of government systems and processes where the victim may be a member of the public (such as fraudulently claiming probate) or the public at large (such as environmental crimes or falsely claiming a licence).

**6** As auditors, our role in respect to fraud and corruption is to obtain reasonable assurance that the financial statements are free of material misstatement or irregularity, whether caused by fraud or error, and to report on the extent to which the audit was considered capable of detecting fraud. In our value-for-money audits we may also consider whether bodies we audit have appropriate controls in place to prevent, detect and investigate fraud and corruption. We do not investigate individual cases ourselves. The bodies we audit are responsible for detecting and investigating fraud and corruption cases, which they may do in collaboration with the police.

**7** Our access to the entirety of government gives us insight into how well government manages the risks of fraud and corruption. In this report, based on those insights and discussions with counter-fraud and corruption experts across government, we set out:

- Part One: Government’s understanding of the scale of fraud and corruption;
- Part Two: Government’s counter-fraud and corruption capabilities; and
- Part Three: What government needs to do: a summary of the insights from our work on what government can do to better tackle fraud and corruption.

**8** We plan to use the themes raised by this report to structure our future work on government’s efforts to prevent and detect fraud and corruption.

**9** The report does not cover fraud against individuals or businesses that does not involve abuse of government processes or systems and does not examine the effectiveness of individual departments’ activities to counter-fraud and corruption.

**10** We conducted our fieldwork between September 2022 and March 2023. It is based on our audits of central government bodies; interviews with officials responsible for countering fraud and corruption across government and experts from counter-fraud and corruption specialist bodies; and data collected by the Cabinet Office and PSFA. Further details are set out in Appendix One.



## Key findings

The impact of the pandemic

**11 Government's annual reports and accounts estimate fraud against the taxpayer rose from £5.5 billion in total over the two years before the pandemic (2018-19 and 2019-20) to £21 billion in total over the two years since the start of the pandemic (2020-21 and 2021-22).** Of the £21 billion, £7.3 billion relates to temporary COVID-19 schemes. These estimates are in addition to around £10 billion a year lost from tax evasion and other tax crimes, which are not accounting estimates but are also set out in the annual reports and accounts. These estimates are inherently uncertain but are most likely to be underestimates. They exclude some types of fraud that are likely to have occurred. They also exclude any amounts that are too small to estimate in the context of any one set of accounts, but which collectively may still sum to a large amount. The estimates in the annual report and accounts focus on the potential loss to the taxpayer and exclude the wider cost of fraud and corruption. There are no specific estimates of the levels of corruption, insider fraud or of the total level of regulatory fraud (paragraphs 1.19 and 1.20 and Figure 6).

**12 Departments are attempting to recover some of the money lost to fraud, but it is very unlikely that most will be recovered.** For example, HM Revenue & Customs (HMRC) has recovered £762 million out of an estimated £4.5 billion of fraud and error in its COVID-19 support schemes as at 31 March 2022. HMRC expects to have recovered only £1.1 billion by the time it winds down its Taxpayer Protection Taskforce, which is dedicated to pursuing this type of fraud. Similarly, the Department for Work & Pensions (DWP) generated fraud and error savings of £500 million through its retrospective review of Universal Credit claims made over the height of the pandemic, but at least £1.5 billion of fraudulent claims that started during that period were still being paid in 2021-22. DWP is now planning targeted case reviews to detect and recover as much of the rest as it can (paragraph 1.24).

**13 Government's vulnerability to fraud and corruption rose during the pandemic as a result of its response.** Government spent more on areas that are inherently vulnerable to fraud and corruption, such as buying medical equipment in a time of high demand and giving grants and loans direct to individuals and businesses. Government needed to respond quickly to the unfolding pandemic. It often did so by prioritising speed when setting up these new initiatives over reducing the risk of fraud and corruption and diverted compliance and counter-fraud staff away from their normal roles. Our previous reports have identified several ways in which public bodies could have better managed the fraud risk without impairing the emergency response including faster transparency, better management of conflicts of interest, addressing known vulnerabilities sooner and timely financial reporting (paragraphs 1.21 to 1.23 and Figure 7).

**14 Some research suggests that the UK is seen as more corrupt than it was.**

The latest Transparency International survey of public and business perception of corruption shows that the UK, while still ranking highly for trust, fell from 8th out of 180 countries in 2017 to 18th in 2022 for the perceived level of corruption. Historical experience shows that it takes a long time to rebuild trust when it is diminished (paragraph 1.4).

Understanding the full scale of fraud and corruption

**15 Government has tried to improve its understanding of the extent of fraud.**

Since our 2016 report, government has established the GCFF; produced regular estimates of the extent of fraud and error across government; produced reporting standards; strengthened departmental Fraud Measurement and Assurance (FMA) assessments of the risk of fraud in specific spending areas; and improved reporting on detected, prevented and recovered fraud (paragraphs 1.6 and 1.7).

**16 Government does not have a good understanding of the extent of corruption.**

It includes corruption within its reported levels of internal fraud but does not produce any separate estimate of the extent of corruption across government (paragraphs 1.10 and 1.18).

**17 PSFA estimates that in 2020-21 there was between £33.2 billion and £58.8 billion of combined fraud and error across government excluding expenditure specific to the pandemic.**

This is out of £1,106.1 billion of expenditure and £608.8 billion tax revenue. It covers both fraud and error because it can be difficult to differentiate between the two without a resource-intensive full assessment of at least a sample of cases. Preventing fraud and error also often requires the same approach. However, combining the two can obscure the cause of the problem and whether it is due to administrative issues or criminal attacks (paragraphs 1.8 to 1.10 and Figure 1).

**18 PSFA's estimate remains wide due to the inherent uncertainty over the extent of fraud and error and is largely not specific about which areas of government spending are vulnerable to fraud outside of tax and welfare.**

Some £29.7 billion (89%) of the £33.2 billion lower end of PSFA's estimate relates to estimates on tax and welfare set out in the annual reports and accounts and £0.6 billion from other specific departmental estimates. The balance of £2.9 billion to £28.5 billion is the PSFA's assessment, using historical FMAs, that fraud and error is likely to be in the range 0.5% to 5% of government expenditure in the areas that have not been assessed. PSFA believes it is likely to be towards the lower end of this range (paragraphs 1.11, 1.12 and 1.16, Figure 1 and Figure 2).

**19 Few parts of government outside of tax and welfare have undertaken robust assessments of the level or types of fraud and corruption affecting their business.**

HMRC and DWP have developed sophisticated measurements of the level of fraud using sampling and estimation techniques that they estimate between them cost approximately £22 million each year in staff time.<sup>3</sup> The NHS Counter Fraud Authority (NHSCFA) and Ministry of Defence (MoD) provide annual estimates that combine some limited measurement of fraud with benchmarking. These produce estimates with a lower level of confidence. Elsewhere, only half of other central government bodies report that they had conducted any FMA measurement exercise for specific spending areas since 2014 and the GCFF rated just over half of those exercises as unreliable. Most of the largest spending areas with the potential for fraud and corruption risks have not been formally assessed for the risk of fraud and corruption. Officials working in counter-fraud told us that methodological concerns and resource constraints are the main barriers to undertaking proper fraud measurement exercises (paragraphs 1.13 to 1.15, 1.17, and 2.19, and Figures 3 and 4, and Appendix Two).

Government's counter-fraud and corruption capabilities

**20 Government has also sought to improve its counter-fraud and corruption capability.**

Cabinet Office launched the GCFF and established functional standards to set minimum expectations on public bodies. In 2018, it also launched the Government Counter Fraud Profession (GCFP) and established professional standards by which to assess and train people. The GCFF, GCFP, functional and professional standards cover both fraud and corruption against government, where it leads to financial gain or the avoidance of loss (paragraph 2.5).

**21 Government has mapped its counter-fraud and corruption resources.** In 2021, HM Treasury commissioned the GCFF to undertake a Workforce and Performance Review (WPR) to map the counter-fraud resources and delivery outcomes of 70 central government organisations, including all the main departments, the larger arm's-length bodies, and smaller bodies with specific counter-fraud risks or teams (paragraphs 2.11 to 2.16, and Figures 10 and 11).

**22 The vast majority of government's counter-fraud capability sits within DWP and HMRC, where the largest known risks exist.**

Some 11,200 (84%) of government's counter-fraud staff (full-time equivalents) work for DWP or HMRC. These departments have their own fraud investigation and enforcement legal powers. They also have counter-fraud activities embedded within operations and have other counter-fraud expertise not available to other departments. For example, DWP's Integrated Risk and Intelligence Service is using advanced analytics and machine learning to identify risky transactions for additional human review before payments are made. The rest of government's counter-fraud workforce are mostly in teams specialising in tightly focused areas of expenditure such as the specialist NHSCFA, which supports NHS Trusts. Most departments have small teams responsible for promoting best practice across their organisation. Government bodies may also receive counter-fraud and investigation support from the Government Internal Audit Agency (paragraphs 2.12 to 2.14, and Figure 10).

<sup>3</sup> This is an approximation of the cost of staff who work directly in fraud and error measurement. For HM Revenue & Customs this excludes the one-off costs of measuring fraud and error in COVID-19 support schemes.

**23 Most departments have only limited counter-fraud and corruption capability and cannot demonstrate that it is proportionate to their risk.** PSFA used the WPR to perform a preliminary baseline assessment of 70 public bodies, the investment in fraud against the outcomes they delivered and how well they understood their risk of fraud. Using data collected in April 2022 and performance information from 2020-21, the PSFA came to a preliminary conclusion that it rated only 14% of public bodies as having both identified and sought to measure the fraud and error risks they face; 27% have clear indications of mismatch between their counter-fraud resources and the risks they face; and 6% as having set a counter-fraud target and being able to demonstrate that their counter-fraud activity was delivering effective outcomes. PSFA told us that it was trying to establish a baseline initial understanding in order to enable it to offer more tailored support to departments to enhance the effectiveness of their efforts. PSFA's general conclusions match our understanding from conversations and work across government. Many counter-fraud staff who spoke to us for this study told us managing fraud and corruption risks is rarely a priority for senior leaders in their organisations, mainly due to competing priorities, and is not sufficiently embedded in operations (paragraphs 2.17 to 2.19 and Figure 12).

**24 With most counter-fraud and corruption activity being focused on known large risks, government has lacked capacity to adapt to new and unknown risks.** For example, the Department for Business, Energy & Industrial Strategy (BEIS) recognised that there was a risk of fraud in the Bounce Back Loan Scheme when it set it up and asked for a ministerial direction (a written direction from ministers to proceed).<sup>4</sup> However, its counter-fraud function at the time was two full-time staff and, to provide better oversight of the fraud risk and the lenders that participated in the scheme, it decided to bring in more staff and restructure its counter-fraud capability. By contrast, BEIS used its learning from the Bounce Back Loan Scheme and newly enhanced counter-fraud capability to work with the PSFA to improve its design of counter-fraud controls for the new energy schemes (paragraph 2.20).

**25 Government is only at an early stage of using intelligence, data-matching and data analytics to prevent fraud and corruption.** There have been 20 agreements under the Digital Economy Act 2017 for the purposes of preventing or disrupting fraud. PSFA also intends to improve the use of intelligence across government. However, officials working in counter-fraud told us that the processes in place for sharing data, both between and within departmental groups, are often slow and burdensome, often resulting in incomplete or time-lagged data being shared. In our 2022 publication *Improving government data: a guide for senior leaders*, we said that the benefits of better data are not simple to achieve in practice: they will require focussed effort, funding and prioritisation to achieve; and legacy systems and ageing data present a barrier as they create complex practical issues for data-sharing and the challenges involved in using these data is not well understood (paragraphs 2.21 to 2.24).<sup>5</sup>

<sup>4</sup> In February 2023, the government announced machinery of government changes covering what were the responsibilities for the Department for Business, Energy and Industrial Strategy, the Department for International Trade and the Department for Culture, Media & Sport. This report generally refers to the Departments and their areas of responsibilities as they were prior to these planned changes.

<sup>5</sup> National Audit Office, *Good practice guide, Improving government data: A guide for senior leaders*, July 2022.

**26 The creation of the PSFA provides an opportunity for government to improve both its understanding of fraud and the action it takes to prevent it.** PSFA intends to map out the strategic fraud risks across government in a global risk assessment, to set standards and to support and develop the profession, to hold departments to account for their management of fraud and corruption, and to provide services to support them in doing so. The PSFA has been in operation for eight months during which time it has agreed and published its mandate, appointed its interim leadership team and set out plans for developing central services across government. PSFA has also introduced Initial Fraud Impact Assessments to provide a rapid initial assessment of the likely fraud risks in new major spending initiatives. It has trialled this approach of deploying PSFA experts into the design stage for government's new energy schemes. We found those working in counter-fraud are supportive of the new authority but do worry about whether it can tailor its demands on smaller teams and broaden its focus from fraud threats to cover the risk of corruption (paragraphs 2.5, 2.8 to 2.10 and Figure 9).

#### What government can do

**27** We spoke to 46 officials working in or with the counter-fraud function, including all the heads of counter-fraud across all the main government departments and some of the larger arm's-length bodies. We found a broad consensus on the challenges government faces and the things that PSFA and departments need to tackle. Using this, and our experience as the auditor of central government bodies, we have produced the following nine insights on things PSFA can help departments to do to both reduce and tackle the perception of fraud and corruption (paragraphs 3.1 and 3.2 and Figure 13). These include:

- a Demonstrate best practice financial control and transparency.** Tackling the risk that the public come to perceive fraud and corruption as normal requires government to demonstrate that committing fraud and corruption is difficult. Public bodies must demonstrate that they have put in place the basics of good governance and financial management, are transparent, and have assurance that their controls are working effectively (paragraph 3.3).
- b Act as 'one government' in tackling fraud.** Public bodies can better protect themselves from fraud and corruption by sharing data and intelligence with other public bodies and working together. The PSFA can help to better coordinate government efforts and to provide services that fill some of the capacity gaps across government. But many central services and functions fail because they do not achieve buy-in from departments. PSFA will need to work in partnership with departments such as HMRC and DWP, which contain most of government's counter-fraud capability, and win the support of departments with less capability. It also needs to set out clear business cases for each of its services to demonstrate to others why they should use them (paragraph 3.4).

- c Set an anti-fraud and corruption culture.** Leaders establishing the right tone from the top on tackling fraud and corruption helps to set the culture of government, encourages ethical practice, acts as a deterrent to commit fraud and corruption and encourages whistle-blowers to report fraud and corruption. Leaders also need to celebrate the detection of fraud and corruption to encourage people to speak up and to learn lessons. This can be helped by embedding discussions of fraud and corruption measures in risk management across the organisation (paragraph 3.5).
- d Develop robust assessments of the level of fraud and corruption.** PSFA aims to produce a global fraud risk assessment that summarises the risk of fraud across government and highlights areas where more action is needed. But undertaking a robust assessment of fraud and corruption risks, and measuring the levels that exist, is currently beyond most public bodies' capability. As a result, most do not know they are managing fraud and corruption properly and do not have return on investment metrics they can use to justify further investment. PSFA needs to develop a methodology to assess the levels of fraud and corruption that can be deployed in a proportionate way and which provides both sufficient information and coverage to inform decision-making (paragraph 3.6).
- e Embrace a preventive approach, tailored to the risks of each area.** It is normally far harder to detect and pursue fraud and corruption after the act has been committed than to prevent it taking place. Public bodies should aim to demonstrate cost-effective controls that minimise the risk of fraud and corruption as much as possible while also securing their other objectives (for example, ensuring people can access the payments and services to which they are entitled). But departments are at different stages of maturity towards achieving this and none have fully demonstrated it. Taking a fully preventive approach will require effort beyond the counter-fraud function, and the PSFA will need to be influential across government specialisms (paragraph 3.7).
- f Develop the counter-fraud and corruption profession.** PSFA needs to encourage the professionalisation of those working in the counter-fraud function. Those working in counter-fraud have traditionally focused more on the detection, investigation and pursuit of fraudsters and corrupt officials than on prevention. Adopting more preventive approaches will require a new cadre of counter-fraud and corruption professionals capable of working with other professions to assess risks and develop digital and operational means to tackle fraud. GCFP has set professional standards on investigation and risk assessment, is working on a standard on prevention, and works with training providers to train people to the standards. However, many of those working in the counter-fraud function are not members of the profession and have not been trained or assessed against the professional standards (paragraph 3.8).

- g Harness and use data to prevent fraud and corruption.** Cost-effective prevention approaches require far better use of data and information for governance, intelligence and best-practice sharing, data on detected frauds, and data-matching for both detection and prevention purposes. But government efforts to use data are hindered by both technical and legal challenges. Government also needs to do more to improve public confidence in the use of data analytics to detect and prevent crime and the impact that this can have on different user groups. PSFA can play a useful role in developing a strategy for the use of data to counter fraud and corruption that individual public bodies can build towards (paragraph 3.9).
- h Design out fraud and corruption from new initiatives and systems.** One of the key lessons from the level of fraud in government's COVID-19 response is the need to design counter-fraud measures, including controls, reporting and recovery, into new initiatives at an early stage of the policy cycle. Departments and the PSFA now need to demonstrate that Initial Fraud Impact Assessments lead to fraud management and measurement that delivers a substantial impact and reduction in fraud. Government also needs to build in preventive measures such as data-matching and investigation tools into its new systems and processes (paragraph 3.10).
- i Use its investigative powers and capabilities as an effective preventive deterrent.** Detecting and pursuing fraudsters and corrupt officials is important for the provision of justice, to provide intelligence on what frauds and corruption are occurring and to act as deterrent for others. However, most money lost to fraud and corruption is not recovered and government has neither the ability or capacity to detect all fraud and corruption or to gather sufficient evidence to prosecute all that it detects. Civil penalties or agreements without penalties can offer a more cost-effective route to recover funds but may not offer the same deterrent effect. Public bodies need a means of judging the appropriate balance between criminal prosecution and civil recovery, the means and powers to pursue crime and to clearly communicate their enforcement activities to act as a deterrent (paragraph 3.11).

## **Conclusion**

**28** Fraud and corruption have for many years diverted billions of pounds a year from public finances to criminals. Government's vulnerability to fraud inevitably rose as a result of its response to the COVID-19 pandemic, as it spent more on things inherently at risk of fraud and set up new programmes quickly. But there were ways in which public bodies could have better managed the fraud risk without impairing their emergency response. There is a risk that people come to perceive higher levels of fraud against taxpayers as normal and tolerated. There is also a risk that the UK is becoming perceived as more corrupt than it was before the pandemic. Such perceptions could affect public confidence in the integrity of public services.

**29** Government has made some progress since we last reported in 2016. It has established the GCFF and the GCFP, and more recently the PSFA to improve its understanding of fraud attacks against government and to improve the standards of the counter-fraud function and profession. However, outside of tax and welfare, it still lacks robust assessments of where and what its fraud risks are and most public bodies cannot demonstrate that they have counter-fraud resources commensurate with the risk. The creation of the PSFA presents the opportunity for a renewed focus on fraud and corruption. PSFA will need to be influential across government if it is to achieve the required changes in culture, preventive approach and robust assessment of risks.

## **Recommendation**

**30** We recommend that the PSFA draws up an implementation plan for how it will work across government to help address the nine insights we set out above and in Part Three of this report.



# CORRECTION SLIP

**Title: Tackling fraud and corruption against government**

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## **Correction One:**

On page 4, key facts, 3rd column, an error needs to be corrected. The sentence currently reads as follows “£11.5bn (at least) of the £21 billion estimated fraud set out in the 2020-21 and 2021-22 Annual Report and Accounts relates to the COVID-19 pandemic”. This should read “£7.3bn of the £21 billion estimated fraud set out in the 2020-21 and 2021-22 Annual Report and Accounts relates to temporary COVID-19 schemes”.

The text currently reads:

**£11.5bn (at least) of the £21 billion estimated fraud set out in the 2020-21 and 2021-22 Annual Report and Accounts relates to the COVID-19 pandemic.**

The text should read:

**£7.3bn of the £21 billion estimated fraud set out in the 2020-21 and 2021-22 Annual Report and Accounts relates to temporary COVID-19 schemes.**

BACK

Date of correction: 29 March 2023