REPORT

Tackling fraud and corruption against government

HM Treasury, Cabinet Office

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National Audit Office

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Contents

Key facts

£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

£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

£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

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

Post publication this page was found to contain an error which has been corrected (Please find Published Correction Slip)

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.[1] 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.[2]

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.

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1   Comptroller and Auditor General, *Fraud landscape review,* Session 2015-16, HC 850, National Audit Office, February 2016.
2   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.[3] 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).

3   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).[4] 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).[5]

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4 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.

5 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.

Part One

The scale of fraud and corruption

1.1   In this part we set out:

- definitions of fraud and corruption against government;

- government's estimates of the scale of fraud and corruption and the limitations of these estimates; and

- the level of fraud and corruption detected during the COVID-19 pandemic.

What is fraud and corruption?

1.2   Fraud, as set out in the Fraud Act 2006, is to dishonestly make a false representation, fail to disclose information that is legally required to be disclosed, or abuse a position for financial gain or to cause loss to another. It may be committed internally by staff or externally by suppliers, contractors or members of the public. For the purposes of this report, we use fraud to mean any dishonest act that leads to gain where it looks like the legal definition might apply. Corruption does not have a single definition. For the purposes of our report, corruption is the abuse of a public or private office for personal financial gain or avoidance of loss. This includes bribery.

1.3   Fraud and corruption against government can lead to the loss of taxpayer money (such as benefit or tax fraud) or inefficient allocation of resources (such as falsely claiming a loan that you intend to repay). It also includes 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).

1.4 The impact of fraud and corruption, however, is more far-reaching than just its financial impact. It also impacts on people more broadly, for example, where it impacts the ability of government to deliver services and where the proceeds of fraud are used to fund crime.[6] It also affects perceptions and levels of trust in government, markets, public services and the country. 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 data show that it takes a long time to rebuild trust when it is diminished. For example, the Organisation for Economic Co-operation and Development (OECD) survey on drivers of trust in public institutions reports that it took about a decade for trust in governments to recover after the 2008 global financial crisis.[7]

1.5 We have identified six types of fraud and corruption risk inherent in the nature of government's activities, each requiring a different approach to deal with them (Appendix Two).

- **Grant fraud.** Misappropriation (for example, through being ineligible) or misuse (not for the defined purpose) of grant money by an individual or entity.

- **Service-user fraud.** Using false information dishonestly with the intention of obtaining money, goods or services from government to which the individual or entity is not eligible or for use other than for the intended purposes.

- **Procurement and commercial fraud.** Fraudulent activity specifically related to supplying goods or services to government, or illegal practices which occur between government and the private sector.

- **Income evasion.** An intentional attempt to avoid payment for goods, services or other financial obligations owed to the government.

- **Internal fraud and corruption.** When an internal party to the government organisation defrauds, circumvents regulations, the law or policy, whether alone or in collusion with any other person, with intent to cause government to sustain a loss or obtain an improper gain for the employee or any other acting in collusion.

- **Regulatory fraud.** Abuse of a government owned process through false representation or a dishonest act, with the intention of making a gain or causing a loss to individual(s) independent of government. Regulatory fraud is harder to quantify and prevent as there may be no monetary trail within government. Often requires the use of intelligence and disruption, but public bodies may lack incentives to invest in counter-fraud and corruption measures as there is no direct loss to government.

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6   See, for example, International Public Sector Fraud Forum, *Guide to Understanding the Total Impact of Fraud*, February 2020.
7   Organisation for Economic Co-operation and Development (OECD), *Building Trust to Reinforce Democracy: Main Findings from the 2021 OECD Survey on Drivers of Trust in Public Institutions*, July 2022.

Estimates of the scale of fraud and corruption

1.6 Fraud and corruption are hidden, involve deception and may be highly organised and are therefore inherently difficult to detect. In our 2016 *Fraud landscape review*, we found a large disparity between the level of fraud and error that was being reported and the level that other available estimates suggested might be occurring.[8] The then UK figure of 0.02% fraud detected in government expenditure, excluding tax and welfare, compared with estimates of 3% to 5% fraud and error in the European Union and United States.[9] While these comparisons need to be treated with caution, they suggested that there could be significant fraud and error that was unreported or undetected and losses that were not being adequately addressed. We also found few incentives for departments to record and report the true scale of potential fraud and a lack of data and absence of metrics to evaluate performance in detecting and preventing fraud.

1.7 Since 2016, government has attempted to strengthen its understanding of the level of fraud against government by:

- establishing the Government Counter Fraud Function (GCFF) to bring together expertise across government to provide standards and advice, with a centre of expertise in the Cabinet Office, for the whole of government;

- producing a Fraud Measurement Standard with clear definitions and reporting requirements;

- strengthening Fraud Measurement and Assurance (FMA) assessments, to assess fraud risks in specific areas of spending;

- producing regular fraud landscape reports with overall estimates of the extent of fraud and error across government;

- improved reporting on the level of detected frauds and how much of this money is recovered; and

- producing a global fraud risk assessment for the government's COVID-19 response, setting out the areas most vulnerable to fraud attacks.

We discuss progress made by government to develop its counter-fraud capability, including how it assesses and measures fraud risk, in Part Two.

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8 Comptroller and Auditor General, *Fraud landscape review,* Session 2015-16, HC 850, National Audit Office, February 2016.
9 The Cabinet Office estimated 'true' detected fraud to be £72.9 million from a spend of £306 billion (0.02%) in 2014-15 excluding the Department for Work & Pensions, HM Revenue & Customs and local government.

Overall estimates of the extent of fraud and error across government

1.8 Cabinet Office convened the Fraud Measurement and Assurance Programme Oversight Board to assess fraud measurement exercises across government and to estimate the overall level of fraud and error. Cabinet Office published a fraud landscape report for every year from 2017 to 2022. Its latest estimate, published in March 2023, is that the public sector lost between £33.2 billion and £58.8 billion to fraud and error in 2020-21, out of £1,106.1 billion expenditure and £608.8 billion tax revenue, excluding schemes specific to COVID-19 (**Figure 1**).[10] The Oversight Board judged that the "true scale of fraud and error loss lies towards the lower end of this range".

1.9 GCFF estimates include both fraud and error because it can be difficult and resource-intensive to differentiate between fraud and error and often they require the same preventive approach. Differentiating between fraud and error requires an assessment of likely intent, which requires a more thorough examination of each case in the sample. Less robust estimates are less likely to be able to make this distinction.

1.10 The Public Sector Fraud Authority (PSFA) told us that it in its view these estimates were the best available and that the methodology compared favourably with those used by other governments internationally. However, it acknowledged that the estimates have limitations. The estimates are based primarily on the few estimates used for departmental annual reports and accounts. The remaining part of GCFF's estimate is based on estimates by the Oversight Board, who used their professional judgement and the outcomes of the limited number of robust FMAs to assess the potential range of losses across all areas of government spending where there is no specific estimate of fraud and error. There are no specific estimates for the levels of corruption or regulatory fraud. We discuss the various parts of the PSFA estimate below.

Department-specific annual estimates of fraud and error

1.11 Of GCFF's £33.2 billion lower bound estimate of fraud and error in 2020-21, some £30.3 billion relates to departmental specific estimates. These are normally set out in the department's annual reports and accounts, including non-accounting estimates such as the tax gap (Figure 1 overleaf). Of this, £29.7 billion (89% of the lower bound estimate) relates to tax and welfare.

10 Public Sector Fraud Authority, *Cross-Government Fraud Landscape Annual Report 2022*, March 2023. Available at: www.gov.uk/government/publications/cross-government-fraud-landscape-annual-report-2022

Figure 1

Public Sector Fraud Authority (PSFA) estimates of fraud and error losses across government between 2018-19 and 2020-21, excluding COVID-19 schemes

Fraud and error losses are uncertain, but likely to be at least £33.2 billion in 2020-21 alone

	2018-19	2019-20	2020-21
	(£bn)	(£bn)	(£bn)
Specific estimates of fraud and error – tax and welfare	28.6	25.9	29.7
Specific estimates of fraud and error – other	0.5	0.6	0.6
(a) Specific estimates of fraud and error (includes detected)	**29.1**	**26.5**	**30.3**
Central government expenditure not covered above:	474.8	503.5	571.0
(b) Lower estimate of fraud and error in other government expenditure (0.5%)	2.4	2.5	2.9
(c) Upper estimate of fraud and error in other government expenditure (5%)	23.7	25.2	28.5
Lower estimate of fraud and error (a) + (b)	**31.5**	**29.0**	**33.2**
Upper estimate of fraud and error (a) + (c)	**52.8**	**51.7**	**58.8**

Notes

1   These estimates were prepared by Cabinet Office before the set-up of the PSFA, by the team now part of the PSFA.

2   PSFA estimates include both fraud and error because it can be difficult and resource-intensive to differentiate between fraud and error and often they require the same preventive approach. Differentiating between fraud and error requires an assessment of likely intent, which requires a more thorough examination of each case in the sample.

3   Detected fraud is included within specific estimates of the overall level of fraud and error.

4   For 'Central government expenditure not covered above', PSFA uses total expenditure for public services from the Whole of Government Accounts (WGA). As there is a delay in publication, the total expenditure reported in the 2019-20 WGA (£918.7 billion) is used in PSFA's 2020-21 estimate. Public Spending National Statistics report that Total Managed Expenditure across government in 2020-21 was significantly higher, at £1,106.1 billion.

Source: National Audit Office analysis of Public Sector Fraud Authority documents and public body accounts

Tax and welfare

1.12 The National Audit Office has qualified the accounts of the Department for Work & Pensions (DWP) since 1988 and HM Revenue & Customs (HMRC) since 2003 because of material levels of fraud and error in the welfare and tax systems. We also report on the tax gap as part of our report accompanying the HMRC Annual Report and Accounts. The latest published estimates are:

● **DWP benefits.** DWP's estimated fraud and error in DWP benefit expenditure in 2021-22 led to £8.6 billion of overpayments, of which £6.5 billion was fraud (3% of DWP's benefit expenditure);

● **HMRC tax gap.** HMRC's estimated difference between total theoretical tax liabilities and those actually collected in 2020-21 was £32 billion (5.1% of total theoretical tax liabilities). Of this, GCFF includes £20.2 billion in its estimate of government's total fraud and error, and of that £10 billion was due specifically to tax evasion or criminal attack; and

● **HMRC benefits and credits.** HMRC's most recent estimates suggest: the level of overpayment due to fraud and error in Tax Credits was £780 million in 2020-21, of which £20 million was fraud (0.13% of HMRC's tax credit expenditure); that abuse of tax reliefs for research and development cost the taxpayer £469 million in 2021-22 (4.9% of the cost of these reliefs); and that there is a further £105 million of fraud and error in relation to Child Benefit (0.9% of HMRC's Child Benefit expenditure).

1.13 Both HMRC and DWP have developed sophisticated measures of the level of fraud in tax and welfare using sampling and estimation techniques that they estimate cost them approximately £16.5 million and £5.6 million in staff time respectively each year:[11]

● In *Tackling the tax gap*, in 2020, we found that HMRC's analysis is one of the most comprehensive studies available internationally, but the precise scale of the tax gap remains inherently uncertain.[12] Tax evasion and the hidden economy are particularly difficult to estimate because taxpayers conceal them from HMRC. Moreover, HMRC updates its methodology each year to improve accuracy, which can lead to significant revisions to past trends.

● Similarly, both HMRC and DWP have measurement exercises that are robust enough to give a good indication of the levels of fraud and error in benefit expenditure. We use these to assess the level of irregularity in the accounts. However, they also have limitations, such as the difficulty of detecting and measuring non-declared income that claimants receive cash in hand or from the hidden economy, and, to keep costs proportionate, they do not measure every benefit every year.

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11 These are 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 schemes.

12 Comptroller and Auditor General, *Tackling the tax gap*, Session 2019–2021, HC 372, National Audit Office, July 2020.

Other annual estimates

1.14 Outside of welfare and taxation, few departments produce annual assessments of their level of fraud. For example:

- **Legal Aid Agency.** Until 2011-12, we qualified the accounts of the Legal Aid Commission for material levels of fraud and error. Its successor body, the Legal Aid Agency, continues to produce a robust annual assessment of the level of fraud and error using sampling exercises which, in 2021-22, it estimated at £18.6 million (1.04% of relevant expenditure).[13] This is included in the GCFF estimate.

- **NHS vulnerability to fraud.** The NHS Counter Fraud Authority (NHSCFA) produces an annual Strategic Intelligence Assessment, which includes an estimate of vulnerability to fraud in NHS spending. In 2021-22, it estimated that £1,198 million of NHS spend was vulnerable to fraud. It bases this on separate estimates over 11 areas of NHS spending and risk, such as procurement fraud and data manipulation fraud, using data from the previous year. NHSCFA undertakes an in-depth analysis and measurement exercise to provide a statistically robust estimate of the level of fraud for some of these specific areas. However, it does not directly measure all areas and instead applies either a comparative benchmark or a baseline assumption of 1% fraud in NHS spending. As a result, it has varying levels of confidence for different parts of the estimate depending on the method used. The GCFF includes £345 million of NHS fraud in its estimate of the overall level of government fraud and error, being those elements that are more reliable.

- **Potential exposure to fraud loss in Ministry of Defence (MoD) spending.** The MoD Fraud Defence team estimates that the MoD was exposed to between £1,295 million and £1,376 million of fraud loss in 2021-22. For its two highest fraud risk areas, it uses benchmarks from academic research to assume 4.8% of its annual procurement spend and 1.7% of its staff costs are fraudulent. It also multiplies its five-year average of detected fraud within MoD by 10, based on the assumption that 10% is a common detection rate in the public and private sectors. GCFF does not include the MoD estimate in its estimate of the overall level of fraud and error.

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13 The Legal Aid Agency estimates the net level of fraud and error in it expenditure was 0.77% (£13.7 million) after recoveries. We use this measure for the purposes of our audit of the regularity of its expenditure.

Fraud Measurement and Assurance Assessments

1.15 The remainder of the GCFF estimate of fraud and error is based on the GCFF's FMA programme. PSFA and its predecessors have run an FMA programme since 2014 to assess the level of fraud and error outside of those areas with an annual exercise. Under this programme, PSFA encourages central government public bodies to undertake and then reviews their assessments of the level of fraud and error. Each FMA exercise covers a specific area of spend and estimates the level of fraud and error in that spending. Since 2014, the FMA programme comprised 62 assessments covering £224 billion of spending (**Figure 4** on page 26).

1.16 The GCFF estimate includes the most recent FMA exercises that it rates as robust enough to use. The FMA Oversight Board also use historical FMA exercises that were assessed as meeting the standard to judge that fraud and error is likely to be in the range of 0.5% to 5% for the £571 billion (two-thirds) of government expenditure where fraud and error is not measured. The PSFA based its 0.5% to 5% estimate for the level of fraud and error across government principally on the results of FMA exercises considered high quality because of the depth of testing. The FMA Oversight Board then verified this range against international and cross-sector comparators (**Figure 2**).

1.17 However, limitations in the extent and quality of the FMA exercises mean that the range of uncertainty over GCFF's estimate of the level of fraud and error remains very high. We found that:

- **the assessments cover a minority of government expenditure** (Appendix Two). They have been spread over the past decade and some areas assessed no longer operate. Most departments are exposed to more than one area of fraud risk, while all have exposure to internal fraud and corruption risk. Government's core departments have identified internal fraud and corruption, grant fraud and procurement and contacting fraud as the main fraud and corruption risks that they face. We have mapped out the larger areas of these activities across government to show how each department is exposed to the risk of fraud and corruption, and which of these has robust fraud measurement in place (**Figure 3** on pages 24 and 25);

- **the areas covered are not necessarily the highest risks.** Departments chose which areas to assess and did not always focus either on high-risk areas or a sample that could be extrapolated. For example, FMAs include 14 assessments of payroll and travel expenses, which are relatively easy to assess but are only vulnerable to low levels of fraud by value compared with higher spending areas. Of the nine assessments rated as of high quality, the one with the highest level of spend (£755 million) was on the European Regional Development Fund (ERDF). The Department for Levelling Up, Housing & Communities chose the ERDF for an FMA due to the level of spend, the need to improve controls around project change requests and a lack of counter-fraud processes on the programme. However, this fund already had relatively high levels of assurance in place as part of the reporting mechanism to the European Commission, so was less likely to have unknown fraud and error than other unassessed grants;

- **many assessments have been of poor quality** (Figure 4). The GCFF's FMA Oversight Board concluded that 32 of the assessments, representing more than half (57%) of assessed expenditure, produced outcomes that are not reliable. Most of these unreliable assessments were conducted earlier in the FMA programme lifetime. Of the 31 assessments that met the standard, the Oversight Board rated only nine assessments representing 1% of assessed expenditure as "comprehensive" and 22 (42% by value of expenditure) as a "thorough attempt at measuring losses with a few limitations". PSFA told us the most common reasons some did not meet the standard included not conducting testing in enough depth; missing whole categories of fraud or error risk; not testing the highest-rated fraud risks; using a sample that is not representative of the whole population; and not making demonstrably consistent decisions when determining whether fraud or error has happened; and

Figure 2

International and cross-sector estimates of fraud and error

The Public Sector Fraud Authority based its estimate of the level of fraud and error in government spending on results of fraud and error measurements that it considers high quality and then compared this to a range of comparator benchmarks

Fraud and error range comparator	Fraud and error range
	(%)
UK Government Fraud Measurement and Assurance Programme	0.5 – 5.0
UK Fraud and Error in the Benefits System, 2021-22	4.0
The Financial Cost of Fraud 2018 (global losses to fraud)	3.00 – 10.00, average 5.95
UK Annual Fraud Indicator 2017: Identifying the cost to the UK economy	0.45 – 4.04
Annual Reports on the implementation of the EU budget for the financial year ended 31 December 2021	2.2 – 3.8
Occupational Fraud 2022: A Report to the Nations	5.0
US Government-wide improper payments, 2020-21	7.2
Overall range	**0.45 – 7.20**

Note

1   These estimates have been produced by different bodies using different methodologies. They are only broadly comparable, and caution should be applied in making direct comparisons between, for example, the rate of fraud and error estimated in the UK and improper payments in the USA. The National Audit Office has not made any attempt to verify these estimates.

Source: National Audit Office analysis of Public Sector Fraud Authority data and published fraud and error surveys

Figure 3

National Audit Office assessment of the types of fraud risk affecting government and where the extent of this fraud is measured

Most departments are exposed to several types of fraud and corruption risk in major areas of spending, but few departments produce regular, reliable, and comprehensive measurement of the level of fraud and corruption in those areas

Departmental group	Grant fraud	Service-user fraud	Procurement and commercial fraud	Income evasion	Internal fraud and corruption	Regulatory fraud
Cabinet Office					Red	
Department for Business, Energy & Industrial Strategy	Red	Red	Red	Red	Red	Red
Department for Culture, Media & Sport	Red			Red	Red	Red
Department for Education	Red	Red			Red	
Department for Environment, Food & Rural Affairs	Red				Red	Red
Department of Health & Social Care	Amber	Amber	Amber	Amber	Amber	Red
Department for International Trade					Red	
Department for Levelling Up, Housing & Communities	Red	Red			Red	Red
Department for Transport	Red		Red	Red	Red	Red
Department for Work & Pensions		Green			Red	Red
Foreign, Commonwealth & Development Office	Red				Red	
HM Revenue & Customs		Green		Green	Red	Red
HM Treasury					Red	
Home Office		Red			Red	
Ministry of Defence			Red		Red	
Ministry of Justice		Amber	Red		Red	Red

The largest areas of spend for government subject to this kind of risk or an area of risk flagged by the department

● Red – Loss measurement is non-existent, clearly unreliable, or covers an insignificant proportion of spend in this risk area

● Amber – Some attempt at loss measurement, covering the majority of spend

● Green – Comprehensive loss measurement, using reliable methodology, covering most of relevant spend

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Figure 3 *continued*

National Audit Office assessment of the types of fraud risk affecting government and where the extent of this fraud is measured

Notes

1 This chart shows the areas where we might expect government to have a good understanding of the rate of fraud because, by the nature of its activities, it is inherently exposed to these risk types, and our assessment for which of those areas it has a good understanding of that rate of fraud.

2 Ratings are given for the largest areas of spend taken from the Whole of Government Accounts against the risk categories and areas departments flagged as risk areas as part of the workforce and performance review. All departments flagged internal fraud and corruption risks. However, the chart is not an exclusive list of all risk types or areas in which risk might occur. The chart excludes local government and the devolved administrations.

3 The National Audit Office assessment of where fraud is measured differs from the PSFA assessment of which public bodies have a good understanding of their fraud risk (paragraphs 2.17, 2.18 and Figure 12). PSFA has rated 10 public bodies as having a good assessment. Some of these understand their risks but have not measured them. We have taken into account the PSFA assessment but found those bodies with good measurement to have a minority of the group's relevant expenditure.

4 Many of the areas we have rated red for measurement have been subject to some degree of fraud assessment since 2014-15 under the Government Counter Fraud Function's (GCFF's) Fraud Measurement and Assurance (FMA) programme. However, just over half of these were deemed unreliable by GCFF and they cover an insignificant proportion of the overall government spend relating to these risk areas (see Figure 4 and Appendix Two).

5 The Department of Health & Social Care is rated amber because the NHS Counter Fraud Authority annually assesses the vulnerability of NHS spending to fraud, but this is based in part on benchmarked levels of fraud which provides less confidence in the assessment (see paragraph 1.14).

6 The Ministry of Justice is rated amber for service-user fraud because the Legal Aid Agency produces a robust annual measurement of the level of fraud and error using sampling exercises which, in 2021-22, it estimated at £18.6 million (1.04% of relevant expenditure).

7 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 and Sport. This chart refers to the activities before those changes.

Source: National Audit Office analysis of our published reports, Government Counter Fraud Function data, and discussions with departments

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- **the quality of assessments improved until the start of the COVID-19 pandemic.** The quality of assessments had improved between 2016 and 2020 when Cabinet Office provided more support and guidance to teams on how to meet the standards. However, the nature of this support was changed during the pandemic. The usual gated review process was stopped and Cabinet Office staff focused on producing the global fraud risk assessment to provide an overview of fraud risk in COVID-19 schemes across the whole of government, and supporting wider Post Event Assurance work (paragraph 1.24) concentrating on fraud risk assessment activity. The Oversight Board rated all of the COVID-19 assessments as unreliable, including those for the Department for Business, Energy & Industrial Strategy's (BEIS's) business support loan and grant schemes and the Department of Health & Social Care's (DHSC's) Personal Protective Equipment (PPE) procurement.

Figure 4

Quality of fraud and error measurement exercises across government since 2014-15, by amount of expenditure

The Government Counter Fraud Function's Fraud Measurement and Assurance Oversight Board found that around half of the 63 assessments, representing £128.8 billion of spend, were unreliable

£1.3bn
(9 assessments)

£94.0bn
(21 assessments)

£128.8bn
(32 assessments)
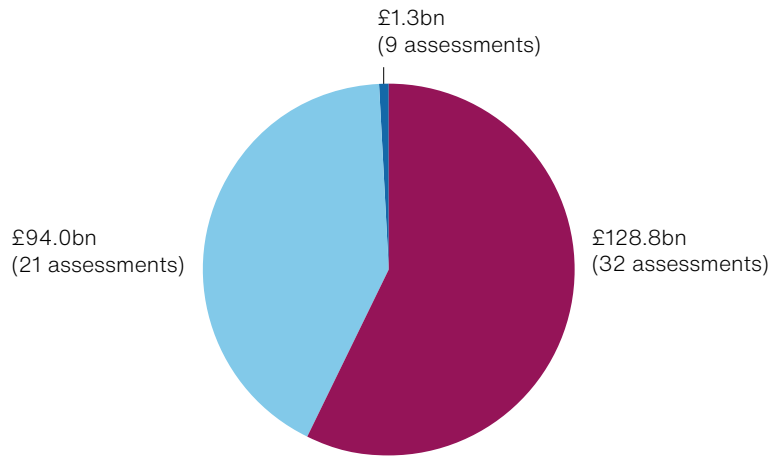
■ Unreliable – clear issues with testing approach

■ Thorough – with a few limitations

■ Comprehensive

Notes

1   The Fraud Measurement and Assurance (FMA) programme has been running since 2014-15 with the aim of testing the levels of irregularity due to fraud and error in areas of government spending where little is known of current levels. Since 2014-15, the FMA programme comprised 62 loss measurement exercises covering £224 billion of expenditure.

2   The Government Counter Fraud Function's FMA Oversight Board quality ratings for FMA measurement exercises are as follows: Unreliable 'bronze' - No reliance placed on the result at all because of clear issues with the testing approach – usually strongly likely to be underestimates. Thorough 'silver' – A thorough attempt at measuring losses in an area, but with a few limitations. Comprehensive 'gold' – The outcome is a comprehensive measurement of losses in the spending area. It considers both Thorough (silver) and Comprehensive (gold) ratings to have met the required standard.

Source: National Audit Office analysis of Government Counter Fraud Function FMA Oversight Board quality rating of FMA measurement exercises

Detected levels of fraud elsewhere

1.18 Cabinet Office also reports that departments have detected an increasing amount of fraud and error outside of tax and welfare expenditure. These are actual cases of fraud where both the suspect and amount have been identified. Outside of tax and welfare, since 2014-15, departments and their arm's-length bodies have reported Cabinet Office that they detected £0.9 billion of fraud (**Figure 5** overleaf). This includes reported internal fraud and corruption. The Cabinet Office only started reporting on fraud-specific recoveries (rather than fraud and error) in 2017-18, but it is clear that departments only recover a minority of the fraud they detect. It is not possible to tell whether the increase in detected fraud and error relates to better detection or increased occurrence of fraud. The most recent year (2020-21) includes increased spending by government through COVID-19 schemes.

Fraud and corruption during the COVID-19 pandemic

The level of fraud recorded in the annual report and accounts

1.19 Fraud against government increased during the COVID-19 pandemic. PSFA has yet to update its estimates of fraud and error to take account of the pandemic. However, the amount of fraud in government expenditure that was reported in the accounts audited by the NAO rose from £5.5 billion in total in the two years before the pandemic (2018-19 and 2019-20) to £21 billion in total in the following two years. Of the £21 billion, £7.3 billion relates to temporary COVID-19 schemes. This is in addition to lost tax revenue of around £10 billion a year due to tax evasion and criminal attacks and the NHS Counter Fraud Authority's estimate that the NHS was vulnerable to £1.2 billion of fraud reported in 2021-22 (**Figure 6** on pages 29 and 30).

Figure 5

Detected fraud and recoveries reported by departments and arm's-length bodies from 2014-15 to 2020-21, excluding tax and welfare fraud

Departments and their arm's-length bodies have reported increased levels of detected fraud over the past seven years. They only recover a minority of this fraud. It is not possible to tell whether the increase in detected fraud relates to better detection or increased occurrence of fraud

Fraud (£mn)

- ■ Detected fraud
- ■ Detected fraud (specific to COVID-19)
- ■ Recovered fraud
- ■ Recovered fraud (specific to COVID-19)
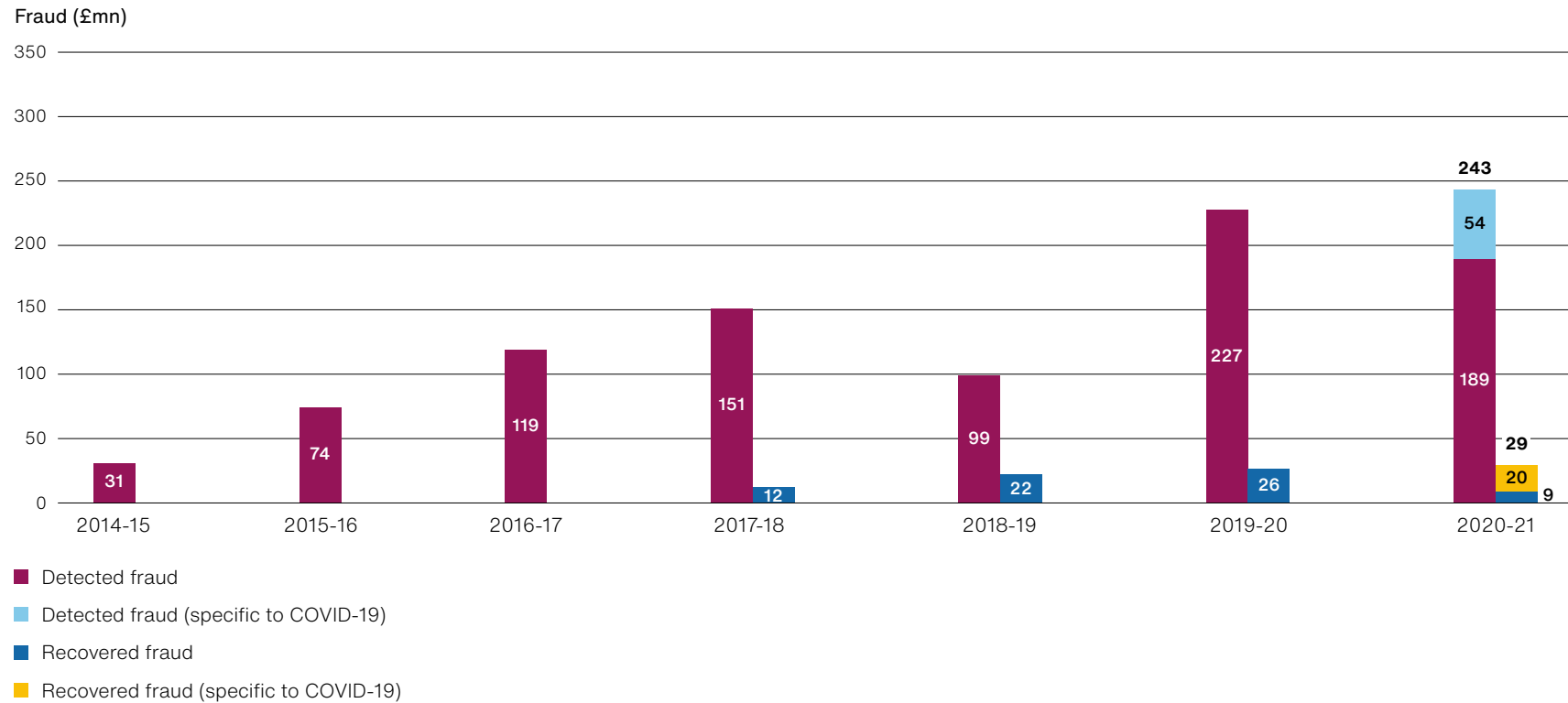
Note

1   All figures are rounded to the nearest £1 million. Cabinet Office did not collect data on the recovery of fraud until 2017-18 (as opposed to the recovery of fraud and error combined).

Source: National Audit Office analysis of Public Sector Fraud Authority's consolidated data returns from departments and their arms'-length bodies

Figure 6
Estimated fraud levels in government accounts, 2018-19 to 2021-22

The amount of fraud in government expenditure that was reported in the accounts audited by the National Audit Office rose from £5.5 billion in total in the two years before the pandemic (2018-19 and 2019-20) to £21 billion in total in the following two years. Of the £21 billion, £7.3 billion relates to temporary COVID-19 schemes. These estimates are in addition to about £10 billion a year of lost tax revenue from evasion and criminal attacks and the NHS Counter Fraud Authority's estimate of £1.2 billion fraud vulnerability in the NHS, which are in the annual reports and accounts but are not accounting estimates[2]

Estimated gross fraud[1] (£mn)
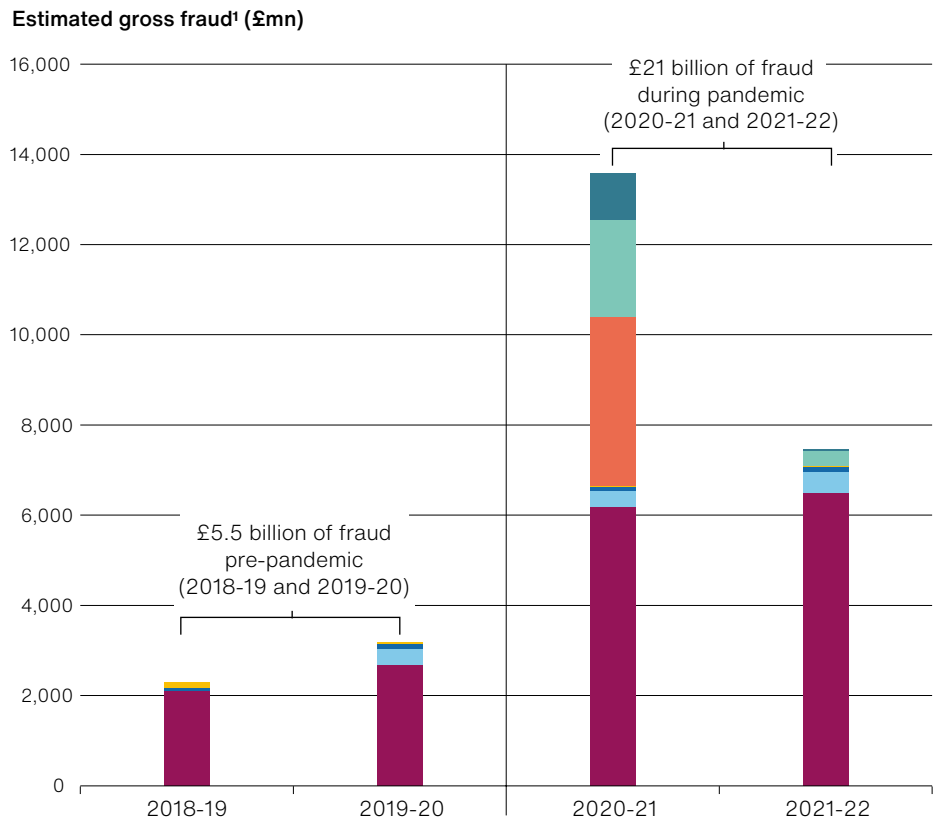
	2018-19	2019-20	2020-21	2021-22
Items immaterial to accounts[1]		Unknown		
DHSC COVID-19 spend[7]				
COVID-19 business support grants (includes error)[5]	–	–	1,038	30
HMRC furlough, self-employment support and Eat Out to Help Out	–	–	2,136	343
Bounce Back Loan Scheme[4]	–	–	3,760	–
Sub-total COVID-19 related fraud and error (£mn)		–		7,307
HMRC Tax Credits[6]	130	40	20	20
HMRC Child Benefit (includes error)[6]	75	105	90	105
HMRC R&D Tax Relief (includes error)[6]	–	311	336	469
DWP welfare benefits[3]	2,100	2,700	6,200	6,500
Total fraud and error (£mn)		5,461		21,047

Estimated fraud levels in government accounts, 2018-19 to 2021-22

Notes

1   Fraud figures are presented gross (the amount paid out) and are unadjusted for amounts recovered to date. Where government has several categories of loss, we have included any relating to deliberate attempts to deceive. This includes opportunistic fraud, criminal attacks, and organised crime. The estimates in the accounts are generally central estimates in a range. The accounts normally exclude amounts that are not material – where material means so large that we as auditors would conclude it affected the understanding of each set of accounts as a whole. These amounts could still sum to a large amount across government.

2   In addition to the these figures, there are several non-accounting estimates of the level of fraud published in annual reports and accounts. For example, the latest available HMRC Tax Gap data include an estimate for evasion and criminal attacks of £10 billion in 2020-21. The NHS Counter Fraud Authority's latest Strategic Intelligence Assessment estimates that the NHS is vulnerable to around £1.2 billion of fraud per year. This estimate is a composite of several fraud areas, each with different methods of assessment and likelihood of fraud occurring.

3   The rise in benefit fraud is mostly due to the rise in fraud against Universal Credit. This is due to the rise in the number of claimants over the pandemic; that more of those claimants were in work and had income and savings, which are more prone to misreporting; and that the Department for Work & Pensions (DWP) eased some of its normal controls to process the new claims. Many of these new claimants would previously have applied for Tax Credits. Part of the difference in the reported rate of fraud between Universal Credit and Tax Credits is due to the way they are both calculated and the timing of when claimants need to make final disclosures about their income.

4   The fraud estimate for the Bounce Back Loan Scheme is the estimated overall rate of fraud (8%) multiplied by the total value of loan facilities approved over the life of the scheme (£47 billion). This differs from the provision used in the Department for Business, Energy & Industrial Strategy's (BEIS's) accounts which sets out the expected future net cost to the department. BEIS expects 47.1% of fraudulent loans to be repaid.

5   The figure for COVID-19 business support grants, administered by local authorities, includes error as well as fraud because the Department for Business, Energy, and Industrial Strategy (BEIS) was not able to break down the estimate. This expenditure was only paid out during 2020-21.

6   HM Revenue & Customs' (HMRC's) Research & Development Tax Relief and Child Benefit estimates include error because HMRC does not produce a split between fraud and error. HMRC told us it believes fraud accounts for a minority of cases in these estimates. For HMRC Tax Credits the most recent available estimate of fraud is £20 million for 2020-21. We have used this estimate again for 2021-22.

7   The Comptroller and Auditor General (C&AG) limited the scope of his 2020-21 audit of the Department of Health & Social Care (DHSC) due to the regularity of expenditure in respect of the risk of fraud losses. This was principally due to changes to its normal procurement processes for Personal Protective Equipment in the context of an overheated global market, a significant increase in new suppliers, a lack of timely checks on the quality of goods received and poor inventory management. The C&AG disclaimed his opinion on the accounts for the UK Health Security Agency for 2021-22 principally due to poor governance and record keeping. This included the regularity of expenditure such as Test and Trace.

Source: National Audit Office analysis of government accounts and published statistics

1.20 These accounting estimates are inherently uncertain but almost certainly underestimate the level of fraud and corruption during the pandemic because:

- **DHSC did not produce accounting estimates for the level of fraud in its COVID-19 spending.** The Comptroller and Auditor General (C&AG) placed a limitation of scope on his audit opinion over the regularity of DHSC's accounts in 2020-21 because the department did not have an assessment of the level of fraud within its procurement of PPE.[14] DHSC conducted an FMA assessment of the level of fraud in its procurement of PPE in March 2022 that focused on the highest risk cases so that it could best identify and tackle specific cases of fraud. The PSFA said this was of a high quality and robust nature, but was unreliable as an estimate of the overall level of fraud because it was not a random sample and could not be extrapolated. DHSC told us it has since conducted a compliance audit of all contracts which, although it provides less confidence than a full FMA, suggests that as at November 2022 1.8% of its expenditure on PPE was fraudulent after its mitigations and recoveries. This has not been independently verified. DHSC also identified further risks of fraud in Test and Trace. Much of the spending for Test and Trace formed part of the accounts of the UK Health Security Agency, which did not have proper governance or financial controls in place to support the accounts for 2021-22, leading the C&AG to produce a disclaimer that he was unable to audit them and did not know if they contained material irregularity;[15]

- **accounting estimates normally exclude amounts that are not material in the context of each set of accounts** – where material means so large that we as auditors would conclude it affected the understanding of each set of accounts as a whole. These amounts could still sum to a large amount across government;

- **estimates exclude certain categories of fraud.** For example, BEIS's estimate on the level of fraud in the Bounce Back Loans Scheme excluded fraud where the loan was not used for the purposes stated or the business had misstated their turnover; and estimates of benefit fraud are likely to underreport fraud due to undisclosed income from the cash in hand or hidden economy;

- **fraud estimates were based on incomplete data.** For example, the data BEIS used for the Bounce Back Loan Scheme were collected in November 2020, while the scheme did not close for new applicants until March 2021; and

- **methods used to prepare estimates were inherently uncertain.** For example, HMRC used a Monte Carlo simulation to determine the fraud and error ranges for its employment support schemes.[16] However, HMRC acknowledged that the results of this analysis may not capture all reasonable outcomes, and it is possible that actual fraud and error values exceed its estimate.

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14 Department of Health & Social Care, *Annual Report and Accounts 2020-21*, Session 2021-22, HC 1053.
15 Department of Health & Social Care, *Annual Report and Accounts 2021-22*, Session 2022-23, HC 1043.
16 A Monte Carlo simulation is a computerised analytical technique to calculate likely outcomes by running multiple scenarios based on probability.

The increased risk of fraud during the pandemic

1.21 The risk of fraud and error rose significantly as a result of government's response to the pandemic. This was for a number of reasons including that government:

- spent more on things that are prone to fraud and error, such as welfare, business support and grants;

- often prioritised the need for speed when setting up new initiatives over reducing the risk of fraud and error;

- provided support to people and businesses that it did not have a prior relationship with (and therefore lacked information to verify claims);

- quickly introduced new supply chains to procure goods and services;

- relaxed or modified normal controls to enable remote working and remote access to services by citizens;

- prioritised its COVID-19 response over normal compliance activity; and

- increased its risk appetite for fraud and error, as shown by ministerial directions accepting risks identified by the civil service.[17]

Together these factors led to control weaknesses and increased opportunities to commit fraud and corruption across government (**Figure 7**).

1.22 In 2020-21, Cabinet Office developed a global fraud risk assessment. In 2021, we reported that it listed 206 of government's COVID-19 response schemes, representing £387 billion of announced expenditure, and its assessment of the potential risk of fraud in each.[18] It risk-assessed 16 of these schemes as having a high or very high fraud risk, accounting for 57% (£219 billion) of the £387 billion. The risk assessments were shared with each department but were not based on a review of the controls in each scheme. Cabinet Office used these risk assessments to inform its deployment of resources and engagement with departments. The PSFA has accepted but not yet implemented a recommendation by the Committee of Public Accounts (PAC) to produce a global risk assessment for the whole of government.

17   National Audit Office, *Good practice guidance, Fraud and error*, March 2021.
18   National Audit Office, *Good practice guidance, Fraud and error*, March 2021.

Figure 7

Examples from our reports of increased opportunity to commit fraud and corruption during the COVID-19 pandemic due to control weaknesses, 2020 to 2022

Government responses to the emergency situation led to increases in several types of fraud risk

Example 1 – HM Revenue & Customs (HMRC) - Delivery of employment support schemes in response to the COVID-19 pandemic

During the pandemic the furlough and self-employment support schemes prevented millions of job losses, which cost around £100 billion and resulted in fraud and error of between £3.2 billion (3.3%) and £6.3 billion (6.4%). HMRC set eligibility to existing tax records which reduced fraudulent new applications, but limited those that could access the scheme. HMRC subsequently strengthened its controls to prevent employers claiming furlough for employees who were working, which was against scheme rules.

Comptroller and Auditor General, *Delivery of employment support schemes in response to the COVID-19 pandemic,* Session 2022-23, HC 656, October 2022

Example 2 – Cross-government – Transparency of reporting contract awards

During the pandemic, government awarded around £18 billion of contracts using emergency regulations to procure goods, services and works to support its emergency response. We inspected a sample of contracts and found examples of insufficient documentation around key decisions and management of potential conflicts of interest, contracts awarded retrospectively and not published in a timely manner.

Comptroller and Auditor General, *Investigation into government procurement during the COVID-19 pandemic,* Session 2019-21, HC 959, November 2020

Example 3 – Department of Health & Social Care (DHSC) – The high priority 'VIP lane'

During the pandemic DHSC awarded £7.9 billion of personal protective equipment contracts through newly established procurement routes. Around one-third of these were awarded to 'VIP lane' suppliers suggested by government officials, ministers' offices, members of Parliament, senior NHS staff and other health professionals. DHSC recognises that these changes to its normal processes exposed it to a heightened risk of fraud, for example from suppliers applying inflated prices to invoices and goods not being received when upfront payments were made.

Comptroller and Auditor General, *Investigation into the management of PPE contracts,* Session 2021-22, HC 1144, March 2022

Example 4 – Department for Work & Pensions (DWP) – Easing of benefit rules

Between March and June 2020 DWP relaxed around 200 fraud and error controls to ensure that millions of new Universal Credit claimants were paid on time, and redeployed 6,000 of its 8,000 counter-fraud staff to support claims processing. DWP estimates the level of overpayment due to fraud and error was 26.6% for claims made during this window, compared with 10.9% for claims made before the start of the pandemic.

Comptroller and Auditor General, *Report on Accounts: Department for Work and Pensions*, in Department for Work & Pensions, *Annual Report and Accounts 2021-22*, Session 2021-22, HC 193, July 2022

Example 5 – Department for Business, Energy & Industrial Strategy – Bounce Back Loan Scheme

Through this scheme government acted as guarantor for 100% of loans made to support businesses. In December 2021 we reported that Government failed to enact adequate fraud controls, as it prioritised speed over most other aspects of value for money. The reporting system was not fully operational at launch, and subsequent counter-fraud measures were adopted too slowly to prevent fraud. Estimates of losses to fraud are highly uncertain but likely to run into the billions of pounds.

Comptroller and Auditor General, *The Bounce Back Loan Scheme: an update,* Session 2021-22, HC 861, December 2021

Example 6 – HMRC – Managing tax compliance following the pandemic

During the pandemic HMRC redeployed thousands of compliance staff to new COVID-19 support schemes, reducing capacity for tax compliance work. Compliance yield reduced significantly during the pandemic and there is a risk that more non-compliant taxpayers ultimately fail to pay the right tax or escape investigation and prosecution. The long-term effect on areas such as evasion or criminal attack is still unclear.

Comptroller and Auditor General, *Managing tax compliance following the pandemic,* Session 2022-23, HC 957, December 2022

Source: National Audit Office summary of our recently published reports

1.23 There are several basic standards of public accountability that we think government could have maintained – even during the height of the COVID-19 emergency. We have identified specific examples where government failed to do this, leading to increased opportunities for fraud and corruption and risking loss of public trust:

- **Increasing transparency to Parliament and the public.** In response to the pandemic government awarded around £18 billion of contracts using emergency procurement regulations that permit options including the use of direct award to suppliers without competition. We identified instances of significant delays in the publication of the details of some very large contracts that had been awarded in this manner.[19]

- **Management of potential conflicts of interest.** In our review of a sample of COVID-19 contracts we did not find enough evidence that this risk was being adequately managed. It is even more important to have a clear approach to managing conflicts of interest when contracts are awarded directly to suppliers without competition.[20]

- **Promptly addressing known vulnerabilities to fraud.** BEIS launched the Bounce Back Loan Scheme fully expecting a heightened risk of fraud as it suspended standard lending practices to provide support quickly. In December 2021, we reported that BEIS implemented subsequent counter-fraud measures too slowly to be effective.[21]

- **Timely financial reporting.** The pandemic resulted in delays in government accounting, as departments needed to account for unprecedented expenditure and financial guarantees. The audits of these accounts also required significantly greater effort, given the risks involved. We reported in January 2023 that only 9% of local government bodies received audited accounts for 2020-21 by the extended statutory publication deadline of 30 September 2021 and 12% received audited accounts for 2021-22 by the statutory deadline of 30 November 2022.[22]

19 Comptroller and Auditor General, *Investigation into government procurement during the COVID-19 pandemic*, Session 2019–21, HC 959, National Audit Office, November 2020.
20 Comptroller and Auditor General, *Investigation into government procurement during the COVID-19 pandemic*, Session 2019–21, HC 959, National Audit Office, November 2020.
21 Comptroller and Auditor General, *The Bounce Back Loan Scheme: an update*, Session 2021-22, HC 861, National Audit Office, December 2021.
22 Comptroller and Auditor General, *Progress update: Timeliness of local auditor reporting on local government in England*, Session 2022-23, HC 1026, National Audit Office, January 2023.

Recovery of public money lost to fraud and corruption

1.24 It is highly unlikely that most of the money that has been paid out to fraud and corruption will be recovered. In 2020, GCFF, central government bodies and the Government Internal Audit Agency, having identified the increased risk of fraud in government's response to the pandemic, set up a 'Post-event Assurance' working group to measure and pursue fraud. This led to activity across government, including:

- **HMRC and the Taxpayer Protection Taskforce.** HMRC estimates that total error and fraud across the lifetime of the COVID-19 support schemes is £4.5 billion, representing 4.6% of the £98.2 billion total support provided. Of this, around £2.1 billion was lost to opportunistic fraud, £367 million to organised crime and £2.1 billion to error. In Budget 2021 the government allocated more than £100 million for a Taxpayer Protection Taskforce to combat fraud and error in COVID-19 support schemes administered by HMRC. As at 31 March 2022, HMRC had recovered £762 million, including £536 million, which HMRC had recovered before the taskforce was set up. So far the majority of losses identified by the Taskforce have been a result of error. HMRC expects that by the time the taskforce winds down it will have recovered around £1.1 billion, one-quarter of the overall fraud and error losses. It expects to continue to recover some money after the Taskforce has ended, through its normal collection activity;

- **BEIS and the Bounce Back Loans Scheme.** Based on early evidence BEIS expects 47.1% of fraudulent loans to be repaid without any further intervention. It is also working with the National Investigation Service (NATIS) and other law enforcement agencies to pursue fraud investigations. By 31 March 2022, NATIS had recovered £3.8 million against a target of £6 million, which represents less than 0.5% of estimated irregular payments through the scheme.[23] BEIS has not made the progress it planned to and, as a result, its additional recovery action is not starting until up to three years after businesses received the irregular payments. This delay is likely to result in a lower rate of recovery; and

- **DWP and retrospective review.** DWP retrospectively reviewed more than one million claims made at the height of the pandemic when it had relaxed its payment controls to process claims quickly. This generated savings of £500 million and focused mainly on the highest risk cases still in payment. It still left £1.5 billion of Universal Credit overpayments being paid in 2021-22 for claims that started between March and June 2020. It is starting to undertake more extensive targeted case reviews of more than two million open claims, which DWP expects will prevent £2 billion of losses to fraud and error over the Spending Review period.

1.25 The PSFA has promised to update PAC on the recovery and levels of fraud and error across other departments, following post-event assurance, in its spring 2023 bulletin.

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23 A further £4.2 million has been recovered relating to payments by local authorities for support schemes.

Part Two

Government's counter-fraud and corruption capability

2.1 In this part we set out:

- efforts to improve government's counter-fraud and corruption capability;

- the setup of the Public Sector Fraud Authority (PSFA); and

- the capacity of government to tackle fraud and corruption.

Efforts to improve government's counter-fraud and corruption capability

2.2 There are several organisations involved in tackling fraud both within government and outside (**Figure 8**). Over the past six years government has sought to strengthen its counter-fraud capabilities (**Figure 9** on pages 38 and 39).

2.3 Until 2014, the National Fraud Authority was the lead counter-fraud body in government, covering both threats against government and the wider public. The government dissolved the National Fraud Authority in March 2014 and transferred its functions to the National Crime Agency, City of London Police, Home Office and Cabinet Office. These organisations have mostly focused on economic crime in the wider economy. We recently published a report on their *Progress combatting fraud.*[24]

2.4 Our 2016 *Fraud Landscape review* found that departments' capacity and capability to manage fraud was mixed.[25] There was a small Cabinet Office team with policy responsibility for combatting fraud against government but it did not have any powers to require departments to take action. It tried to improve aspects of governmental capability through influence, and to promote collaboration between departments. This team aimed to raise the profile of counter-fraud activity and improve understanding of the cross-government picture by collecting data and surveying departments' counter-fraud capacity.

24 Comptroller and Auditor General, *Progress combatting fraud*, Session 2022-23, HC 654, National Audit Office, November 2022.
25 Comptroller and Auditor General, *Fraud Landscape review*, Session 2015-16, HC 850, National Audit Office, February 2016.

Figure 8

Stakeholders involved in tackling fraud and corruption across government

There are a number of government and external organisations that help bodies to tackle fraud and corruption

Government departments and other public bodies

Each public body is individually responsible for managing fraud and corruption risk.

Public bodies that investigate fraud and corruption

Government Internal Audit Agency

Includes a team providing counter-fraud services to the public sector across the UK.

National Crime Agency

Responsible for protecting the public from serious and organised crime.

Works with the public sector to pursue those involved in such crime, including fraudsters.

Serious Fraud Office

A non-ministerial department that investigates and prosecutes serious or complex fraud, bribery and corruption.

National Investigation Service

An investigation unit based in Thurrock Local Authority, that investigates some organised crime relating to the public sector.

Primary responsibility for counter-fraud and corruption across government

Cabinet Office

Cabinet Office supports the Prime Minister and effective running of government. It is the corporate headquarters of government, in partnership with HM Treasury and jointly oversees the Public Sector Fraud Authority.

HM Treasury

HM Treasury is responsible for public spending, UK economic policy and sustaining economic growth. It jointly oversees the Public Sector Fraud Authority with Cabinet Office.

Public Sector Fraud Authority

Reporting to both Cabinet Office and HM Treasury, the PSFA is a new body formed to bring together counter-fraud experts to reduce the impact of fraud in departments and public bodies. It is also the centre of the Government Counter Fraud Function (GCFF).

Government Counter Fraud Profession

The Government Counter Fraud Profession has more than 7,000 members across 56 organisations and was introduced to develop a common structure for developing counter fraud capability.

Government Counter Fraud Function

The Government Counter Fraud Function brings together around 13,000 public servants to reduce the impact of fraud in the public sector. It aims to build capability across government, share intelligence and increase the understanding of fraud risk.

External organisations that report on counter-fraud issues

CIFAS

A not-for-profit membership organisation that facilitates data, learning and intelligence sharing between over 650 public, private and third sector organisations in order to prevent and detect fraud.

Chartered Institute of Public Finance and Accountancy

An accountancy membership body. Supports the national counter-fraud and anti-corruption strategy for government.

Institute of Chartered Accountants in England and Wales

An accountancy membership body. Reports on key issues affecting the profession including public sector fraud.

Fraud Advisory Panel

A charitable company which advices government, public, private and charity sectors on fraud prevention, detection and reporting.

National Audit Office (NAO)

Reports on the financial accounts of government departments and examines the value for money of how public money has been spent – including on departments' efforts to tackle fraud and error.

→ Information sharing and collaboration   → Accountability

Source: National Audit Office review of stakeholder publications and discussions with public bodies

Figure 9

Key events in counter-fraud 2016–2022, since the publication of the National Audit Office
Fraud landscape review in 2016

The Public Sector Fraud Authority has grown out of the team established in the Cabinet Office which launched the Government Counter Fraud Function and the Government Counter Fraud Profession

As at 2016
Cabinet Office is the policy lead for fraud but relies on departments to manage fraud risk individually. Cabinet Office includes a Fraud and Error Task Force comprising senior officials from HM Treasury, Cabinet Office, HM Revenue & Customs and the Department for Work & Pensions.

June 2018
Cabinet Office launches **Fraud Loss Measurement training** across government.

October 2018
Cabinet Office launches the **Government Counter Fraud Function (GCFF)** to bring together people working in counter-fraud across government, allowing for best practice and knowledge to be shared.

March 2020
The COVID-19 pandemic results in emergency government support schemes that are exposed to a high risk of fraud and error.

March 2022
GCFP publishes a revised **Professional Standard for Fraud Risk Assessment**.

May 2022
The Government Counter Fraud Profession grows to 7,000 members.

February 2017
Cabinet Office launches a set of **Functional Standards** detailing the minimum fundamentals that central government bodies should have in place to protect them from fraud.

February 2018
Cabinet Office issues **Professional Standards** for **Intelligence, Investigation** and **Sanctions, Redress and Punishment**.

October 2019
Cabinet Office launches **Fraud Risk Assessment training** for departments.

GCFP issues **Professional Standard** for **Fraud Risk Assessment**.

January 2021
GCFP issues **Professional Standard** for **Fraud Measurement**.

January 2022
Lord Agnew resigns citing major concerns about the prioritisation of counter-fraud across government.

August 2022
Government launches the Public Sector Fraud Authority (PSFA). It leads the **Government Counter Fraud Function,** reporting to both Cabinet Office and HM Treasury.

2016   2017   2018   2019   2020   2021   2022   2023

January 2017
Cabinet Office issues a **Professional Standard** for **Leadership, Management and Strategy**.

This is the first of six Professional Standards under development.

February 2018
The governments of **Australia, Canada, New Zealand, the United Kingdom and the United States** create the **International Public Sector Fraud Forum** to share leading counter-fraud practice and publish guidance over the coming years.

September 2019
GCFP launches the first dedicated **Level 4 Counter Fraud Apprenticeship Scheme** for **Investigation**.

August 2020
The **Government Counter Fraud Profession** grows to 7,000 members.

April 2022
GCFF begins rolling out Initial Fraud Risk Assessments across government, after running pilots earlier in 2022.

March 2023
GCFP publishes the **Government Counter Fraud Profession Strategy for 2023-25**.

April 2017
Introduction of the Digital Economy Act (2017) which under the fraud provision allows sharing of information between public organisations through Information Sharing Agreements.

October 2018
Cabinet Office launches the **Government Counter Fraud Profession** with over 3,000 members to develop a common structure for developing counter-fraud capability across government. GCFP launches the **Professional Standard for Counter Fraud, Bribery and Corruption**.

December 2018
Government reports on departmental compliance against the Functional Standards in the **Cross-Government Fraud Landscape Annual Report 2018**.

April to May 2022
GCFF collects information about the counter-fraud understanding, resources, and outcomes of 70 central government organisations as part of its **Workforce and Performance Review**.

November 2022
GCFP publishes a revised **Professional Standard for counter-fraud investigation**.

PSFA launches the piloting phase of the **Counter Fraud Leadership Programme**, with live delivery expected from September 2023.

○ Development of Counter Fraud Function and standards for organisations

○ Development of Counter Fraud Profession and standards for people

○ Key events

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

Source: National Audit Office analysis of our published reports, information in the public domain and information provided by the Public Sector Fraud Authority

2.5 Since our 2016 report, government has strengthened counter-fraud capability across the public sector (Figure 9) by:

- **establishing the Government Counter Fraud Function (GCFF) and standards for organisations.** In 2018 Cabinet Office established the GCFF, which brings together some 13,000 people working on counter-fraud activity across the public sector. The newly established GCFF launched a set of Counter Fraud Functional Standards to set out minimum expectations for how government organisations should manage their fraud and corruption risks.

- **establishing the Government Counter Fraud Profession and standards for professionals.** In October 2018, government launched the Government Counter Fraud Profession (GCFP), with leadership from across 18 public bodies, to support the development of capability for counter-fraud professionals across government. The GCFP grants membership to the profession based the evaluation of the knowledge and skills codified by GCFP standards. GCFP has produced professional standards in six counter-fraud disciplines, including leadership; intelligence; risk assessment; investigation; sanctions, redress and punishment; and fraud loss measurement. Since its launch the GCFP has grown to over 7,000 members from 56 organisations, including central and local government and policing. Alongside these standards, GCFP has developed bespoke training in fraud risk assessment and fraud loss measurement to increase capability across government, and has trained around 150 individuals to date.

- **establishing a process for Initial Fraud Impact Assessments (IFIA).** Following publication of our 2021 fraud and error good practice guidance, PSFA introduced new requirements for departments to undertake IFIAs for major new initiatives. These are rapid assessments of potential fraud and corruption risks in policies so that appropriate controls can be designed and put in place before implementation. Those with a higher risk require a full fraud risk assessment, supported by PSFA, including an assessment of the effectiveness of those controls. This has been consolidated into HM Treasury's Managing Public Money guidance and is already being adopted on new schemes.[26] PSFA piloted a cross-government 'tiger team' of experts to undertake IFIAs, fraud risk assessments and initial prevention advice on the Department for Business, Energy & Industrial Strategy's (BEIS's) new energy schemes.

- **trying to make progress in the use of data and intelligence to detect and prevent fraud.** Government introduced the Digital Economy Act in 2017, which aims to make it easier for public bodies to share data to find and prevent fraud. The Cabinet Office has also run the National Fraud Initiative, which uses data matching to help public bodies detect fraud and reported that between April 2020 and March 2022 that it had recovered and prevented £442.6 million of fraud. Cabinet Office also produced best practice guidance for public bodies on how to use data to find and prevent fraud. During the pandemic, it set up a data analytics service to support the detection of fraud relating to COVID-19 expenditure.

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26 HM Treasury, Managing Public Money, March 2022. Annex 4.9 *"A4.9.5 For any new major area of spend, departments shall assess the risk of and impact from fraud at the outset when the spending is being proposed. This should identify the potential for fraud and the different impacts that fraud could have for this spend area. Once spending is approved this should result in the development and continued maintenance of a detailed fraud risk assessment".*

The Public Sector Fraud Authority

2.6 The level of fraud in the government's COVID-19 schemes has increased the profile and awareness of fraud attacks against government. The Bounce Back Loan Scheme, in particular, led to large losses in BEIS, a body that had little counter-fraud capacity of its own. This led to calls for greater central support for counter-fraud capabilities. In January 2022, the minister responsible for the GCFF resigned citing a lack of prioritisation of tackling fraud. In the summer of 2022, the government launched the PSFA.

2.7 PSFA is now government's centre of expertise for the management of public sector fraud and associated error against the public sector. It is part of the Cabinet Office and incorporates the former Cabinet Office policy team. It reports to both Cabinet Office and HM Treasury so that it can integrate with both. It now leads the GCFF, which includes some 13,000 people across the whole of central government and provides the secretariat to the GCFP.

2.8 PSFA is at an early stage. In the eight months since its inception, it has agreed its mandate with departments, appointed its interim leadership and started to set up its teams. PSFA has three core roles to support the profession and function:

- **Practice, Standard and Capability:** developing the profession through the provision of professional standards for people and training.

- **Performance, Assurance and Evidence:** assessing the quality of departmental approaches.

- **Counter-fraud policy:** leading on cross-government counter-fraud policy issues.

2.9 PSFA has also set out plans for its central services for 2023 including plans for:

- **enforcement:** a central unit to investigate frauds that departments do not have capacity to investigate;

- **data and Intelligence:** a central data-matching and intelligence function, building on existing data matching initiatives such as the National Fraud Initiative; and

- **risk threat and prevention:** providing risk assessments of new initiatives.

2.10 The departments' counter-fraud teams that we spoke to were broadly supportive of the establishment of the PSFA and its ambitions. They told us they are looking to PSFA for support and guidance, particularly in increasing counter-fraud capability within departments and developing best practice. However, they raised concerns about the way both Cabinet Office and the PSFA made demands of the small counter-fraud teams in departments to provide information without considering the resources available. They also wondered if PSFA would be able to expand its brief to adequately cover corruption given the GCFF's historical focus on fraud. PSFA told us that it understood why some staff in the function would feel like this, but that it believed that their perception would change once PSFA rolled out its new services.

Departments' counter-fraud capability

2.11 In 2021, HM Treasury commissioned 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 and the larger arm's-length bodies. The WPR was delayed due to the diversion of PSFA's resources to supporting the fraud risk assessment for the BEIS energy schemes. PSFA concluded the WPR in March 2023. We set out a summary of the data it collected below and set out PSFA's conclusions on pages 39 to 40.

2.12 Counter-fraud staff and capability are unevenly spread across government (**Figure 10** on pages 43 and 44). Some 11,200 (84%) work for the Department for Work & Pensions (DWP) or HM Revenue & Customs (HMRC), which have the most fraud and therefore the most counter-fraud capability. They also have their own enforcement powers; are more likely to 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 developing machine-learning approaches to risk-assess transactions before payments are made.

2.13 The remaining 16% of counter-fraud staff are spread across the rest of government including within:

- **centres of good practice.** Most departments have a small central teams of one to five people who coordinate counter-fraud risk assessment and activity, distribute good practice and interface with PSFA;

- **dedicated investigation units.** Some departments have their own investigation units. For example, the Department for Environment, Food & Rural Affairs' (Defra's) Investigation Service has around 20 staff and covers both regulatory and criminal investigations. The NHS Counter Fraud Authority (NHSCFA) has 156 staff focused on tackling fraud and corruption across the NHS including internal and service user fraud. HM Prison & Probation Service has a unit of around 150 staff focused on corruption among prison and probation officers; and

- **specialist teams with counter-fraud and corruption professionals.** These focus on managing specific risks in their department. For example, the Department for Levelling-Up, Housing & Communities has set up a Grants Centre of Excellence of seven staff to manage its risk of grant fraud.

Government bodies may also receive counter-fraud and investigation support from the Government Internal Audit Agency.

2.14 Some organisations play an important role in government's wider fraud prevention efforts, even though they report limited fraud and corruption staff. For example, Defra has people working on waste crime who are not reported in the counter-fraud function, but do investigate fraud among other crimes.

Figure 10

Number of counter-fraud and corruption staff and professionals, by departmental group

Around 84% of government counter-fraud staff work for the Department for Work & Pensions or HM Revenue & Customs. Less than 45% are members of the Government Counter Fraud Profession

Departmental group	How are the majority of the group's counter-fraud staff deployed?	Number of staff in the counter-fraud function	Number of members in the Government Counter Fraud Profession
		(full-time equivalent)	(people)
HM Revenue & Customs	Investigation (tax fraud)	6,115	4,105
Department for Work & Pensions	Investigation (benefit fraud)	5,105	1,362
Department for Business, Energy & Industrial Strategy	Investigation (Insolvency Service)	679	476
Home Office	Investigation (HM Passport Office)	367	24
Department of Health & Social Care	Investigation, intelligence (NHS Counter Fraud Authority)	208	70
Ministry of Justice	Bribery and corruption (HM Prison and Probation Service)	174	1
National Investigation Service	Investigation	136	No data
Department for Transport	Investigation (Driver and Vehicle Licensing Agency, Driver and Vehicle Standards Agency)	118	4
Department for Education	Investigation (Student Loans Company, Education and Skills Funding Agency)	93	6
Public Sector Fraud Authority	Leadership, Intelligence, investigation, fraud risk assessment	82	11
Food Standards Agency	Investigation	84	0
Government Internal Audit Agency	Investigation	40	No data
Foreign, Commonwealth & Development Office	Data analytics, culture, sanctions	36	3
Ministry of Defence	Investigation, leadership	28	2
Department for Digital, Culture, Media & Sport	Leadership, prevention (Building Digital UK)	26	3
Department for Environment, Food & Rural Affairs	Investigation, leadership	19	3
National Crime Agency	Intelligence and investigation	17	0
HM Treasury	Intelligence, fraud risk assessment, fraud measurement	11	2
UK Export Finance	Culture, prevention	9	0
Ofgem	Bribery and corruption, prevention, culture	8	1

Figure 10 *continued*

Number of counter-fraud and corruption staff and professionals, by departmental group

Departmental group	How are the majority of the group's counter-fraud staff deployed?	Number of staff in the counter-fraud function	Number of members in the Government Counter Fraud Profession
		(full-time equivalent)	**(people)**
Department for Levelling Up, Housing & Communities	Leadership, fraud risk assessment	6	0
Cabinet Office	Leadership, fraud risk assessment	5	0
Department for International Trade	Fraud risk assessment, prevention	2	0
Total within the function		**13,368**	**6,073**
Local Authorities and other bodies outside the function	–	–	898
Total		**13,368**	**6,971**

Notes

1   The data available show number of staff in the function as full time equivalents and is as reported by departments in 2022 through the Workforce and Performance Review. The number of members in the profession is the number of people on PSFA's membership list as at March 2023. They are therefore not directly comparable. The impact of this is that the proportion of staff in the function who are members of the profession is lower than 6,073 out of 13,368. We thus conclude that less than 45% of those working in the function are members of the profession.

2   Some departments told us that the staff numbers reported by the PSFA did not agree with the numbers they put in their Workforce and Performance Review return, but that these differences are minor and therefore do not change the high-level proportions of where counter-fraud staff are placed across government.

3   The number of staff working in the Government Counter Fraud Function are staff working on fraud against government. The National Crime Agency, for example, has further staff working on fraud against business and individuals.

4   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 Digital, Culture, Media & Sport. The data used for this chart were collected before those changes.

Source: National Audit Office analysis of Public Sector Fraud Authority data from Workforce and Performance Reviews

2.15 Not all counter-fraud staff are counter-fraud professionals. Despite GCFF efforts to promote the profession, set standards and train people to them, there are 6,971 members of the profession, 6,073 of whom work in central government, compared with 13,368 full-time equivalent staff in the function.

2.16 The majority of counter-fraud staff as at 2021-22 were investigators (**Figure 11**). The GCFP has attempted to train and professionalise counter-fraud staff in risk assessment and measurement disciplines. For example, PSFA reports that 99 fraud risk assessors were trained across government by the end of 2020-21, up from 41 in 2019-20.

Figure 11

Number of counter-fraud, bribery and corruption staff in central government at 2021-22, by discipline

Around two-thirds of people who identify as part of the counter-fraud function are investigators

Counter-fraud and corruption discipline
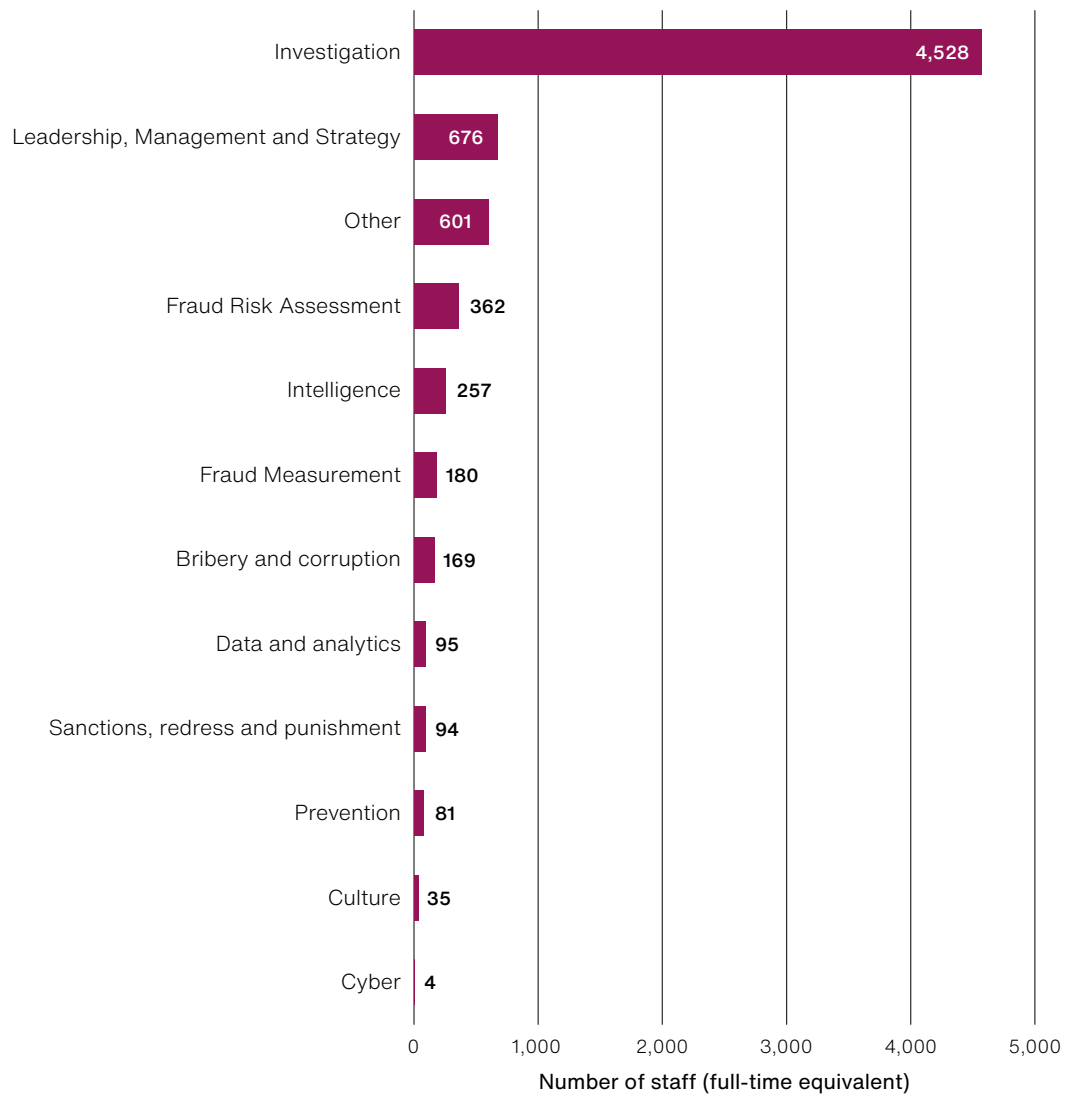
Discipline	Number of staff (full-time equivalent)
Investigation	4,528
Leadership, Management and Strategy	676
Other	601
Fraud Risk Assessment	362
Intelligence	257
Fraud Measurement	180
Bribery and corruption	169
Data and analytics	95
Sanctions, redress and punishment	94
Prevention	81
Culture	35
Cyber	4

Number of staff (full-time equivalent)

Source: National Audit Office analysis of Public Sector Fraud Authority Workforce and Performance Reviews

PSFA Workforce and Performance Review assessments

2.17 As part of its WPR, PSFA performed a baseline assessment of each of the 70 public bodies counter-fraud understanding, resourcing and outcomes (**Figure 12**). It collected data in April 2022 and used performance data from 2020-21. In making these assessments, PSFA noted that the COVID-19 pandemic led to a significant increase in vulnerability to fraud risk across government and that its assessments aimed to determine how well-placed central government bodies were to meet the challenge presented by this heightened risk environment. 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. The WPR assessed organisations against three criteria:

- **Understanding fraud risk.** This assesses whether the organisation has demonstrated an understanding of the fraud and error risks they face. This includes whether the organisation has an up-to-date organisational fraud risk assessment, undertaken by trained counter-fraud staff, that measures and quantifies the extent of fraud. It also looks at whether recent fraud measurement exercises had been undertaken to estimate the level of fraud and error with a high level of confidence. It also considers whether the appropriate 'tone from the top' is set by a senior officer accountable with counter-fraud objectives.

- **Counter-fraud resourcing.** This assesses whether the organisation is able to demonstrate that its counter-fraud resources are aligned to its expenditure and fraud risk profile. This takes into account all the resources that were reported as being invested in counter-fraud, including staffing and investments such as data, analytics and third-party services. PSFA told us this was often a subjective assessment based on the organisation's inherent risks because most of the public bodies being assessed lacked robust quantitative assessments of the extent of fraud.

- **Counter-fraud outcomes.** This assesses whether the organisation can demonstrate that its counter-fraud activity was delivering effective outcomes. This includes the outcomes being delivered against an organisation's counter-fraud investment, particularly in relation to the value of fraud and error being prevented and recovered. It also includes how the organisation tracks and reports the outcome delivery, including its use of targets, and how it uses these data to drive future outcome improvements.

2.18 PSFA's preliminary conclusions are that most public bodies could do more to understand and manage their fraud risks. Using data collected in April 2022 and performance information from 2020-21, the PSFA came to a preliminary conclusion that only 14% of the organisations assessed have mechanisms in place to understand and measure the fraud risks that they face; 27% of organisations had clear indicators of a mismatch between their resources and the risk; and 6% of organisations assessed were delivering a strong return on their counter-fraud investment against an agreed target. The majority of the rest were making progress towards improving their understanding of fraud risk and resourcing and PSFA wants more to show that they are achieving a return on investment of at least £3 for every £1 spent on counter-fraud. PSFA intends to further engage with departments rated red under the WPR.

Figure 12

Public Sector Fraud Authority assessment of public bodies' understanding of their fraud risk, resourcing and outcomes as at 2022

PSFA assessed most public bodies as not having counter-fraud understanding, resourcing or outcomes that are proportionate to the heightened risk of public sector fraud following the COVID-19 pandemic

Public bodies (%)
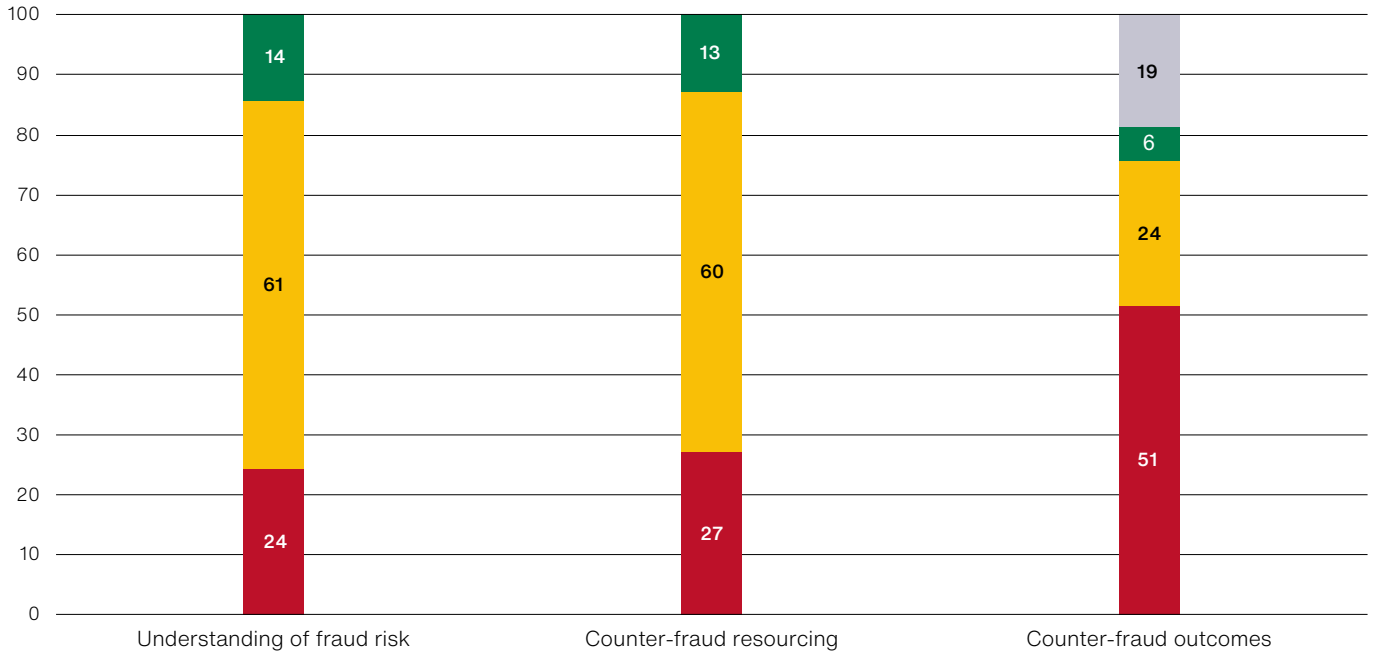
■ Red – PSFA has concerns it wishes to follow up on   ■ Amber – Work to modernise has started

■ Green – Nothing further to do for now   ■ Data not available

Notes

1 Ratings are drawn from Workforce and Performance Reviews produced by the Public Sector Fraud Authority (PSFA) based on information provided by 70 central government organisations between April and May 2022.

2 The PSFA assesses counter-fraud capability using separate Red/Amber/Green (RAG) criteria for the three areas of assessment:

Understanding fraud risk RAG rating criteria

• Red. Based on the information provided, there are indicators that the organisation has gaps in its understanding of key risk exposures.

• Amber. Based on the information provided there is evidence that the organisation has demonstrated an understanding of its key risk exposures.

• Green. Based on the information provided, there is evidence that the organisation has demonstrated it has both identified, and sought to quantify, its risk exposures.

Counter-fraud resourcing RAG rating criteria

• Red. No reported counter-fraud staff, or there are clear indicators that resources are mismatched relative to spend and likely fraud risk faced by the organisation.

• Amber. There are indicators that there is potential misalignment of counter-fraud staff deployment relative to spend and the likely risk areas of the organisation.

• Green. Counter-fraud staff deployment appears better aligned and targeted towards spend and risk.

Counter-fraud outcomes RAG rating criteria

• Red. Organisation has no counter-fraud return-on-investment (ROI) target and has reported fraud or error below a 3:1 ROI ratio (including nil returns).

• Amber. Organisation has no counter-fraud ROI metrics or targets, but reported fraud and error in excess of a 3:1 ROI ratio.

• Green. Organisation has reported it has a counter-fraud target based on ROI and has reported fraud and error in excess of a 3:1 ROI ratio (or 1:1 in micro teams).

Source: National Audit Office analysis of Public Sector Fraud Authority Workforce and Performance Review findings

2.19 These results match our understanding from conversations and work across government. Many officials with responsibility for counter-fraud told us that managing fraud and corruption risks is rarely a top priority for senior leaders in their organisations, mainly due to competing priorities, and is not sufficiently embedded in operations. Officials also told us that methodological concerns and resource constraints are the main barriers to undertaking proper fraud measurement exercises.

2.20 The lack of prioritisation by some departments leaves government particularly exposed to both emerging and unknown risks. With most counter-fraud and corruption activity being focused on specific risks, government has lacked capacity to adapt to new risks. For example, BEIS recognised that there was a risk of fraud in the Bounce Back Loan Scheme when it set it up and requested a ministerial direction (a written instruction from the minister to proceed). It recognised that, to provide better oversight of the fraud risk and the lenders that participated in the scheme, it needed to restructure its counter-fraud function and bring in more capacity to supplement its existing team of two full-time staff. The GCFF placed a senior civil servant into BEIS to aid the counter-fraud response. BEIS has since increased its central counter-fraud team to 15 full-time staff. 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.[27]

2.21 However, the BEIS counter-fraud function at the time was two full-time staff and it decided to bring in more staff and restructure its counter-fraud capability.

Data and intelligence sharing

Intelligence sharing

2.22 There are several fraud intelligence bodies, most notably Action Fraud and the National Crime Agency's National Assessment Centre, who share intelligence on types of fraud and specific data on individuals and organisations associated with fraud. The counter-fraud staff that we spoke to said that they received intelligence on the types of fraud. However, several (particularly among the smaller teams) said they received limited information that they could share and act on. In part this may be due to the lack of capacity and capability within those departments to use intelligence.

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27 Comptroller and Auditor General, *Energy bills support,* Session 2022-23, HC 1025, National Audit Office, February 2023.

2.23 Government does not have a specific operational capability to share intelligence and data about attacks against it. Such a capability could help prevent those who are detected attacking one part of government from successfully attacking other parts. As part of its response to fraud against COVID-19 schemes, Cabinet Office set up a temporary hotline to receive intelligence from the public about fraud against the government. It received some 7,000 reports from May 2020 to date. Around 75% of these related to the Bounce Back Loan Scheme. PSFA believes this showed the value of routinely sharing intelligence to prevent fraud and it is now considering how best to improve the sharing of intelligence across government.

Data-matching to prevent fraud

2.24 Good preventive controls require effective use of government data to verify information against information already provided and to detect anomalies that can be investigated. The Digital Economy Act 2017 provides a legal framework for establishing data-sharing arrangements, in England and Wales, to deal with fraud including data for: governance; intelligence and best practice; detecting fraud; and data-matching for detention and prevention. There have been 20 pilots under the Act focused on the prevention of fraud and some examples of data-matching before payments are made.

2.25 Technology provides the opportunity for real-time risk assessment of transactions. This could support due diligence on specific payments before they are made. For example, DWP uses HMRC real-time payroll data to verify benefit payments. However, most public bodies using data approaches to detect fraud use time-lagged data, which has to be manually formatted. To use real-time data, systems need to be integrated. Department counter-fraud staff 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. There is also variability in the quality and format of data as there are no standards across government.

2.26 In our 2022 guide on improving data, we said that the benefits of better data are not simple to achieve in practice. They will require focused effort, funding and prioritisation to achieve. Legacy systems and ageing data also present a barrier as they create complex practical issues for data-sharing and the challenges involved in using this data are not well understood. The Cabinet Office's Central Digital and Data Office (CDDO) has taken early steps to improve the use of data across government but acknowledges that significant technical and cultural barriers remain.

Part Three

What needs to be done

3.1 In this part we set out the insights from our work on what government can do to both protect itself from fraud and corruption and to improve public confidence in its ability to do so.

3.2 We spoke to 46 officials working in or with the counter-fraud function. This included all the heads of counter-fraud across all the main government departments and some of the larger arm's-length bodies and a selection of senior officials with a perspective on how fraud and corruption prevention is managed operationally. We found a broad consensus on the challenges government faces and the things that the Public Sector Fraud Authority (PSFA) and departments need to tackle. Using this, and our experience as the auditor of central government bodies, we have produced nine insights for PSFA and departments to put into practice (**Figure 13**).

Figure 13
Tackling fraud and corruption

We have identified from our work nine things government can do to show it is tackling fraud and corruption

a	Demonstrate best practice financial control and transparency.
b	Act as 'one government' in tackling fraud.
c	Set an anti-fraud and corruption culture.
d	Develop robust assessments of the level of fraud and corruption.
e	Embrace a preventative approach, tailored to the risks of each area.
f	Develop the counter-fraud and corruption profession.
g	Harness and use data to prevent fraud and corruption.
h	Design out fraud and corruption from new initiatives and systems.
i	Use investigative powers and capabilities as an effective deterrent.

Source: Insights from National Audit Office work and discussions with officials working in counter-fraud

a) Demonstrate best-practice financial control and transparency

Why is this important?

3.3 The level of fraud and identified shortcomings in standards of public accountability during the COVID-19 pandemic heighten the risk that the public perceives fraud and corruption as normal and government controls as weak. As set out in Part One, our audits of government's response to the COVID-19 pandemic found examples of departments consciously prioritising speed of response over basic controls in welfare, business support, and procurement. As the country comes out of the pandemic, departments need to both focus on basic controls and promote awareness of their efforts to do so, so that they are seen to role-model best practice.

What are the challenges?

- **Putting best practice in place.** Departments need to renew their focus on best practice. We have listed a range of good practice guides on effective governance and financial management relevant to tackling fraud and corruption in Appendix Three.

- **Being transparent.** Transparency by government can act both to deter fraud and corruption and to stimulate whistleblower and public reports to identify when it does occur. Departments need to be transparent in how decisions are made and where money is spent. This includes the need to report procurement, contract awards, spending above £25,000 and grants.

- **Developing minimum standards for emergencies.** Standard processes are designed to provide proportionate cost-effective control over risks. It is natural for leaders to want to act faster in times of emergency than standard processes sometimes allow. But they then need alternative ways of providing both transparency and assurance over the risks. For example, formal bid processes would not have worked well during the height of the COVID-19 pandemic to acquire emergency medical equipment, but it would have been possible to publish contracts in a timely way, to document how they managed conflicts of interest and to properly document decisions, to avoid perceptions of unfair treatment of suppliers.

b) Act as 'one government' in tackling fraud

Why is this important?

3.4 Government's counter-fraud and corruption efforts need to be led by each public body so that they can embed a preventive approach into their operations. However, public bodies can better protect themselves by sharing data and intelligence with other public bodies and working together. For example, people and organisations that attack one part of government are likely to attack another part. Many do not have the capability for data-led counter-fraud approaches or the expertise to embed cutting-edge counter-fraud practice in policy and system design. Establishing the PSFA presents the opportunity to better coordinate government efforts and to provide services that fill some of the capability gaps.

What are the challenges?

- **Win the buy-in of departments.** Our previous work has found that it can be difficult to establish effective central services and many shared services fail if they do not win the buy-in of departments to their approach. PSFA has an inherent tension between its assurance role assessing departmental capability and its service role supporting those departments. PSFA must balance these aspects of its role in a way that harnesses departments' support. PSFA should establish a functional user board to bring a user perspective to its governance.

- **Sharing leadership of the function across bodies.** PSFA now has responsibility for leading the cross-government approach to fraud and corruption. However, with most of government's counter-fraud and corruption capability in two departments, PSFA will need the Department for Work & Pensions' (DWP's) and HM Revenue & Customs' (HMRC's) support to supply expertise, staff and development of standards. PSFA is considering developing communities of practice across departments to develop and share technical expertise on specific issues.

- **Establishing a business case for each service.** PSFA has not yet set out business cases for its services. Our work has shown government can find it difficult to present business cases for shared and central services because it lacks proper costing and benefits data. This can make it difficult to convince departments to use the new services. PSFA needs to establish operational plans that define services and responsibilities so they can integrate with other services.

- **Developing central policy and providing strategic intelligence reviews.** Some experts told us they want PSFA to provide horizon-scanning to identify future risks that government can plan for and increase its resilience against fraud and corruption. For example, departments are concerned about the increasing use of cryptocurrency to obscure the movement of proceeds of crime and what future challenges technology would bring.

c) Set an anti-fraud and corruption culture

Why is this important?

3.5 Leaders need to set the right 'tone from the top' on tackling fraud and corruption. This helps to set the culture of government, encourages ethical practice, acts as a deterrent to commit fraud and corruption and encourages whistleblowers to report fraud and corruption. A strong focus on fraud and corruption through an organisation's governance, controls and risk management can help not only to detect and prevent fraud and corruption but also to establish a counter-fraud and corruption culture.

What are the challenges?

- **Prioritising fraud and corruption even though they are hidden crimes.** Because fraud and corruption are hidden crimes, it can be too easy for senior leaders to assume that there is little risk without proper assessment. On the other hand, without reliable risk assessments, government may over-react to the risks of fraud and corruption in ways that may not be value for money. Leaders need to make clear statements about the prioritisation of fraud and corruption based on robust assessments of the risk.

- **Celebrating tackling fraud and corruption.** Some counter-fraud professionals told us that senior officials can be reluctant to prioritise the detection and pursuit of fraud and corruption because of the risk to the organisation's reputation. Government should promote a culture that celebrates the detection and tackling of fraud and corruption in the same way as a safety culture promotes the reporting of accidents and near misses – so that lessons can be learned.

- **Embedding tackling fraud and corruption as part of robust risk management.** All professions and parts of the organisation have a role in stopping fraud and corruption. Public bodies should have in place robust risk management that collates and assesses risks to objectives across their organisations and leads to action to mitigate those risks. Discussing counter-fraud and corruption controls as part of risk management can help embed them through middle management and across an organisation.

d) Develop robust assessments of the level of fraud and corruption

Why is this important?

3.6 Best practice requires departments to undertake an assessment of fraud and corruption in the same way as any other risk so that effective controls can be put in place. However, undertaking a robust assessment of fraud and corruption risks is very challenging, particularly if it is to include quantification of the likely extent of fraud and corruption, so that the assessment can be used to prioritise resources.

What are the challenges?

- **Establishing a global fraud risk assessment.** PSFA's mandate sets out how it will establish a global fraud risk assessment that sets out the risk across government. This will need to be more specific than the existing estimates of fraud and error if it is to highlight areas where further action is necessary to manage the risk. It should also include some analysis of the causes of fraud and trends across government. It will depend on departments being able to undertake better fraud risk assessments and measurement exercises.

- **Lack of a defined robust but proportionate approach for smaller risk areas.** The current approach to Fraud Measurement and Assurance (FMA) exercises is not leading to robust risk assessments and measurement exercises with sufficient coverage across government to give an overall assessment of where the key fraud risks lie. PSFA needs to work with departments to improve the methodology used for estimating the level of fraud and corruption in government activities so that it can have greater coverage. This needs to make best use of all the available information including intelligence, an assessment of the risk inherent in the activity and knowledge of the controls in place.

- **A lack of return-on-investment metrics.** Only four organisations currently measure the return they achieve from their counter-fraud teams against clear metrics. As a result of the lack of robust fraud measurement, government does not have a methodology for establishing the return on its counter-fraud and corruption investment as a whole. This means it does not know that it has invested the right amount or that its investment is in the right areas. It also means government does not know how its counter-fraud and corruption efforts are contributing to its efficiency agenda.

- **Inappropriate targets**. Some fraud teams have set targets in place on amounts of losses due to fraud that they detect, prevent and recover. These measures can provide the wrong incentives if presented without a measure of the underlying rate of fraud and corruption because they can encourage investigative work (and potentially cherry-picking easy cases) at the expense of focusing on reducing the overall level of fraud and corruption through prevention work.

e) Embrace a preventive approach, tailored to the risks of each area

Why is this important?

3.7 Preventing fraud and corruption is normally more cost-effective than detecting and pursuing it after it has taken place. The aim should be to minimise the risk of fraud and corruption while securing the other objectives of the organisation. This inevitably requires judgement about the trade-offs between competing objectives. Our fraud assessment framework looks for "cost-effective controls" meaning that the preventive controls are working and could not be readily improved without overly harming the wider objectives.[28] Public bodies are at different stages of maturity towards achieving this goal, and none have demonstrated that they have a fully cost-effective control environment.

What are the challenges?

- **Tailoring to specific risks.** A cost-effective control environment needs to be tailored to the specific risks and issues faced by each public body, and their approach to achieving it will vary by the nature of the risks they face. PSFA will need to tailor its advice and guidance to each department.

- **Increasing the influence of the counter-fraud and corruption profession.** PSFA will need to be influential beyond the counter-fraud and corruption profession, so that it can work with other professions to design and operate controls including in operations, finance, grants, commercial and policy.

- **Demonstrating cost-effective controls.** Departments need a way of testing that they have achieved cost-effective controls. This requires ways of assessing the strength of individual controls and determining that they are working to best effect without unforeseen consequences on other departmental objectives. So far, departments have not had this level of granularity in their fraud risk assessments.

28 National Audit Office, *Good practice guidance Fraud and error,* March 2021.

f) Develop the counter-fraud and corruption profession

Why is this important?

3.8 The counter-fraud profession has traditionally focused more on the detection, investigation and pursuit of fraudsters and corrupt officials rather than on prevention and minimising fraud and corruption. Most people identifying as part of the counter-fraud and corruption profession are trained investigators and not experts in designing operational systems. Many departments lack senior counter-fraud professionals with influence in the organisation.

What are the challenges?

- **Professionalising the function.** Less than 45% of those working in the counter-fraud function are members of the profession and have been trained and assessed against the professional standards. PSFA aims to increase GCFP membership from around 7,000 to 10,000 over the next three years.

- **Changing the role of the profession.** It will require the development of a cadre of staff with different skills to the traditional focus on investigation. It may also require a cadre of more senior counter-fraud and corruption professionals who can influence the creation of policies, operations and systems. PSFA needs to decide whether to develop these cadres centrally or within departments.

- **Improving the quality of counter-fraud professionals.** PSFA aims to move towards a 'licence to operate system' for those practicing in the function. GCFP published revised professional standards for fraud risk assessment in March 2022 and investigation in November 2022. It plans further standards for other aspects of counter-fraud. It is working with training providers to train members of the profession to those standards and wants to introduce more continuing professional development.

- **Competing for talent.** The experience of other government professions shows that as it increases its focus on countering fraud and corruption, government will be competing for the new cadre of staff it is developing. Departments told us they are already competing with industry for the best counter-fraud professionals, who are in high demand, particularly in banking. PSFA may therefore find that it needs to coordinate talent management, recruitment and retention activity.

g) Harness and use data to prevent fraud and corruption

Why is this important?

3.9 Cost-effective prevention approaches will require better use of data and information across government. This includes data for governance and decision-making, intelligence and best practice sharing and data matching for bothdetection and prevention purposes.

What are the challenges?

- **Embedding the use of data to assess the risk of fraud before payment.** Counter-fraud staff told us that their use of data-matching is limited and they continue to encounter legal and technical difficulties with data-sharing. Achieving the benefits of better data is not simple to achieve in practice and will require focused effort, funding and prioritisation to achieve. Counter-fraud staff told us that it would be helpful if PSFA works with Cabinet Office to lead on developing data-sharing policy to overcome both technical and legal barriers.

- **Improving public confidence in data analytics.** The Committee of Public Accounts has identified the need for transparency to increase public confidence in the use of data analytics and machine-learning for the detection of fraudulent activity. For instance, DWP is trialling machine-learning to identify suspicious Universal Credit claims before an advance is made and hopes to use this more widely across the benefit system.[29] While the use of machine-learning means that there will not be an algorithm that can be published, departments can provide transparency over the governance, inputs, outputs, and outcomes for different user groups of the use of such analytics.

- **Improving the collection and use of intelligence.** There are numerous bodies offering counter-fraud intelligence including the Action Fraud hotline run by the City of London Police and Cifas, whose members share information about fraud. PSFA is considering how best to improve and share intelligence across government. However, smaller counter-fraud teams may not have the capacity to absorb intelligence and act on it.

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29 For a description of how DWP manages the risks around its use of machine learning see Comptroller and Auditor General, *Report on Accounts, in Department for Work & Pensions, Annual Report and Accounts 2021-22*, Session 2021-22, HC 193, National Audit Office, July 2022.

h) Design out fraud and corruption from new initiatives and systems

Why is this important?

3.10 Government needs to design out fraud and corruption from its processes and systems. One of the key lessons from 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.

What are the challenges?

- **Building in controls to new initiatives.** PSFA has developed and trialled a process to apply counter-fraud expertise to the development of new spending initiatives through the use of Initial Fraud Impact Assessments (IFIAs). Departments and the PSFA now need to demonstrate that IFIAs lead to fraud management and measurement that delivers substantial savings and reductions in reported fraud. The National Audit Office will, where appropriate, look at these assessments and how they are used as part of our standard approach to auditing the value for money of spending initiatives.

- **Embedding counter-fraud and corruption expertise into the design of programmes and systems.** The counter-fraud profession needs to take a prominent role in incorporating counter-fraud measures into the design of new systems and operational processes, as a standard part of government's change programmes, if it is to build in the required preventive measures such as data matching and audit trails. For example, the Department for Environment, Food & Rural Affairs has embedded counter-fraud professionals in its team designing the Future Farming and Countryside Programme. Joining up systems with better data-matching may require a central strategy setting out data standards for public bodies to work to.

- **Transparency over IFIAs.** Parliament has a legitimate interest in understanding the fraud and corruption risks inherent in the spending, regulations and initiatives that it debates and approves. However, government can be wary of publishing too many details for fear of advertising weaknesses in its controls that criminals can exploit. Government needs to develop a means of enhancing transparency over its IFIAs that manages these risks.

i) Use its investigative powers and capabilities as an effective preventive deterrent

Why is this important?

3.11 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, government has neither the ability or capacity to detect, investigate and gather sufficient evidence to support a prosecution of all fraud and corruption. Most money lost to fraud and corruption is not detected or recovered. Government therefore needs to use its investigative capabilities to best effect.

What are the challenges?

- **Powers.** Enforcement and recovery powers are fragmented across government. HMRC and DWP have specific administrative powers to apply penalties on a civil burden of proof. DWP can recover funds through the welfare system. Other departments rely on the Proceeds of Crime Act to pursue the recovery of fraudulent payments. PSFA told us that it is working with departments to identify gaps in powers that prevent the investigation and recovery of funds and is considering new legislation to provide public bodies with more legal recourse to fight fraud.

- **Getting the balance right between criminal and civil prosecution.** Some departments face the choice of referring a fraud they find for prosecution or applying a civil penalty, normally with a lower burden of proof and lower fine. The latter can offer a more cost-effective route to investigate fraud and recover funds, but may not offer the same deterrent effect. Departments need a way to demonstrate that they have this balance right between the two that provides for both the recovery of funds and a deterrent effect. But calculating these aspects can be very challenging. To help it achieve this balance, we recently recommended that HMRC analyses the relative rates of return from different types of compliance intervention.

- **Setting up a central enforcement function.** Not all departments have the capability to investigate fraud for themselves. For example, the National Investigation Service (NATIS) – a local authority investigation service – provided some core investigative capability to support the Department for Business, Energy & Industrial Strategy with Bounce Back Loans. PSFA intends to establish its own enforcement function, which will need to be appropriately targeted and work with existing law enforcement agencies.

- **Clear communication and messaging.** Government language and messaging, including broadcasting government's enforcement successes, are important tools to act as a deterrent and reduce the risk of widespread non-compliance. There is potential for PSFA to develop a cross-government communication strategy, enhance transparency and maximise the impact of government's enforcement interventions.

Appendix One

Our evidence base

1   Our independent conclusions on government's progress in tackling fraud and corruption against the public sector were reached following our analysis of evidence collected primarily between September 2022 and January 2023.

2   Our report focuses on fraud and corruption attacks against the public sector. It does not cover fraud against individuals or businesses that does not involve abuse of government processes or systems. The report also does not examine the effectiveness of individual departments' activities to counter fraud and corruption.

Interviews with departmental officials

Selection and recruitment

3   We interviewed 46 officials from the main government departments and a selection of their agencies. Thirty-three of the officials had direct responsibilities for countering fraud and corruption, including the heads of counter-fraud for all the main departments and their larger arm's-length bodies. Thirteen of the officials were responsible for aspects of wider business delivery and were primarily selected to provide us with an overview of how well integrated counter-fraud and corruption work is to departments' overall operations.

Fieldwork

4   Fieldwork took place between November 2022 and January 2023. Interviews were carried out online, typically lasted one hour and detailed notes were taken.

5   Interviews focused on the following topics and were tailored to the job roles of those being interviewed:

- Fraud risk landscape.

- Departmental counter-fraud and corruption capabilities, including people, data, processes and systems.

- Integration of counter-fraud and corruption experts within operational and programme delivery teams.

- Relationship of departments with the centre of government.

- System-wide perspective of government's counter-fraud and corruption arrangements.

Analytical approach

6   We organised the interview notes in SharePoint to facilitate comprehensive and consistent analysis. We analysed the data thematically, reviewing the data against the themes identified in our evaluative framework; as well as taking into consideration themes emerging from the data. We used the data analysis to:

- explore the systemic challenges to embedding best practice counter-fraud and corruption arrangements across government; and

- triangulate evidence from other sources (including our document review and evidence from wider stakeholders).

Interviews with wider stakeholders

Selection and recruitment

7   We selected stakeholders to provide a broad range of perspectives on the role of the Public Sector Fraud Authority (PSFA) and the key challenges it faces. We identified stakeholders with a particular interest in tackling fraud and corruption across government. In total we carried out four interviews and spoke to seven representatives.

Fieldwork

8   Interviews took place in October 2022 and were carried out online. Interviews typically lasted around one hour, and detailed notes were taken.

9   Interviews explored stakeholder perspectives on the challenges faced by government in tackling fraud and corruption, with a particular focus on:

- the fraud risk landscape;

- government's strategy and capability to tackle fraud and corruption; and

- the system-wide perspective of the fraud landscape.

Analytical approach

10   We used the data to inform further lines of enquiry that were followed up with departments and to inform our assessment of the systemic challenges faced by government in its approach to tackling fraud and corruption. The findings presented in this report reflect the range and diversity of the views of stakeholders interviewed. As the sample was small and not statistically representative, the prevalence of views and experiences arising from the stakeholder interviews is not reported.

Document review

Focus and purpose

11   We reviewed a range of government documents to assist with defining the scope of the audit and to deepen the study team's understanding of the scale of fraud and corruption, and government's approach, including the launch of the PSFA, to overcoming the challenges it faces. This included a review of:

- risk assessments;

- governance arrangements;

- organisational Workforce and Performance Review (WPR) returns collated as part of the PSFA's review of government capability; and

- counter-fraud functional standards.

Analytical approach

12   We reviewed each document against our overarching audit questions. The review was also used to refine the scope of the study.

Data analysis

13   We analysed Whole of Government Accounts to set out the exposure of the various departmental groups to the different types of fraud and corruption risk. On establishing the scale of fraud and corruption across government, in addition to the PSFA's annual estimate of fraud and error losses, we reviewed the estimated levels of fraud reported in the audited departmental accounts.

14   We analysed data collected, over the period April to May 2022, by the PSFA and its predecessor bodies, as part of its WPR of 70 public sector organisations, to establish government's capability to tackle fraud and corruption. We used the number of counter-fraud staff as a proxy for the distribution of capabilities across government. We did not undertake an in-depth audit of organisations' control environments to establish their effectiveness in deterring and preventing fraud and corruption.

Appendix Two

Types of fraud and corruption risks across government and where they have been measured

1   In this appendix we have set out the six types of fraud and corruption risks that we identify in this report as impacting major areas of government spend. For each risk type we have included a definition, discussion of the issues, case study and a summary of the fraud measurements conducted by government departments under the Fraud Measurement and Assurance (FMA) programme. Ideally, all of these area of spend should have undergone a fraud risk assessment, to identify the main fraud threats, followed by fraud measurement to quantify the potential impact.

a) Grant fraud on pages 64 and 65.

b) Service-user fraud on pages 66 and 67.

c) Procurement and commercial fraud on pages 68 and 69.

d) Income evasion on pages 70 and 71.

e) Internal fraud and corruption on pages 72 and 73.

f) Regulatory fraud on pages 74 and 75.

a) Grant fraud

Definition

Misappropriation (for example through being ineligible) or misuse (not for the defined purpose) of grant money by an individual or entity.

Issues

Grant fraud can include a range of scenarios, such as using false information to support a grant application, misrepresenting the status of the funded project in monitoring returns, using grant funding for purposes other than those specified and claiming grant funding for the same purpose from more than one funding organisation. An organisation's exposure to grant fraud often depends on the how specific the grant agreement objectives and outcomes are, and the quality of the post-award monitoring arrangements. Where grant agreements lack measurable objectives and outcomes it can be difficult for an organisation to distinguish between fraud and poor value for money.

Case study: Environmental Land Management Scheme

In September 2021, the National Audit Office reported that the Department for Environment, Food & Rural Affairs (Defra) had made some progress in developing its approach to fraud and error on the Environmental Land Management Scheme (ELM) but was behind where it needed to be.

ELM is Defra's primary mechanism for distributing the funding previously paid under the EU's Common Agricultural Policy (CAP). Instead of CAP direct payments, ELM will pay farmers for undertaking actions to improve the environment.

The NAO recommends development of a fraud and error strategy alongside core policy decisions so that appropriate counter-fraud and error controls are designed and implemented from the outset. Defra set out a high-level fraud and error prevention strategy for the Programme in early 2021 but expected to develop its understanding of the fraud risks and mitigations over several years.

Since the publication of the report by the National Audit Office, Defra has completed a fraud risk assessment for all new ELM schemes and all existing material schemes.

Defra is setting up a 'grants hub' which will focus on second line assurance across Defra group grants, and will include a focus on fraud and error risk management. The Rural Payments Agency (RPA) is developing a new fraud and error strategy and is reviewing its approach towards the management of fraud and error in scheme expenditure. Defra told us that this work would focus on designing out fraud and error. Scheme control frameworks are also being developed covering the Sustainable Farming Incentive, Countryside Stewardship and Landscape Recovery.

Source: National Audit Office and Department for Environment, Food & Rural Affairs

Stars indicate the quality of the fraud measurement exercise

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★★ Thorough attempt at measuring losses in an area, with a few limitations. For example, some fraud risks may have been omitted

★★★ The outcome is a comprehensive measurement of losses in the spending area

Notes

1　Includes fraud and error assessments performance by predecessor departments. For example, BIS is included within BEIS.

2　We have excluded the outcomes for any assessments that received the lowest Fraud Measurement and Assurance (FMA) quality rating because these are deemed 'unreliable'.

3　The Public Sector Fraud Authority's estimates are drawn from the FMAs performed over the past decade. These assessments are not of sufficient 'depth' to enable a reliable differentiation between losses due to 'fraud' and 'error'.

Source: National Audit Office analysis of Government Counter Fraud Function Fraud Measurement Assessments excercises since 2014-15

Departmental group[1]	Major areas of spend within department that relate to fraud risk category, (2021-22, or lifetime spend for one-off schemes)	Fraud and error measurements relating to fraud risk category undertaken by department since 2014-15	Year of department's fraud and error measurement	Spending covered by department's fraud and error measurement (£m)	Estimated irregularity extrapolated across total spending population[2] (%)	Quality of fraud and error measurement
Department for Business, Energy & Industrial Strategy	Science and research (£7.7bn) UK Research & Innovation (£1.0bn) COVID-19 business support (£3.9bn)	International Climate Fund	2014-15	23.7	–	★
		Energy Markets and Consumers	2014-15	0.9	–	★
		Skills Funding Agency	2015-16	2,609.1	–	★
		Domestic Renewable Heat Incentive GB	2016-17	90.2	10.2	★★★
		Nuclear Decommissioning Authority	2017-18	10.2	1.0	★★
		Innovate UK (UKRI)	2018-19	800.0	–	★
		Retail Hospitality and Leisure Grant Fund and Small Business Grant Fund	2019-20	11,160.0	–	★
Department for Digital, Culture, Media & Sport	Grant-in-aid to arm's-length bodies within the culture, digital, media and sport sectors (£6.2bn) Other grants (£3.2bn)	BIG Lottery Fund – Awards for All	2014-15	66.0	3.5	★★★
		ACE Lottery Capital Grants (ACE2)	2014-15	53.0	–	★
		Heritage Lottery Fund	2015-16	1,637.1	–	★
		Sport England	2016-17	21.4	1.5	★★★
Department for Education	Schools (£51.5bn) Post-16 (£12.0bn)	Identification and Recording of Error – Young Peoples programme (EFA)	2014-15	6,000.0	–	★
		16–19 Funding	2015-16	1,080.9	–	★
		Free School Meals/Pupil Premium	2016-17	829.3	0.8	★★
		Student Loans Company	2017-18	34.5	3.2	★★★
Department for Environment, Food & Rural Affairs	Basic Payment Scheme and Rural Development Grants (£2.0bn) All other grants (£1.1 bn)	European Fisheries Fund	2014-15	44.3	3.0	★★
		The Flooding Repair and Renew Grant Scheme	2014-15	5.9	2.8	★★
		Rural Payments Agency (Basic Payment Scheme)	2017-18	2.2	<0.1	★★
Department for Levelling Up, Housing & Communities	Local authorities (£29.8bn) Housing and communities (£8.0bn)	European Regional Development Fund	2014-15	658.4	1.5	★★★
Department for Transport	Local roads and other local transport (£3.3bn) Subsidies for Transport for London (£1.7bn) COVID-19 spend on buses, excluding Transport for London (£0.5bn)	Bus Operator Grants	2014-15	253.0	9.2	★★
		Support for Maritime Training (SMarT) Scheme	2018-19	15.0	<0.1	★★
Foreign, Commonwealth & Development Office	Grants (£4.9bn)	Conflict Pool Afghanistan	2014-15	16.0	–	★
Home Office	Main police grants (£8.7bn) Other grants (£3.2bn) Police and fire pension top-up grants (£2.5bn) Asylum Costs (£1.5bn)	Grant Management – Asylum	2014-15	31.0	–	★

NAO assessment: Examples of major areas of inherent fraud risk by departmental group

Public Sector Fraud Authority assessment of the quality of selected departmental fraud and error measurements

b) Service-user fraud

Definition

Using false information dishonestly with the intention of obtaining money, goods or services from government to which the individual or entity is not eligible or for use other than for the intended purposes.

Issues

Welfare accounts for a significant amount of government's overall expenditure, making it a target for fraud by both organised crime groups and opportunistic individuals. Operations can be complex with services sometimes delivered across multiple systems and organisations, making it more difficult to accurately monitor service-user eligibility. Transactions are typically low value but occur at a high volume, with millions of payments made to individuals every day.

Case study: Student loan and qualification fraud

A group of education agents working at a number of government-funded private colleges provided students with bogus qualifications in exchange for a share of their student loan.

For a fee students could fake their attendance at lectures, have their coursework completed by agents in Pakistan and receive a formal qualification which was the equivalent of a Higher Education degree.

Cases like this result in unqualified individuals being appointed in jobs they are not qualified or trained to do.

Source: International Public Sector Fraud Forum

Case study: Patient exemption fraud

The NHS Counter Fraud Authority estimates that the total loss to the NHS from fraud, bribery, corruption and error in 2021-22 was £1.198 billion. Of this, £214 million (18%) related to individuals who were incorrectly claiming to be exempt from paying for NHS prescriptions and dental treatments (against total spend of £9.6 billion).

Incorrect claims for free prescriptions and/or dental treatments fall into one of two categories:

- fraud, bribery, corruption: where someone deliberately claims free medication or treatment knowing that they are not entitled to do so; or,
- error: where someone has mistakenly made a claim but there is no evidence that they have acted wrongfully.

Source: NHS Counter Fraud Authority

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Notes

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2 We have excluded the outcomes for any assessments that received the lowest Fraud Measurement and Assurance (FMA) quality rating because these are deemed 'unreliable'.

3 We have included the fraud assessment result for Bounce Back Loans despite it being deemed unreliable by the FMA exercise, because BEIS has updated its estimate since and has published the results in its Annual Report and Accounts. The updated estimate was 7.5% for 2020-21 and 8% for 2021-22, which is broadly in line with the values included in this table.

Source: National Audit Office analysis of Government Counter Fraud Function Fraud Measurement Assessments excercises since 2014-15

NAO assessment: Examples of major areas of inherent fraud risk by departmental group		Public Sector Fraud Authority assessment of the quality of selected departmental fraud and error measurements				
Departmental group[1]	Major areas of spend within department that relate to fraud risk category, (2021-22, or lifetime spend for one-off schemes)	Fraud and error measurements relating to fraud risk category undertaken by department since 2014-15	Year of department's fraud and error measurement	Spending covered by department's fraud and error measurement (£m)	Estimated irregularity extrapolated across total spending population[2] (%)	Quality of fraud and error measurement
Department for Work & Pensions	Benefits paid to pensioners (£109.0bn) Benefits paid to those of working age (£59.0bn) Disability benefits paid to people of all ages (£29.8bn)	**Fully assessed annually.** DWP estimates fraud and error through direct measurement of five or six benefits each year using a statistical sampling exercise. We consider DWP measurement exercises to be robust enough to give a good indication of the levels of fraud and error in benefit expenditure. We use these to assess the level of irregularity in the accounts. For 2021-22, DWP measured fraud and error in Universal Credit, State Pension, Housing Benefit, Employment Support Allowance, Pension Credit, and Attendance Allowance. Overall, 77% of benefit expenditure was subject to the sampling exercise in 2021-22. **For all benefits,** fraud and error overpayments are estimated at £8.6 billion (4.0%) in 2021-22. Of this, £6.5 billion is fraud. **For Universal Credit,** fraud and error overpayments are estimated at £5.9 billion (14.7%) in 2021-22. Of this, £5.25 billion is fraud.				–
HM Revenue & Customs	Corporation Tax Relief (£11.7bn) Child Benefit (£11.4bn) Personal Tax Credits (£10.6bn) Self-employment Income Support (£8.3bn) COVID-19 Job Retention Scheme (£8.2bn)	**Fully assessed annually.** HMRC estimates levels of error and fraud each year using a range of methods. We consider HMRC measurement exercises to be robust enough to give a good indication of the levels of fraud and error in benefit expenditure. We use these to assess the level of irregularity in the accounts. **For Tax Credits,** HMRC's latest estimate suggests an error and fraud overpayment rate of £780 million (5.0%) of paid entitlement. **For Corporation tax reliefs,** HMRC estimated R&D error and fraud at £469 million (4.9%) of estimated expenditure in 2021-22. **For COVID-19 schemes,** HMRC's 'most likely' estimate of error and fraud in 2021-22 is £241 million (2.8%) for CJRS and £376 million (4.5%) for SEISS. This is on top of £3.9 billion for 2020-21. **For Child Benefit,** HMRC estimates error and fraud overpayments of £105 million (0.9%) in 2021-22.				–
Department for Business, Energy & Industrial Strategy	Value of loans to service-users over scheme lifetime: • Bounce Back Loans (£47.4bn) • Coronavirus Business Interruption Loans (£26.4bn) • Coronavirus Large Business Interruption Loan Scheme (£5.6bn) Start up Loans Company (£0.9bn since 2012)	Start Up Loans	2014-15	130.0	–	★
		Start Up Loans Co	2015-16	60.0	0.6	★★
		Green Deal Home Improvement	2015-16	110.9	1.4	★★★
		Start Up Loans – Late Payments	2016-17	123.6	4.4	★★★
		Coronavirus Business Interruption Loans	2019-20	26,390.0	–	★
		Coronavirus Large Business Interruption Loans	2019-20	5,560.0	–	★
		Bounce Back Loans	2019-20	47,360.0	7.5	★
Department for Education	National Skills Fund (£2.5bn) Student Loans (£20bn of new loans issued in 2021-22)	Student Loans – Household Composition	2014-15	387.0	11.6	★★
Department of Health & Social Care	European Economic Area medical costs (£761mn) Prescription fees and charges (£652mn) Dental fees and charges (£634mn) Other fees and charges (£938mn)	European Health Insurance Cards	2016-17	91.2	17.6	★★★
		Prescription charges (NHS CFA)	2017-18	8,360.0	2.8	★★
Department for Levelling Up, Housing & Communities	Help to Buy equity loans (£18.4bn at 31 March 2022)	Get Britain Building	2015-16	47.6	<0.1	★★
Ministry of Justice	Legal Aid (£1.8bn)	**Fully assessed annually.** The Legal Aid agency produces a robust annual measurement of the level of fraud and error using sampling exercises. In 2021-22, it estimated £18.6 million of fraud and error (1.04% of relevant expenditure).				
Home Office	Revenue from contracts with customers (£3.0bn)	–	–	–	–	–

c) Procurement and commercial fraud

Definition

Fraudulent activity specifically related to the procure-to-pay lifecycle or illegal practices which occur between government and the private sector.

Issues

The nature of procurement fraud differs between the two core stages of the procurement lifecycle; pre-contract award and post-contract award. Fraud in the pre-contract award phase is complex, often enabled by a lack of compliance with policy, but also involving activity such as collusion and corruption which can be difficult to detect.

Fraud in the post-contract stage is considerably different. As contracts are already in place, most cases of fraud tend to involve overpayments to contractors, through false or duplicate invoicing, and payments for substandard work or work not completed under contract terms. Sharp practice and unlawful activity can also be present in the margins of post-contract award fraud. Examples of this includes overpricing for goods or services.

The post-contract stage is also open to misreporting of performance by suppliers. If contract management is not tight enough, then it may be difficult to prove a lack of openness and inaccurate reporting as fraudulent. Prevention and detection at this stage requires risk-based contract assurance and open book accounting.

Case study: Procurement cartels

In 2019, three concrete companies were found to have entered into illegal arrangements under which they fixed or coordinated their prices, shared out the market by allocating customers, and exchanged competitively sensitive information.

The businesses manufactured pre-cast concrete drainage products which are essential for roads and railways and used in large infrastructure projects. The customers who typically need to buy these types of products include local and national government bodies, as well as utilities, engineering and construction firms.

The cartel arrangement began in 2006 after a period of fierce competition and low prices in response to tough market conditions. The rivals met to end this situation and create what one of them described as a "new era of trust". The businesses discussed and agreed price lists, agreed not to compete for each other's customers on certain fixed price contracts and shared competitively sensitive information. Their aim was to increase prices, and maintain their market position without having to compete fairly.

The Competition and Markets Authority (CMA) fined the companies £36 million and four directors were disqualified for 6.5, 7.5, 11 and 12 years respectively. In addition, one individual was convicted under section 188 of the Enterprise Act 2002 (the criminal cartel offence) in relation to the conduct. He was sentenced to two years imprisonment suspended for two years, made the subject of a six month curfew order and also disqualified from acting as a company director for seven years.

Source: Competition and Markets Authority

Notes

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				(£m)	(%)	
Department for Environment, Food & Rural Affairs	Hired and contracted services (£151.3mn)	Environment Agency Contracts	2016-17	309.0	<0.1	★★
Department of Health & Social Care	Clinical supplies and services (£16.8bn)	Eye Care Contracts	2014-15	466.0	–	★
	NHS Test and Trace consumables (£7.2bn)	Opthalmic Contracts NHS Wales	2015-16	31.5	18.9	★★
	Supply of COVID-19 PPE to NHS providers (£0.25bn)	Dental contracts – reimbursement of treatment (NHS Counter Fraud Authority)	2018-19	2,711.8	2.4	★★
		COVID-19 Personal Protection Equipment Procurement	2019-20	8,241.0	–	★
Foreign, Commonwealth & Development Office	Contractor, consultancy and fee-based services (£49.9mn)	Core small contracts procurement	2018-19	13.4	17.9	★★
Department for Transport	Capital DEL (£19.2bn)	Facilities Contract – Variable Charges	2015-16	0.9	2.5	★★
	Support for passenger rail services (£4.8bn)					
	Road and rail network maintenance (£2.0bn)					
Ministry of Defence	Capital DEL (£14.2bn)	Procurement	2014-15	11,754.0	–	★
	Equipment management (£6.8bn)					
	Estate management (£3.5bn)					
Ministry of Justice	Purchase of goods and services (£2.3bn)	Contract with travel and subsistence provider	2014-15	60.0	–	★
	Capital DEL (£1.4bn)	Contract with facilities management	2014-15	6.2	6.1	★★★
		G4S Facilities Contract – Variable Charges	2015-16	3.8	0.9	★★
		Amey Facilities Management Contract	2016-17	5.4	21.9	★★

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d) Internal fraud and corruption

Definition

When an internal party to the government organisation defrauds, circumvents regulations, the law or policy, whether alone or in collusion with any other person, with intent to cause government to sustain a loss or obtain an improper gain for the employee or any other acting in collusion.

Issues

Payroll and Expenses fraud

The abuse of the payroll/expenses systems in place for fraudulent gain.

This may include:

- Timecard Falsification
- Ghost Employee Set-Ups
- Worker Misclassification
- Account-switching
- Falsifying/manipulating receipts
- Charging items used for personal reasons
- Inflating mileage totals
- Claiming expenses without cause
- Staff collusion to seek separate travel/mileage reimbursement despite travelling together

Exploitation of Assets or Information

The misuse, mishandling or exploitation of government assets or information for unofficial purposes, under false pretence, undue influence or through coercion and/or manipulation.

This may include:

- Court records
- Service-user records
- Student records
- Patient records
- Voting records
- Intelligence on national security
- Defence assets and single-use military equipment
- Drugs and consumable inventories
- Cash

Bribery and Corruption

Corruption is defined as the abuse of entrusted power through the illegitimate use of office.

Bribery is a specific subset of corruption as the promise, provision, acceptance or solicitation of personal benefit to influence an official.

This may include:

- public servants demanding/accepting money or favours in exchange for services,
- politicians misusing public money or granting public jobs/contracts to their sponsors, friends and families
- corporations bribing officials to get lucrative deals

Financial Reporting Fraud

The intentional overstatement and/or understatement of balances in the financial statements.

This may include:

- Reclassifications of items of expenditure
- Timing Difference manipulation
- Understatement/Falsification of Income
- Concealed/Overstated Liabilities
- Improper asset valuations
- Improper disclosures
- Manipulation of accounting estimates such as depreciation of assets

Case study: Civil Service Pensions

The National Fraud Initiative (NFI) is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. The NFI produces high-quality matches that enable public sector pension schemes to combat fraud and reduce error.

For example, following investigation of pension matches to deceased records, Civil Service Pensions was able to identify overpayments in excess of £2 million. As at 31 March 2018, £700,000 had already been recovered and work is in progress to recover the remaining amount.

Source: National Fraud Initiative

Notes

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				(£m)	(%)	
Cabinet Office	Total staff costs (£735.8mn)	Payroll	2014-15	11.0	–	★
	Travel, subsistence and hospitality (£49.3mn)	Travel and Subsistence	2014-15	0.2	–	★
Department for Education	Consultancy (£7.7mn)	Travel and Subsistence	2014-15	1.3	–	★
	Contractors (£31.2mn)					
	Travel and subsistence (not disclosed in accounts)					
Department for Environment, Food & Rural Affairs	Consultancy (£41.9mn)	Recruitment	2015-16	40.2	0.0	★★
	Travel, subsistence and hospitality (£15.1mn)					
Department of Health & Social Care	Consultancy, agency and temporary workers (£6.0bn)	Off Payroll Workers	2014-15	57.1	–	★
Department for Levelling Up, Housing & Communities	Travel and subsistence (£3.2mn)	Travel and Subsistence	2014-15	1.3	–	★
		Homes & Communities Agency	2016-17	388.7	0.0	★★
Department for Transport	Travel and subsistence (£32.0mn)	Government Purchasing Card	2014-15	2.2	–	★
Foreign, Commonwealth & Development Office	Travel (£37.3mn) Business hospitality (£7.4mn)	Imprest Accounts	2014-15	50.0	–	★
		Travel Expenses	2014-15	17.0	–	★
		Official Credit Card Usage	2014-15	1.8	–	★
		Travel and Subsistence and Procurement Card	2016-17	1.7	0.0	★★
		Asset Disposal	2017-18	Not known	–	★
Home Office	Travel, subsistence and hospitality (£53.6mn)	Travel and Subsistence	2014-15	1.3	–	★
		Travel and Subsistence and Procurement Card	2016-17	21.7	0.3	★★
Ministry of Defence	Travel, subsistence, relocation, and movement of stores and equipment (£539.9mn)	Travel and Subsistence	2014-15	26.1	–	★

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e) Income evasion

Definition

An intentional attempt to avoid payment for goods, services or other financial obligations owed to the government.

Issues

Measuring the true value of income evasion is challenging because elements such as the hidden economy and evasion are inherently less visible, masking the extent of under-reporting. Levels of evasion for tax, fees or charges can also depend on perceptions of how likely it is for someone to be caught and what penalty will be applied.

There can also be difficulties in establishing intent. For example, the distinction between tax evasion and tax avoidance is not always clear. HM Revenue & Customs (HMRC) has prosecuted people involved in tax avoidance schemes because they have engaged in fraudulent behaviour, such as lying about the value of financial assets. Others who signed up for avoidance schemes would be challenged by HMRC but would not be considered evaders unless they knew of the fraud.

Government income-related fraud has not been assessed through the Fraud Measurement Assurance programme. Separate arrangements apply. For example:

Case study: TV licence evasion

A TV Licence covers you to: watch or record TV on any channel via any TV service; watch live on streaming services; and use BBC iPlayer. This applies to any device, including a TV, computer, laptop, phone, tablet, games console or digital box.

The BBC estimated in 2021-22 there was a TV licence evasion rate of 8.9%. Evasion can only be estimated within a range of 1%, because some figures used in the calculation are estimates. The evasion rate provided is the mid-point of the estimated range. To manage the risk of license fee evasion, the BBC is striking a balance between encouragement and enforcement. Under the former, the BBC is seeking to make payments more affordable through schemes, such as the Simple Payment Plan, and under the latter, if an individual does not pay, they receive targeted communications encouraging them to do so, and potentially a visit from an enforcement officer – if the fee remains unpaid, the individual may be prosecuted and fined up to £1,000.

Source: BBC Television License Free Trust Statement and the National Audit Office

Case study: Tax gap

HMRC defines the tax gap as "the difference between the amount of tax that should, in theory, be paid to HMRC, and what is actually paid". HMRC's estimate of the tax gap includes tax avoidance (arrangements which comply with the letter but not the spirit of the law).

HMRC estimated the net tax gap in 2021-22 was £32 billion, of which the following related to fraud and corruption:

- £5.2 billion in criminal attacks;
- £4.8 billion in evasion;
- £3.2 billion due to the hidden economy; and
- £1.2 billion in avoidance.

The term 'hidden economy' refers to sources of taxable economic activity that are entirely hidden from HMRC. It includes businesses that are not registered for VAT, individuals who are employees in their legitimate occupation, but do not declare earnings from other sources of income (moonlighters) and individuals who do not declare any of their income to HMRC, whether earned or unearned (ghosts).

Source: HM Revenue & Customs

Source: National Audit Office analysis of Government Counter Fraud Function Fraud Measurement Assessments excercises since 2014-15

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				(£m)	(%)	
HM Revenue & Customs (HMRC)	Total tax revenue (£731.1bn)	**Separate arrangements apply.** The tax gap is the difference between the amount of tax that should, in theory, be paid to HMRC, and the amount that is actually paid. Not all of the UK tax gap relates to clearly intentional attempts to deceive HMRC. In Tackling the tax gap, in 2020, we found that HMRC's analysis is one of the most comprehensive studies available internationally, but the precise scale of the tax gap remains inherently uncertain. HMRC's latest estimate places the UK tax gap at 5.1% of total theoretical tax liabilities (£32 billion) for 2020-21. Within this £32 billion total, £5.2 billion related to criminal attacks and £4.8 billion to tax evasion.				–
Department for Transport	Franchised track access income (£2.8bn)	–	–	–	–	–
	Fees and charges to external customers (£1.2bn)					
	All other income (£2.2bn)					
Department of Health & Social Care	Revenue from Patient Care activities (£3.6bn)	–	–	–	–	–
	Other contract income, excluding fees and charges (£3.4bn)					
Department for Digital, Culture, Media & Sport	Lottery income (£1.7bn)	–	–	–	–	–
	Income from contracts with customers (£0.6bn)					

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f) Regulatory fraud

Definition

Abuse of a government-owned process through false representation or a dishonest act, with the intention of making a gain or causing a loss to individual(s) independent of government.

Issues

Regulatory fraud is harder to quantify and prevent as there may be no monetary trail within government. Often requires the use of intelligence and disruption, but public bodies may lack incentives to invest in counter-fraud and corruption as there is no direct loss to government.

Impersonation of Officials

Fraudsters impersonate officials to make false promises about tax rebates, or to demand fees from unsuspecting individuals.

This may include:

- Benefits officials
- Customs or immigration officials
- Court officials
- Tax and revenue officials
- Other government fees and charges
- Officials at grant awarding bodies

System Abuse

Fraudsters abusing a government system or process as a vehicle to commit fraudulent acts on unsuspecting individuals.

This may include:

- Falsifying power of attorney
- Falsifying land ownership
- Environmental waste crimes
- Providing false business information to Companies House

Case study: Property registration fraud

Edwin McLaren and his wife were found guilty of property fraud totalling £1.6 million. The husband, who was said to be the "brains behind the scheme", was convicted of 29 charges and his wife of two.

Over a two-year police inquiry, 48 properties were investigated under a property fraud scheme where the owner's title deeds were transferred without their knowledge. The trial at the High Court in Glasgow began in September 2015 and heard evidence for 320 days.

The trial was said to have cost around £7.5 million, including more than £2.4 million in legal aid paid for defence.

HM Land Registry continue to work with government departments, law enforcement, and other external counter-fraud agencies to protect the register and property owners from the ever-evolving threat of registered title fraud

Source: International Public Sector Fraud Forum

Case study: Waste packaging recycling scheme

The packaging regulations require companies that handle packaging (and that meet certain thresholds) to demonstrate that a certain amount of packaging has been recycled. They do this by obtaining recyling evidence notes from UK packaging reprocessing plants or from companies exporting packaging waste for recycling abroad.

The packaging recycling system's model of self-registration and self-reporting creates risks of fraud and error that need to be managed effectively to justify the approach. One key source of risk arises from the self-registration for packaging producers: obligated companies may fail to register, either accidentally or deliberately (known as 'free-riding'). Another key source of risk arises from the use of self-reporting by recyclers, who could over-issue recycling notes by claiming for contaminated material, for non-UK or non-packaging material, or for material that is not recycled under good environmental and health and safety standards. The risks associated with self-reporting are potentially more acute for exporters than for UK-based reprocessors as there is less visibility over what happens to material that is shipped abroad.

Our 2018 report found that the Environment Agency carries out a range of activities to help prevent and detect companies that break the rules, such as requiring reprocessors and exporters that wish to issue recycling notes to apply for accreditation; data analysis to help identify potential non-compliance; and compliance visits to reprocessors, exporters and obligated companies. However, it did not have a good understanding of the extent of fraud and error that remains despite its controls, to determine whether its approach is proportionate. Since 2019, the agency has developed its understanding by carrying out strategic assessments of waste crime, however, they are still unable to estimate the prevalence of producer responsibility offences.

The Environment Agency estimates thats its enforcement activity prevented £10.4 million of fraudulent or erroneous Packaging Recycling Note (PRN) revenue loss in 2022, compared with £5.7 million in 2017. These amounts are an estimate of the value of PRNs that would have been issued had the enforcement not occurred, and would have been paid by PRN customers to the targeted companies, instead of to other providers issuing legitimate PRNs. The Environment Agency's improved monitoring regime focuses on those operators that pose the greatest risk.

Source: International Public Sector Fraud Forum and National Audit Office

Appendix Three

Good practice guidance relevant to tackling fraud and corruption against government

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Figure 14

Good practice guidance relevant to tackling fraud and corruption against government

Departments need to renew their focus on best practice

Area	Sources of good practice	Key aspects of good practice
Risk management	*Good practice guidance: Fraud and error*, National Audit Office, March 2021. *Guidance on Risk Management, Internal Control and Related Financial and Business Reporting*, FRC, September 2014. *The Orange Book: Management of Risk – Principles and Concepts*, HM Government, August 2021.	• Effective management of fraud and corruption should sit within a robust and evolving risk management framework, with proportionate and cost-effective controls. • Continual scoping for fraud and corruption risks and regular assessment of likelihood and impact. Being clear about risk appetite and the basis for choosing trade-offs. • Risk management should be treated as a profession and coordinated between departments acting as one Government.
Conflicts of interest	*Conflicts of interest*, National Audit Office, HC 907, Session 2014-15, January 2015. Boardman Review of Government COVID-19 Procurement (final report), December 2020.	• Aim to openly manage potential conflicts, as opposed to eliminating them. • A clear code of ethics and process for managing conflicts, with proportionate, enforceable consequences for non-compliance. • Record-keeping around the process and actions taken to manage conflicts must be complete and timely, with adequate resources dedicated to ensuring this happens.
Whistleblowing	*Investigation into government whistleblowing policies,* National Audit Office, January 2014. *Whistleblowing: Guidance for Employers and Code of Practice*, Department for Business, Innovation & Skills, March 2015.	• Public bodies must create an open and supportive culture of speaking out when things do not seem right. Leaders must visibly demonstrate that disclosures are encouraged. • Public bodies should commit to treat all disclosures fairly, to respond promptly, to support the worker during the process, and to ensure confidentiality as far as possible. • Whistleblowing policies must be regularly communicated to staff through a range of channels and training; written policies are not enough.
Transparency	*Initial learning from the government's response to the COVID-19 pandemic*, National Audit Office, May 2021. *Good practice guide: Good practice in annual reporting,* National Audit Office, February 2023.	• Meeting transparency requirements and providing clear documentation to support decision-making, with transparency being used to control when other measures, such as competition, are not in place. • Producing clear and timely communications.

Source: National Audit Office review of the government guidance included in the figure above

CORRECTION SLIP

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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

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