

Estimating and reporting fraud and error in annual reports and accounts



Good practice guide

February 2025

This guide aims to help public bodies improve the quality of reporting of fraud and error estimates in annual reports and accounts.

We are the UK's independent public spending watchdog

Communications Team
DP Ref 015320

Insights

Our insights products provide valuable and practical insights on how public services can be improved. We draw these from our extensive work focused on the issues that are a priority for government, where we observe both innovations and recurring issues. Our good practice guides make it easier for others to understand and apply the lessons from our work.

We are the UK's independent public spending watchdog. We support Parliament in holding government to account and we help improve public services through our high-quality audits.

The National Audit Office (NAO) scrutinises public spending for Parliament and is independent of government and the civil service. We help Parliament hold government to account and we use our insights to help people who manage and govern public bodies improve public services. The Comptroller and Auditor General (C&AG), Gareth Davies, is an Officer of the House of Commons and leads the NAO. We audit the financial accounts of departments and other public bodies. We also examine and report on the value for money of how public money has been spent. In 2023, the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £1.59 billion. This represents around £17 for every pound of our net expenditure.

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Introduction

Overview

The purpose of this guide

This guide aims to help public bodies improve the quality of reporting of fraud and error estimates in annual reports and accounts.

This will better allow Parliament and the public to hold government to account for how effectively it is managing fraud and error.

Fraud and error is a risk facing the whole of government. Billions of pounds of public money are lost each year because the right amount of money was not paid to or collected from the right individuals or organisations.

Our July 2024 report [Making public money work harder](#) discussed how reducing fraud and error was an opportunity for government to spend public money more efficiently and effectively, and to potentially save billions of pounds a year.

This guide is for people who are involved in managing the risk of fraud and error and the production of annual reports and accounts across central government and wider public bodies.

It brings together insights on good practice for producing and reporting estimates and suggestions for overcoming common barriers.

How to use it

Our guide sets out the broad approach we recommend you take when deciding:

- when to report an estimate;
- how to go about estimating the extent of fraud and error; and,
- the content and format of fraud and error disclosures in your annual report and accounts

You will need to consider how to tailor this to your organisation's context and think about the challenges that might apply in your situation.

Public bodies are not required to adhere to our good practice guides. But we recommend they consider the good practice set out here as it is based on what has worked well in other organisations and will help them to comply with reporting requirements.

Where there are requirements for public reporting on fraud and error, we have provided links through to the relevant documents. Appendix A on page 28 sets out these fraud and error reporting requirements for public bodies.

HM Treasury and the Public Sector Fraud Authority (PSFA) have confirmed that this good practice guide aligns with their guidance as at February 2025.

Where our insights come from

We developed an initial good practice proposal, drawing on our financial audits and our back catalogue of value-for-money reports. We then consulted widely with practitioners from across government to test and refine the guide.

We also worked with experts in financial reporting and fraud and error at HM Treasury and the PSFA to ensure our suggestions were complementary to existing requirements.

Our guide is focused on fraud and error in central government activity and does not consider local government reporting requirements or fraud and error loss suffered by businesses and individuals. We have also included references to some wider public bodies.

Get in touch

Get in touch with our [Fraud and Propriety Insights team](#) if you want to know more about the insights in this guide.

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What do we mean by fraud and error?

When we talk about fraud and error for the purposes of reporting an estimate, we generally mean a loss to the taxpayer because an incorrect amount was paid or received, or a transaction was made with an incorrect or ineligible party.

This could be an honest mistake, for example if a government official made a duplicate payment ('error').

Or it could be intentional; for example, if a fraudster made multiple applications to a scheme using false identities ('fraud').

Fraud and error are often considered together for the purposes of managing public money because: it can be difficult to determine if an incorrect transaction was intentional; both result in losses to the taxpayer; and, they are often managed through similar responses.

Keep in mind

Our financial audits assess whether accounts are free from material irregularity. Irregularity is a related but different concept from fraud and error.

- **Fraud** is irregular because it is not in accordance with the relevant legislation or regulation and is therefore without proper authority.
- **Error** may be irregular where it is outside of the framework of authorities.

The government defines fraud and error as:¹

Fraud

"A false representation, or failure to disclose that is dishonest, or the abuse of position with the intention to cause financial gain or loss (as set out in the Fraud Act 2006)."

Public bodies report against the definition using a civil test – they consider on the balance of probabilities whether or not an action or inaction was likely to have been taken with the intention of defrauding the taxpayer.

Error

"Losses ... where no fraudulent intent is found. This can include losses arising from failed transactions, system or process failures, data entry or human errors."

Error also results in losses to the taxpayer and is often considered alongside fraud for the purposes of protecting UK public funds.

Fraud and error can be further classified as:

Detected

The total amount of fraud and error that is found.

This is likely to be much lower than the total amount that exists.

Detected (recovered)

Fraud and error where the financial loss has been recovered.

Prevented

An estimate of fraud and error that was stopped before a loss occurred.

Estimated

An evidence-based assessment of the total amount of fraud and error that has occurred.

Likely to be higher than detected fraud and error.

Unknown

The amount of fraud and error that has not been found and where no estimate exists.

Other related concepts:

Non-compliance

There may be instances where the right amount of money went to the right recipient, but in a way that was not in line with some aspect of the terms and conditions or other requirements.

For example, a late payment to a contracted supplier. This is a failure of controls but is not irregular and there is no loss to the taxpayer.

Definitions unique to specific bodies

Several government departments use their own categorisation for the purposes of managing and reporting fraud and error.

HMRC uses a number of categories to describe the behaviours associated with the tax gap (the difference between how much tax should be paid to HMRC, and the amount that is paid), for example 'hidden economy' and 'failure to take reasonable care'. BBC classifies as evasion its estimate of premises using licensable services without being covered by a TV Licence. These concepts overlap with fraud and error as defined above.

¹ Government Functional Standard GovS 013: Counter Fraud and supplementary guidance.



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Why estimate and report on the level of fraud and error?

Improvements in how public bodies report estimates of the level of fraud and error are necessary to support accountability, prioritisation and investment to tackle fraud and error.

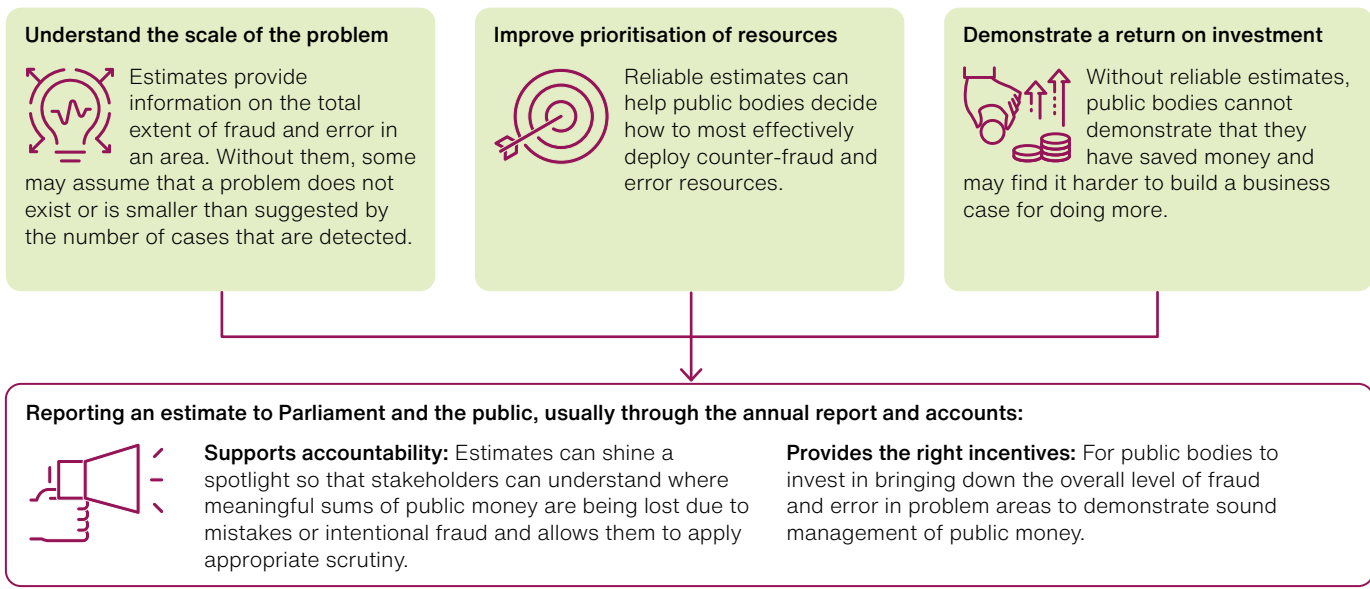
Following widespread fraud and error losses during the COVID-19 pandemic, we found that most departments did not fully understand the level of fraud and error loss they had and could not demonstrate that their counter-fraud and error resources and capability were proportionate to their risk.

Better reporting of fraud and error estimates may encourage public bodies to understand their risks and enable them to build the business case for proportionate investment in counter-fraud and error activity.

To clarify:

- By **'estimating'** we mean attempting to put a value on the total extent of fraud and error in an area. This is likely to be higher than the amount that is detected or recovered.
- By **'reporting'** we mean making an estimate available to Parliament and the public, usually via the annual report and accounts.

How reporting an estimate can help to manage fraud and error



What do reported estimates of fraud and error against the taxpayer show?

Fraud and error costs the taxpayer billions of pounds each year – but most of the potential loss goes undetected.

Based on the PSFA’s methodology and the latest reported estimates from annual reports and accounts from across government, we estimate that fraud and error cost the taxpayer **£55 billion to £81 billion** in 2023-24 (see chart on right).

Only a fraction of this is **detected** and known about – enabling investigation and recovery.

Significantly more fraud and error is **estimated** based on robust measurement; for example, sample testing of benefit spending.

The PSFA believes there is likely to be **0.5% to 5.0%** fraud and error in unexamined areas of spend and income – but the exact amount remains **unknown** (see box below).

Keep in mind

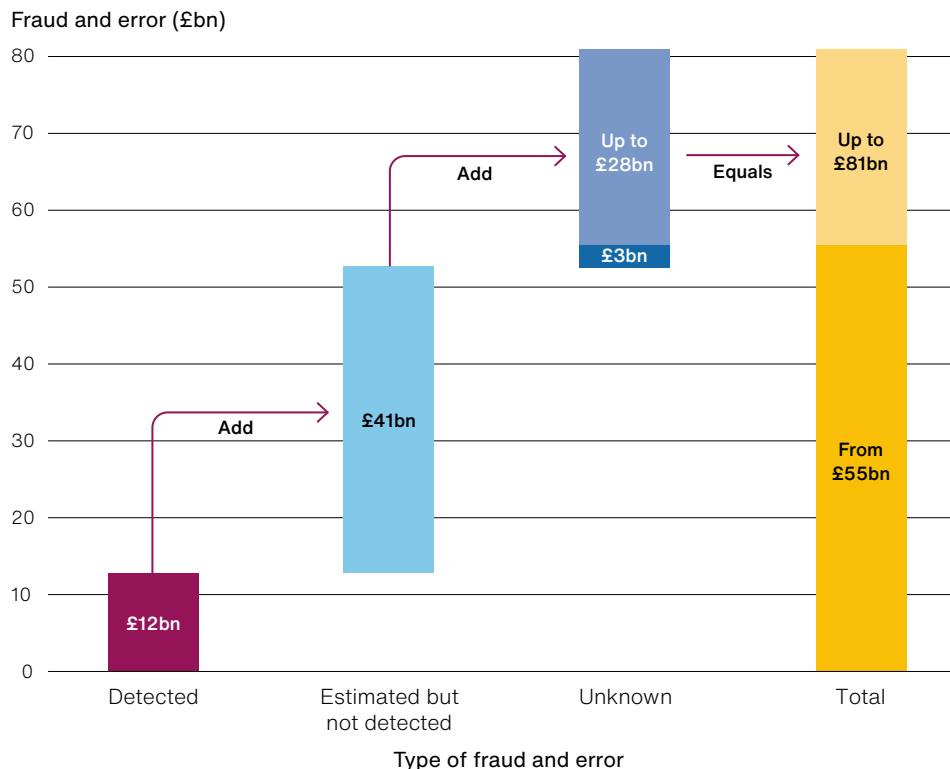
How does government estimate the level of ‘unknown’ fraud and error?

The best available evidence suggests that the level of fraud and error in unexamined areas of government activity is between **0.5% and 5.0%**.

This is based on a Cabinet Office review of around 50 fraud and error estimates that included every major department.

Public sector fraud and error in 2023-24

We estimate that between £55 billion and £81 billion of fraud and error occurred, most of which went undetected



■ Detected (£12 billion)

- £9 billion of tax revenue that HM Revenue & Customs (HMRC) knows it has not received due to fraud and error.
- £2 billion of overpayments on the benefits funded by the Department for Work and Pensions (DWP).
- £1 billion detected by other public bodies.

■ Estimated but not detected (£41 billion)

- £30 billion of tax revenue that HMRC estimates it has not received due to behaviours analogous to fraud and error, compared to £843 billion of tax collected.
- £1 billion of overpaid reliefs and benefits estimated by HMRC out of £30 billion paid.
- £8 billion of overpaid benefits estimated by DWP out of £269 billion paid (this excludes detected amounts shown above).
- £2 billion estimated by other public bodies.

■ Unknown (from £3 billion up to £28 billion)

There is around **£560 billion** of public spend and income that is not subject to any fraud and error measurement.

The PSFA expects that there is **0.5% to 5.0%** fraud and error in these unexamined areas.

This implies fraud and error between **£3 billion and £28 billion**.

Notes

- 1 Numbers do not sum as they are rounded to the nearest £1 billion.
- 2 Chart does not include local or devolved spend and income.
- 3 Numbers include only overpayments or loss to taxpayer, not underpayments.

Source: Annual reports and accounts and other published government information available as at 31 December 2024. See Appendix B on page 29 for details

What level of fraud and error loss is reasonable?

There is always going to be fraud and error – it is impossible to completely eliminate the risk of people trying to cheat the system or the risk of making mistakes.

The level of fraud and error that actually occurs in any area of spend or income will be influenced by:

- the **inherent risk** of fraud and error in the activity;
- the organisation's decisions over **risk appetite** and how to balance **competing priorities**; and
- how well the organisation **manages the risk**.

Organisations have more control over how well they manage the risk than they do of the inherent risk or competing priorities. They should aim to reduce the level of fraud and error to the full extent possible given the inherent risk and competing priorities.

We call this the **cost-effective rate** – where any further reduction of fraud and error can only be achieved at excessive resource cost or harm to other objectives.

How to consider your risk appetite for fraud and error

What is a 'risk appetite'?

Public bodies should have a clearly defined risk appetite statement setting out the amount and type of risk that they are willing to accept to achieve their objectives.

Setting a risk appetite helps organisations to demonstrate that they are making informed decisions about the trade-off between the level of risk they are willing to accept (in this case the likelihood of loss from fraud and error) and the likely success of other objectives.

HM Treasury sets out how public bodies should manage risk and set risk appetite in its *Orange Book: Management of Risk – Principles and Concepts*. Our good practice guide on *Overcoming challenges to managing risks in government* outlines the challenges to managing risks in government and ways senior leaders and risk practitioners can overcome these challenges.

Your risk appetite for fraud and error loss should be influenced by:

Inherent risk

This is the underlying risk assuming there are no controls in place. This will vary by organisation and area of spend or income.

For example:

- **Payroll** expenditure is subject to both internal risk and phishing attacks but the amount paid is predictable and unlikely to be paid to the wrong people without staff realising.
- A **payment scheme** that is **demand-led** may involve a large volume of transactions to unfamiliar parties whose identity and eligibility are difficult to verify.
- Collecting **taxes, fees or charges** requires bodies to identify and collect the income they should receive, but they often do not control the amount they should receive or when the amount will become due.

Competing priorities

In any area of spend or income there will always be factors other than potential financial loss that public bodies will need to consider and balance.

For example:

- **The impact on customers.** Extra checks for fraud and error could create delays for people trying to access public services, or place additional burden on people to provide information.
- **The cost of controls.** Where fraud and error checks would cost more than the expected savings. For example, checks might involve a large number of site visits or access to expensive datasets.
- **Emergency response.** In an emergency situation it may be considered necessary to increase your risk tolerance for fraud and error, to prioritise speed of response over minimising losses.

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How can public bodies prevent fraud and error?

Public bodies should focus on preventing losses to the full extent that it is cost-effective to do so, by embedding the fraud and error risk management cycle.

The cycle sets out how public bodies should reduce losses over time by iteratively improving controls against fraud and error. This relies on:

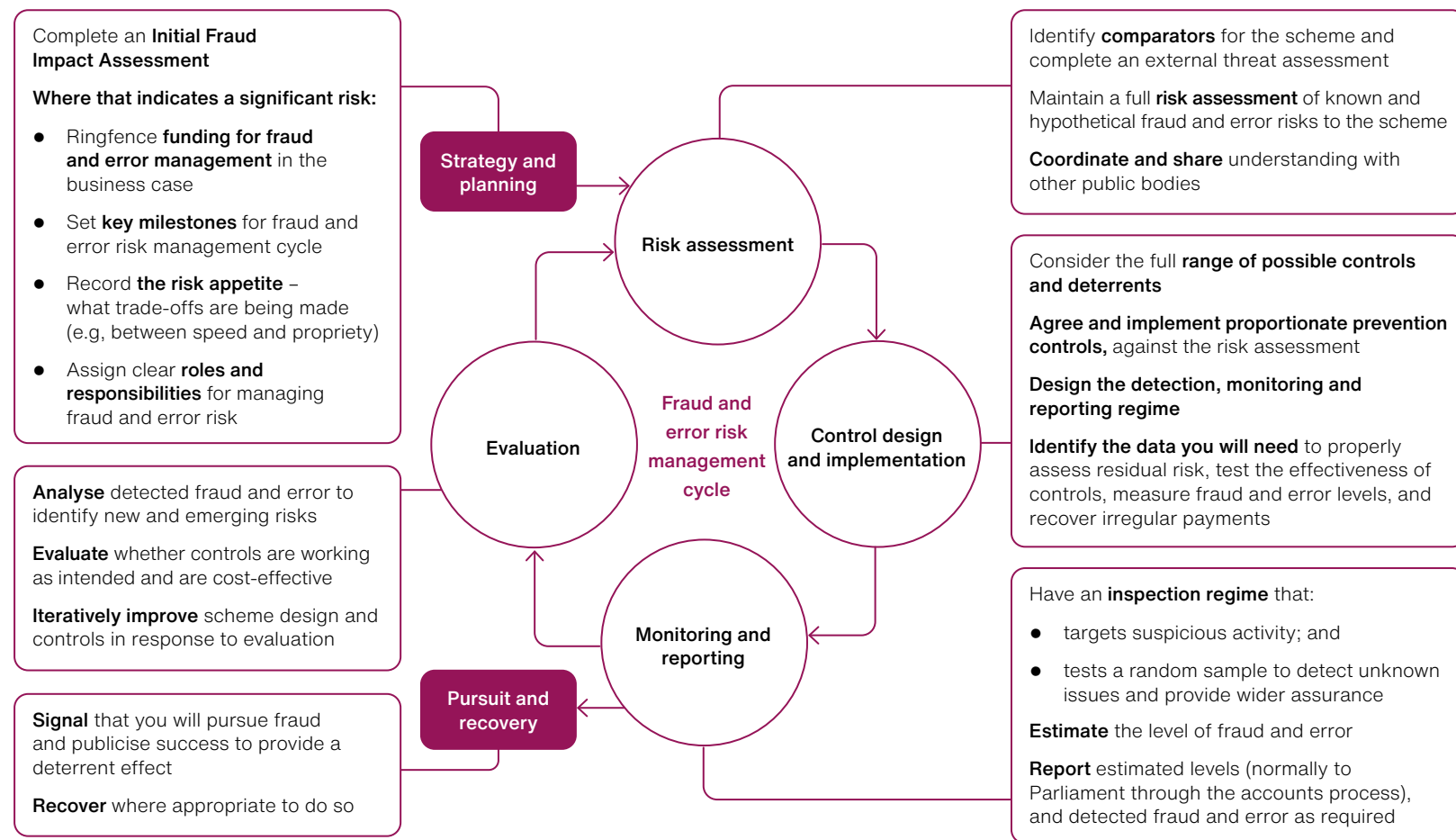
- high-quality **risk assessment**;
- appropriately designed **controls**;
- **monitoring** of fraud and error that is occurring; and
- **evaluation** of how well the control environment is working.

It is good practice to focus on prevention because only a fraction of the total fraud and error that occurs is likely to be detected – and even less will be recovered.

For example, DWP estimates that there was £9.7 billion of benefit fraud and error in 2023-24. But only around £2 billion was detected in the year and DWP expects that around £1.5 billion will eventually be recovered.

The fraud and error risk management cycle

It is good practice to aim to prevent fraud and error by using a cyclical approach that reduces losses over time



Source: Comptroller & Auditor General, *Lessons learned: tackling fraud and protecting propriety in government spending during an emergency*, Session 2023-24, HC 444, National Audit Office, February 2024



Why is it important to focus on both detected and estimated losses?

Many public bodies do a lot of work to detect fraud and error – but do not estimate the underlying levels and so do not know how much they have not managed to find.

Detection is essential to reducing fraud and error. It finds losses that might be recoverable, can act as a deterrent to fraudsters, and perhaps most importantly, it helps to understand the root causes of how money is being lost.

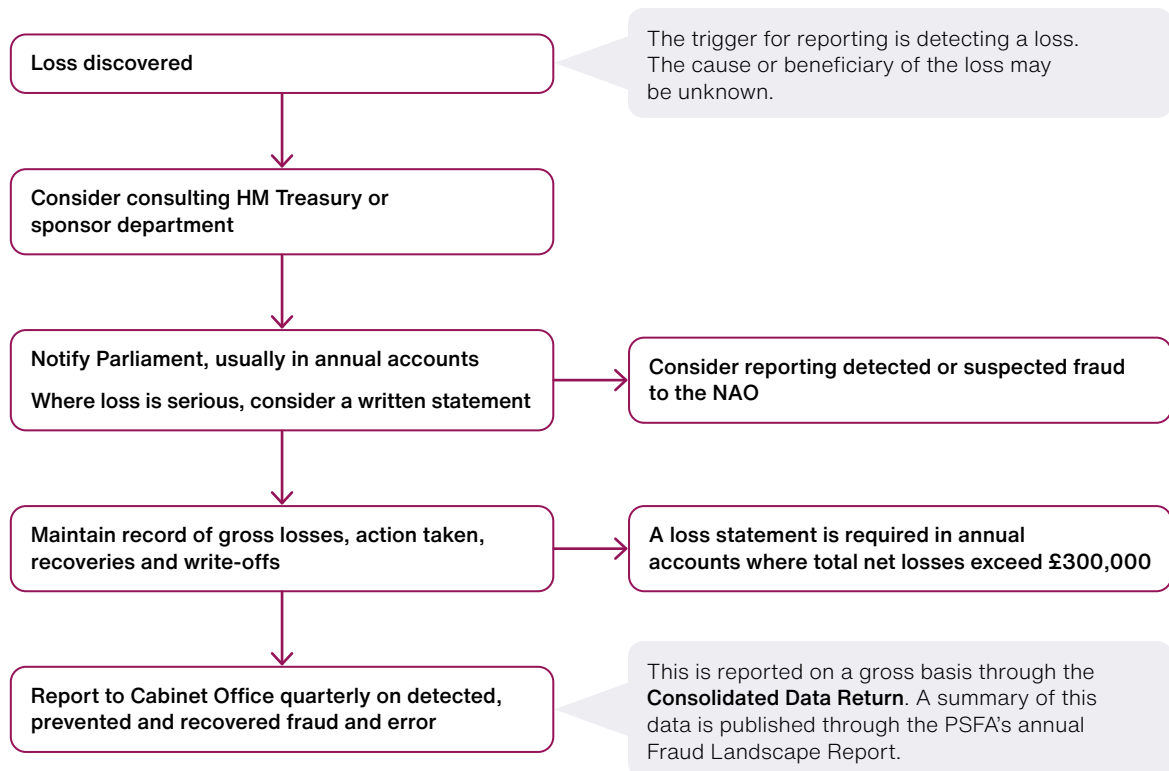
Information about root causes can be used to improve controls and prevent fraud and error in future – bringing down overall losses.

There are well-established mechanisms for public bodies to report detected fraud and error.

But estimates are less commonly reported than detected amounts, and we do not see them being reported in all the areas of the government that we would expect based on the level of risk.

This guide focuses mostly on how public bodies can improve their reporting of estimates, and the benefits of doing this.

Requirements for reporting detected fraud and error losses in *Managing Public Money*






Note

1 Appendix A on page 28 sets out fraud and error reporting requirements for annual reports and accounts.

Source: HM Treasury, *Managing Public Money*, May 2023, Annex 4.9 Fraud and Annex 4.10 Losses and write offs

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Summary of our insights – estimating and reporting fraud and error

Step	What is this and why should you do it?	Practical actions to focus on	
 <p style="text-align: center;">Part One: Decide where to focus your estimation and reporting activity (see pages 13 to 17)</p>	<p>Aim to report estimates for significant areas with significant risks.</p> <p>You should report an estimate where it is cost-effective to do so. This means focusing on areas that:</p> <ul style="list-style-type: none"> ● have a high risk of fraud and error; and ● are significant to your organisation as a whole (e.g. in terms of value, nature, strategy, public or political interest). 	<p>Look for early warning signs</p> <p>Are there signs or indicators that you should consider producing and reporting an estimate? (E.g. unusual levels of detected fraud and error or inherently risky design features)</p>	<p>Answer test 1: Could the likely level of fraud and error be significant to the area of activity?</p> <p>This judgement should be based on a thorough understanding of the fraud and error risks, informed by proportionate risk assessment processes.</p> <p>Answer test 2: Is the area of activity significant to the organisation as a whole?</p> <p>Does a reader of the annual report need to know about the level of fraud and error in this area to understand the performance of your organisation?</p> <p>If the answer to both tests is ‘yes’ for an area – consider reporting an estimate.</p>
 <p style="text-align: center;">Part Two: Estimate using a proportionate mix of methods (see pages 18 to 23)</p>	<p>Aim to estimate the total extent of fraud and error, with a focus on previously undetected losses.</p> <p>You should estimate the level of fraud and error in high-risk areas to obtain information that will help you to evaluate the scale of the issue, understand root causes, prioritise activity to prevent further losses and assess how effectively you are improving your control environment.</p>	<p>Build your capability to estimate fraud and error</p> <p>You may choose to focus resources on targeted, small-scale estimates to begin with, following the principle of not making the ‘perfect the enemy of the good’.</p> <p>Use the right mix of methods</p> <p>Estimates should add value by providing new information on the value of undetected losses and the nature of root causes, and should allow comparisons over time. Common methods include statistical sampling, modelling and benchmarking.</p>	<p>Combine different sources of information</p> <p>To produce a clearer picture of the size of the problem, why it is happening and how you can address it. For example, data analytics techniques can be used to target sample testing towards high-risk areas.</p>
 <p style="text-align: center;">Part Three: Report regularly on how well you are managing the problem (see pages 24 to 27)</p>	<p>Use your estimate as the basis of a regular rhythm of reporting in your annual report.</p> <p>It is important to support accountability by keeping Parliament and other stakeholders updated about significant areas of fraud and error loss and how well you are performing at reducing this over time, and to demonstrate a return on investment.</p>	<p>Disclose the key information for high-risk areas in your annual performance report</p> <p>This should include describing the nature and scale of fraud and error risk in key areas, measurement methods, activity to reduce fraud and error and a forward-looking assessment of planned activities and the expected impact on losses. You should do this for each area of significant risk.</p>	<p>Explain your overall approach to managing fraud and error in your accountability report</p> <p>This includes setting out your risk appetite as an organisation, your overall assessment of key risk areas, how you decide where to focus counter-fraud and error activity and what you are doing to understand the level of fraud and error in areas where there is little or no measurement and reporting.</p>

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Summary of our insights – overcoming barriers

When we consulted counter-fraud practitioners across government on this good practice guide, they set out some common challenges that would make it difficult to implement better reporting of fraud and error estimates, but also shared ideas on how to overcome these.

Incomplete understanding of risks	Tone from the top	Resourcing	Skills gap	Low quality or unavailable data
<p>What is the barrier?</p> <p>Public bodies cannot prioritise counter-fraud and error activity – including estimation and reporting – if they do not understand the nature and location of fraud and error risks.</p>	<p>What is the barrier?</p> <p>Counter-fraud officials told us they are concerned that senior officials can be reluctant to prioritise the discovery and reporting of fraud and error because of reputational risk or being unconvinced that there is a problem.</p>	<p>What is the barrier?</p> <p>Most public bodies lack resources that are proportionate to the fraud and error risks they need to manage.</p> <p>This often means there are not enough people to perform measurement work such as the inspection of sampled transactions.</p>	<p>What is the barrier?</p> <p>Two-thirds of counter-fraud staff specialise in investigation, rather than measurement and prevention, where the most significant savings may be.</p> <p>Officials in a number of public bodies told us they did not have the skills to do measurement.</p>	<p>What is the barrier?</p> <p>Some schemes may not be set up to gather the right data needed to perform robust statistical sampling.</p>
<p>Potential solutions</p> <ul style="list-style-type: none"> Focus on improving the quality and coverage of fraud and error risk assessments as a first step toward better measurement and reporting. Use the suite of risk assessment tools set out in the Government Counter Fraud Profession's standard on fraud risk assessment. Complete Initial Fraud Impact Assessments for major new areas of spend in line with <i>Managing Public Money</i> and as part of the HM Treasury approval process. 	<p>Potential solutions</p> <ul style="list-style-type: none"> Where they have not already, departments should sign up to financial targets for fraud and error savings, which should help to incentivise detection, recovery and prevention. Senior officials should be persuaded of the savings that could be achieved by bringing down fraud and error, and the benefits this might have for their body. Implement the Government Counter Fraud Profession's standard for Managing Counter Fraud Culture. 	<p>Potential solutions</p> <ul style="list-style-type: none"> Use of targeted or time-limited methods of measurement – for example, by focusing sampling on a high-risk area, rotating areas of focus or using a less precise confidence interval. Use small-scale measurement to support a business case for further counter-fraud and error activity. We have seen examples where very small teams of one or two people can undertake sample-based measurement and achieve a return that more than covers the cost of their salary. 	<p>Potential solutions</p> <ul style="list-style-type: none"> Public bodies should support staff to enrol on the Government Counter Fraud Profession's Fraud Risk Assessment and Fraud Loss Measurement training. Consider engaging external expertise to support measurement activity (for example, audit firms, the PSFA or the Government Internal Audit Agency). There is a role for the PSFA to coordinate the growing cross-government network of counter-fraud professionals and to meet the need for skills. Officials should undertake fraud and error awareness training. 	<p>Potential solutions</p> <ul style="list-style-type: none"> Use a range of data sources and methods to produce as good an estimate as possible, without 'making the perfect the enemy of the good' Design data collection into business cases for new schemes to support fraud and error monitoring. Consider using data analytics techniques to provide useful information using limited data. Consider taking part in a data sharing pilot run by the PSFA under the Digital Economy Act 2017.

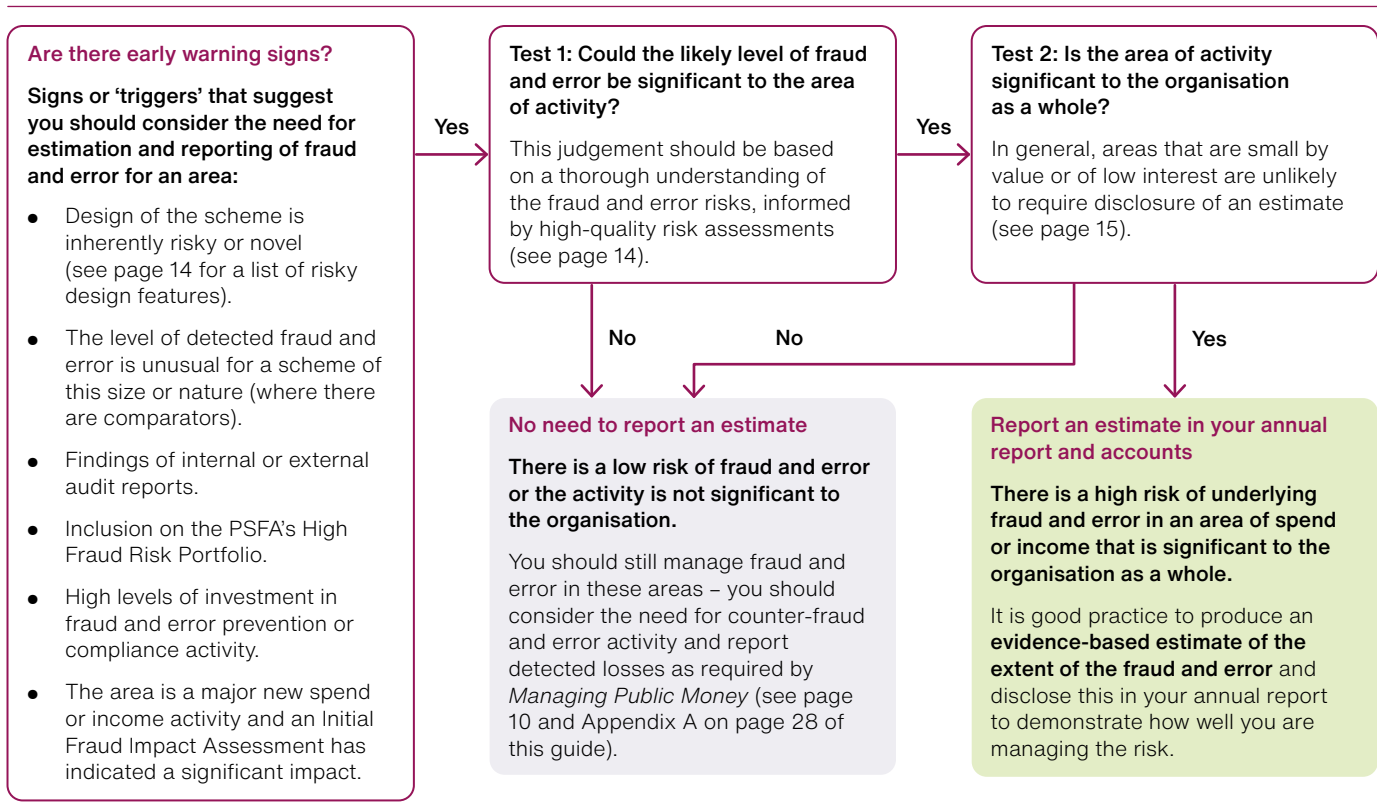


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Part One: Decide where to focus your estimation and reporting activity

Deciding when to report an estimate

It is good practice to report an estimate for areas of spend or income where the likely level of fraud and error is high (test 1), and where the area itself is significant to the organisation (test 2)



Keep in mind

Consider the aggregate level of risk across similar areas

Fraud and error risks for similar areas of spend or income should be considered together when you are deciding whether the risk is significant.

As part of our regularity opinion on a set of accounts we will consider levels of fraud and error across the organisation.

If there is a risk that is material by value, context or nature, we will normally ask the organisation to produce an evaluation of the extent of fraud and error that we can audit.

Consider exploratory estimates

These reporting considerations do not stop you from producing estimates in areas that do not meet these tests. For example, you may wish to produce estimates to explore and get a better understanding of the risk in previously unexamined areas. You can also choose to disclose these estimates if helpful to demonstrate your approach to fraud and error.

Test 1: Understanding your fraud and error risks

It is crucial to develop a thorough understanding of the nature and location of fraud and error risks across your organisation, considering a wide range of evidence.

This should be built up using the toolkit of risk assessment procedures set out in the government standard (see first box on the right) and should help you to identify:

- **Early warning signs** – are there indicators of risk that suggest you might need to consider additional scrutiny and reporting? Think of these as ‘triggers’ for looking further into an area (see page 13).
- **The likely impact of fraud and error risk in an area of spend or income** – where there are warning signs, you should establish the likely level of fraud and error risk based on the scheme design, context and planned controls.

The second box on the right sets out design features that tend to indicate a higher inherent risk of fraud and error.

Assessing fraud and error risk

Use the suite of risk assessment tools set out in the [Government Counter Fraud Profession Standard on Fraud Risk Assessment](#):

- **Initial Fraud Impact Assessment (IFIA)**. Provides an early indication of fraud and error impacts and should be used to prioritise prevention activity. IFIAs are mandatory for new initiatives on the Government Major Projects Portfolio.
- **Full Fraud Risk Assessment (FRA)**. Sets out the inherent risks, planned controls, and the level of residual risk for an individual scheme or initiative. You should update the FRA throughout the lifetime of a scheme. The quality of the FRA may be a limiting factor to your ability to effectively manage fraud and error in a high-risk area.
- **Thematic (grouped) risk assessment**. Assesses risks across a category of activity, such as procurement or grants. These can be built from your IFIAs and full FRAs and should address any gaps in their coverage.
- **Organisational (enterprise) risk assessment**. An overview of the fraud and error risk landscape for the organisation, mapped against spend and income areas. This should be informed by the assessments above and updated at least annually.

Identify risky design features

You should aim to identify features of scheme design that increase the inherent risk of fraud and error. Some examples might be:

Suppliers and supply chains

- Suppliers are unfamiliar or unvetted
- Supply chain is complex or rapidly changes
- Delivery is through multiple partners with separate systems
- Contracts with complex milestones or complex payment criteria requiring judgement

Payments

- Payment is made in advance
- Speed of payment delivery limits time for due diligence
- High volume of transactions

Application and eligibility

- Applications are required from unfamiliar parties

- Large number of recipients
- Eligibility criteria are complex or difficult to verify
- Easily accessible (e.g. TV without paying licence fee)
- Multiple ways to apply (e.g., online or by phone)

Availability of information

- Inability to monitor performance that impacts payments
- Difficult to follow up with recipient
- Deliverables are difficult to verify (e.g. environmental)

Size and public profile

- Large value, available to the public and well advertised
- Social media and other forums share vulnerabilities
- Demand-led schemes may incentivise government to boost uptake in order to demonstrate success

Test 2: What makes an area 'significant' to your organisation?

If an area of spend or income is significant to your organisation and you consider it to have a high risk of fraud and error, you should consider producing and reporting an estimate.

This is because you may encounter areas with a high fraud and error risk, but where the activity is not significant enough to justify reporting an estimate.

Significance is judgemental and is about more than just financial value. An area may be significant to your organisation in terms of strategy, nature, public or political interest (see first box on the right).

As a rule of thumb, consider whether a reader of your annual report would need to know about a high level of fraud and error in the area to understand the performance of your organisation.

The second box on the right sets out examples of situations where you should consider reporting an estimate.

Note: This assessment is aligned in principle but separate from our assessment as the auditor of significant risk areas.

Signs of a significant area

An area of spend or income can be significant to your organisation in terms of:

- **Strategy** – where the activity is a fundamental part of the purpose of the organisation or is key to delivering its strategy and intended outcomes.
- **Value** – where the total spend or income is high value to the organisation or to the taxpayer in terms of potential savings.
- **Nature** – where the activity requires new primary legislation to implement, is novel or requires a Ministerial Direction.
- **Public interest** – where the activity has a very high public profile or it attracts significant interest from pressure groups or media.
- **Political interest** – a high level of ongoing ministerial or political focus. Likelihood of a session of the Committee of Public Accounts or equivalent.



Keep in mind

There are additional requirements where an entity identifies fraud and error as a 'principal risk'.

The *Government Financial Reporting Manual* requires entities to report:

“A summary of the principal risks faced and how these have affected the delivery of outcomes agreed in the latest [Spending Review] process, strategic objectives, or other goals, how they have changed, how they have been mitigated and any emerging risks that may affect future performance.”

Situations where we would consider it good practice to report an estimate:

- **There is a high risk of fraud and error that is material to the organisation as a whole.** In this situation we may expect you to produce an estimate to support our audit opinion.
- **There is a high risk of fraud and error that is significant to the scheme or area.** For example, if there were signs of a level of fraud and error leading to significant loss to the taxpayer or detriment to the objectives of the scheme.
- **There are meaningful efficiency savings to be obtained.** It would be good practice to report an estimate to evaluate your success at reducing waste and inefficiency. These savings will add up across the whole of government.
- **A contentious or novel area of activity.** For example, where an emergency situation has required unexpected or unusual transactions without the usual approval processes.
- **High profile amongst Parliament or the public.** For example, if the government set up a compensation scheme for members of the public where there was a high level of interest in the efficient and effective distribution of funds.

Case studies: deciding to report an estimate

Case study

Rural Payments Agency (RPA): Various grants including Basic Payments

What is the fraud and error risk?

RPA makes payments via a number of grant schemes with various rules and eligibilities. For instance, a payment based on farm size may have a lower risk of incorrectness than a payment based on environmental outcomes, which are more difficult to measure.

Why is the area significant to the organisation?

Grants were over 90% of RPA's total spend in 2023-24. Grants are central to RPA achieving its purpose.

How are estimates reported and used?

RPA estimates the level of irregularity in grant spend annually through random site visits and remote verification.

In 2023-24 RPA reported irregularity of 0.87% (£30.3 million) across its grant schemes. This varied by grant stream, from 0.0% up to 5.4%.

RPA uses this information to improve its understanding of underlying causes and support its customers to get things right.

Case study

Building Digital UK (BDUK): Gigabit Broadband Voucher Scheme

What is the fraud and error risk?

Gigabit Vouchers are susceptible to fraud and error where voucher recipients are ineligible or broadband installers do not work in line with agreed terms.

Why is the area significant to the organisation?

Gigabit Vouchers accounted for over 40% of BDUK's spend in 2023-24. Gigabit Vouchers are strategically significant to BDUK's mission of ensuring fast and reliable digital connectivity across the UK.

How are estimates reported and used?

In its 2021-22 annual report, the Department for Culture, Media & Sport reported fraud and error of around 5% (£7.12 million) in Gigabit Vouchers between 2018-19 and 2020-21.

In 2022 BDUK became an executive agency and introduced proactive sample testing to estimate fraud and error in Gigabit Vouchers.

In its first annual report in 2022-23, BDUK reported 0.4% (£178,000) fraud and error in Gigabit Vouchers. In 2023-24 the reported level was 0.6% (£341,000).

BDUK has used reporting of estimates to demonstrate that it has effectively managed down fraud and error in Gigabit Vouchers.

Case study

Department for Education (DfE): Education Skills Funding Agency (ESFA) grants for schools, early years, post-16 and skills

What is the fraud and error risk?

There is a risk of error where incorrect data is provided by recipients.

There is a risk of fraud or error where funding is not used as intended, for example, for ineligible or non-existent learners or for courses that do not meet requirements.

Why is the area significant to the organisation?

These grants are central to ESFA's mission and highly significant by value. ESFA spent around £72 billion on grants in 2023-24, around 99% of its reported expenditure.

How are estimates reported and used?

ESFA uses random sampling as part of its work to estimate the level of fraud and error in grant expenditure.

As part of our financial audit we reperform this assessment to verify ESFA's findings.

In our 2023-24 Extended Audit Report for the DfE group accounts we reported an estimated £212 million of irregularity in ESFA grants – equivalent to around 0.3% of spend.



Reporting estimates for procurements and contracts

Contracts often have grey areas that can make it difficult to think about and quantify the level of fraud and error – it can be helpful to focus on estimating the excess paid on incorrect transactions that have resulted in a loss to the taxpayer.

For example, in some contract disputes it may be unclear what value to report if fraud or error is suspected but the matter has not yet been resolved, including through the agreed contractual processes.

To avoid overstating the loss to the taxpayer, you should focus on the excess paid on any transaction as a result of fraud or error, over the value received.

The table on the right sets out examples of what would generally be quantified in an estimate of fraud and error loss.

Keep in mind

Economic crime is one of the factors that decreases competition in public procurement.

The government spent £393 billion on procurement of goods and services in 2022-23.

The government's estimates suggest it could potentially save £4 billion to £8 billion per year by increasing competition.

Generally included in an estimate of fraud and error loss for a contract

For example...

✔ **Transactions considered fraud on the balance of probabilities (may be under investigation, admitted or proven in court)**

Internal fraud where a staff member was caught making payments to a fake supplier they were connected to.

✔ **Official error by government**

Where government made a duplicate payment or paid the wrong party.

✔ **Supplier overcharging**

A supplier charging for goods or services that were not provided.

The amount overcharged would be fraud (if intentional) or error (if a genuine mistake).

✔ **Good or service provided is not as specified or of such poor quality that it provides no value**

Where machinery was delivered that is incompatible with the intended purpose and cannot be used in production – may result in a 'fruitless payment' of no value as defined under *Managing Public Money*.

Generally excluded from estimates of fraud and error loss either because there is no loss, or, it is impractical to quantify the value

For example...

✘ **Bribery, corruption and 'backhanders'**

These are economic crimes and should be investigated as such. They also create costs if contracts are awarded to more expensive parties. But it may not be easy to quantify the excess cost of the transactions, especially if appropriate goods or services are provided.

✘ **Some contractual disputes where outcome is unclear**

Disagreement over whether a service was provided in line with the specification. Such disputes are common in contracting, and disputed amounts may not be as a result of fraud and error, or result in a loss.

✘ **Contract was incorrectly awarded**

Payments on improperly awarded contracts may not be losses if an appropriate good or service was provided. Public bodies may face financial penalties for not adhering to procurement rules. These should be reported as losses, but not as part of a fraud and error estimate.

✘ **Good or service is poor quality but has some use or value**

A supplier was engaged to provide consulting services but did it poorly in a way that is considered low value for money. Ultimately, public money was used as intended so there is no fraud or error to report.

✘ **Non-compliance where a good or service was ultimately delivered**

There are some types of contractual non-compliance that do not result in loss, for example where conditions around timeliness are not met.

✘ **Goods and services are no longer needed or are less useful**

Goods or services may be correctly ordered, provided and paid for, but later are no longer needed because of a change in policy. *Managing Public Money* defines this as a 'constructive loss' which is only noted in the annual accounts if it is significant.

Part Two: Estimate using a proportionate mix of methods

Building capability to estimate fraud and error

Good estimates of the underlying level of fraud and error should add value by providing useful information that helps public bodies to understand the problem and prioritise activity to mitigate it.

Estimates also form the basis of performance disclosures to help Parliament and the public hold the government to account over how effectively it is managing down fraud and error levels over time.

Our work has found that many public bodies do not have sufficient skills or resources to undertake measurement that is proportionate to the fraud and error risks they face.

Where this is the case, it is reasonable that organisations will want to focus resources and to not make the 'perfect the enemy of the good'.

Small-scale, targeted measurement of specific areas can be helpful to identify where improvements can be made and begin building an evidence base and a business case for further counter-fraud and error work.

Building capability to estimate – actions to focus on

It is good practice to start small and build up capability so that it is proportionate to the level of risk



Report using any available **supplementary information** (see page 21)

Undertake **targeted, small-scale measurement** in the highest-risk areas of activity

Begin a **rotating programme** of measurement, focusing on a wider range of high-risk areas

Report annually on the extent of fraud and error in high-risk areas

Combine a variety of **measurement methods** to enhance understanding of fraud and error

Use earlier measurements to **support business** cases for further activity

Invest to develop capability that is **proportionate** to risks

Focus on embedding **high-quality risk assessment** for fraud and error

Consider bringing in **external support** (e.g., Government Internal Audit Agency or Public Sector Fraud Authority)

Explore possibilities for **data sharing** and build **data access** into new schemes

Develop a **measurement strategy** and update this based on effectiveness

Increasing capability →



Methods for estimating fraud and error

Methods used across government to estimate the extent of fraud and error include statistical sampling, modelling and benchmarking.

These techniques can provide you with an estimate of the value of fraud and error across an area of spend or income, and a percentage figure for the total level of fraud and error across the area.

Other techniques, such as data analytics and non-random sampling, do not produce an estimate but can provide useful information about root causes and where you should focus your estimation activity (see page 21).

The mix of methods you use to estimate should add value by:

- considering the **extent of underlying fraud and error**, not just detected losses;
- expressing a **financial value**;
- including an assessment of **reliability and uncertainty**;
- enabling an **understanding of your performance** at reducing fraud and error, and
- enabling **prioritisation of activity** to prevent fraud and error.

What is the method?

Benchmarking

Where fraud and error cannot be directly assessed, it may be helpful to benchmark against a comparator with a similar risk profile to give an indication of potential loss.

Useful comparators may include similar areas within an organisation, previous years, another organisation, or industry-wide benchmarks.

Modelling

Combining data from various sources with assumptions to produce an estimate of the possible range of fraud and error.

For example, some public bodies model income evasion by comparing actual receipts from customers against the receipts they would expect to receive based on other information sources.

Statistically-valid sampling

Selecting a small number of items that are representative of a much larger population on which to conduct testing that informs conclusions about the whole population.

Sample testing relies on being able to find fraud and error by looking at specific cases in more detail than happens with the standard controls.

What information does this provide?

Information provided: A rough indication of potential loss to help prioritise where to focus further counter-fraud and error activity.

Not provided: A robust estimate of the extent of the problem in the specific stream being benchmarked or information on the root causes of fraud and error.

Information provided: A high-level estimate of the level of fraud and error. Useful for where you do not have the ability to sample but do have access to other information from which to produce a model.

Not provided: Detailed information about root causes, or analysis where a narrow range of fraud and error is required, such as when comparing between years.

Information provided: An estimate of the extent of fraud and error across a population within confidence intervals. Can also provide the basis for root cause analysis but may reveal less information than targeted investigation.

Not provided: Not all transactions are looked at, so it is possible that uncommon issues are missed.

Examples of use in government

- DWP (parts of fraud and error in the benefit system)
- NHS Counter Fraud Authority (parts of the estimate of vulnerability to fraud, bribery and corruption)

- BBC (licence fee evasion)
- HM Revenue & Customs (parts of the tax gap)

- Legal Aid Agency (legal aid spend)
- Building Digital UK (Gigabit Broadband Voucher Scheme)
- Defra (various grants)
- DWP (fraud and error in the benefit system)

Generally increasing accuracy



Case studies: methods for estimating fraud and error

Examples of where public bodies have used different estimation methods to improve their management of fraud and error:

Case study

Statistical sampling

Legal Aid Agency (LAA): Legal aid

What is this and why is it high risk?

LAA spent around £2 billion in 2023-24 on legal aid support, over 95% of its total expenditure. The complexity of calculating legal aid eligibility and payments means there is an inherent risk of error.

How is fraud and error estimated?

Each year LAA undertakes a random statistical sampling exercise. To ensure cost-effective focus of resource, this exercise does not distinguish between fraud and error, though cases are properly identified and referred for fraud investigation where appropriate.

What is the level of fraud and error?

LAA reported an error rate of 1.02% in its 2023-24 Annual Report. After reducing this by the amount recovered, the level of error was 0.68% (£14.7 million).

How is this approach useful?

LAA reports how the net error rate has changed for different categories of activity. It uses this information to identify and address root causes and strengthen internal controls and provider compliance.

Case study

Modelling

BBC: Licence fee evasion

What is this and why is it high risk?

BBC reported £3.7 billion of TV licence fee income for 2023-24. This is over 65% of BBC's income.

The risk of evasion has grown due to changing viewing habits, slowing household growth and cost-of-living challenges.

How is fraud and error estimated?

Evasion is estimated using the difference between the number of licences in force and the estimated number of potentially licensable premises.

What is the level of fraud and error?

In its 2023-24 Trust Statement, BBC reported a licence fee evasion rate of 11.30% (£466 million).

How is this approach useful?

BBC is required to estimate and report on licence fee evasion as part of the Licence Fee Trust Statement. The estimate is also useful to inform the licence fee collection strategy, as it helps BBC to understand the level or trend in evasion and take action accordingly.

Case study

Combined

DWP: Benchmarked benefits

What is this and why is it high risk?

DWP spent £266 billion on benefits in 2023-24. A large volume of payments are made to recipients with complex eligibility criteria.

How is fraud and error estimated?

Most benefit spend is subject to sample testing each year, but each year DWP benchmarks a number of benefits against previous years. Some smaller benefits have never been sample tested and are benchmarked using a similar benefit instead of previous years.

What is the level of fraud and error?

DWP reported £9.7 billion of fraud and error overpayments for 2023-24. £8.25 billion was based on sample testing, £0.80 billion was benchmarked against previous years, and £0.65 billion was benchmarked using a proxy.

How is this approach useful?

Benchmarking enables DWP to focus its resources by rotating sample testing around smaller benefit areas every few years – reducing the cost of measurement and the burden on claimants.

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Methods that provide supplementary information

There are other methods you can use that do not produce a robust estimate of the level of fraud and error but may indicate the extent of issues.

These methods include data analytics, targeted investigation of issues, and the use of other internal management information or intelligence. The main uses of these other methods are:

- **Understanding root causes.** Analysing the details of known cases of fraud and error can help you to identify the control weaknesses that allowed the loss to occur. This information can be used to strengthen your control environment and prevent issues recurring.
- **Focusing subsequent measurement activity.** High-level assessment of a population of transactions for patterns or anomalies can help you to identify problem areas. This can be used to flag risky transactions or to understand the likely extent of the problem.

While these methods do not produce an estimate of the extent of fraud and error, you can report on their outputs to indicate the extent of the issues.

What is the method?

Data analytics

A range of techniques that involve analysing large amounts of data from a population to identify unusual patterns, correlations, and anomalies that may indicate suspicious activity.

Often a pre-cursor to sample-based measurement or targeted investigation.

Targeted investigation

Investigation into a selection of specific high-risk areas, populations or transactions to detect fraud and error.

Targeting may be informed by patterns or anomalies identified by data analytics or predictive modelling.

Other internal management information

Public bodies can use a wide range of internal intelligence to inform further measurement and investigation. This may include financial records, operational information, internal audits, incident reports, compliance checks, and performance metrics.

What information does this provide?

Information provided: Powerful tool for detecting anomalies for further investigation.

A high 'hit' rate can lead to more immediate prevention and recovery savings.

Not provided: An accurate estimate of the extent of fraud and error or information on root causes. Use is limited by the availability of input data.

Information provided: Detailed insights on specific instances of fraud and error in specific high-risk areas. May be used to validate suspected risks.

Not provided: A comprehensive picture of all areas, and as such low-risk areas may be overlooked.

Findings cannot be generalised over a broader population. Insight into root causes will depend on the depth of investigation.

Information provided: Identifies some fraud and error vulnerabilities and indicates where to focus further measurement activity.

Not provided: A robust estimate of the extent of fraud and error across an entire area.

May not provide detailed insight into the nature of specific instances of fraud and error without more in-depth investigation.

Examples of use in government

- DWP (Universal Credit advances)
- Department for Transport (High Speed Two Ltd)

- DWP (Kickstart Scheme, Targeted Case Review of Universal Credit claims)

- DWP (uses internal management information on benefit claims to estimate savings achieved by preventing fraud and error from entering the benefit system)

Combining different sources of information

It is good practice to combine different sources of measurement information to develop a clearer picture of your fraud and error performance.

The most mature organisations are likely to use a mix of methods, providing a fuller picture of performance (see pages 18 and 19).

But many public bodies will have access to information that can help them understand and evaluate the extent of fraud and error.

Such information could include:

- Information on compliance activity
- Debt recovery information
- Estimate of fraud and error
- Trend analysis
- Root cause analysis
- Variance analysis of actual to predicted performance
- Forecast over and underpayments
- Estimated prevention savings

The boxes on the right describe case studies of government bodies usefully combining information sources and methods.

Case study

DWP: Combining sampling, forecasts and estimated savings

In 2023 we [supported DWP](#) to improve its approach to performance reporting around fraud and error by combining existing information sources. These were:

- estimate of benefit overpayments due to fraud and error;
- forecast of future benefit overpayments;
- estimated savings from prevention activity, by area; and
- savings target agreed with Parliament.

Bringing these together in the annual report enables DWP to make useful comparisons to help readers understand how its fraud and error performance has changed and why. For example:

- How does the level of overpayments and prevention savings compare with what DWP expected?
- Where overpayments deviate from DWP's forecast, is this due to external factors or because certain activities worked better or worse than expected?
- Which areas of counter-fraud activity provide the biggest impact in terms of savings?

Case study

NHS Counter Fraud Authority (NHSCFA): Combining benchmarking and sampling

The NHSCFA publishes an annual estimate of the vulnerability of the NHS to fraud, bribery and corruption.

The allocated budget for the NHS in England was over £170 billion in 2023-24. The NHSCFA's estimate covers 12 thematic areas and is used to make recommendations for prevention, enforcement and future fraud strategy.

NHS activity is enormously varied and largely devolved. NHSCFA believes it would be impractical to produce a single statistically robust estimate of fraud and error across all high-risk areas of NHS activity.

The NHSCFA's approach is to use a mix of sample-based measurement and benchmarks derived from partners or stakeholders, depending on the thematic area.

For example, in 2024 NHSCFA reported that the NHS was vulnerable to £1.3 billion of fraud, bribery and corruption across all areas. Around £393 million of this was based on sampling, and the rest on comparative benchmarks.

This is an example of how a mix of methods can provide a useful picture of the possible extent of loss when robust statistical sampling is not available.

Approaches to estimating fraud and error outside the UK

The UK stands out internationally because our approach to public sector audit means we produce more published estimates of fraud and error than other countries.

We surveyed audit bodies in 38 OECD countries about approaches to estimating and reporting public sector fraud and error in their country.

Of the countries that responded, most do not have fraud and error estimates, and focus on detecting and investigating fraud as a crime rather than on preventing losses.

Where estimates do exist outside of the UK, they generally cover tax and welfare.

Only the United States and New Zealand estimate the total level of fraud and error across government:

- The US Government Accountability Office estimates that annual public sector losses are **3% to 7%**.
- The New Zealand Serious Fraud Office estimates fraud and error of **0.45% to 5.6%** across central government.

These estimates are comparable to the Public Sector Fraud Authority's expectation of **0.5% to 5.0%** of fraud and error in unexamined areas (see page 7).

The United States Government Accountability Office (GAO) estimates that the federal government loses \$233 billion to \$521 billion annually to fraud

Producing the estimate:

GAO's estimate is built up using three categories of fraud:

- **adjudicated** (proven in court);
- **detected potential** (known to have occurred but not yet proven in court); and
- **undetected potential** (exists but has not yet been detected).

GAO's final estimate of \$233 billion to \$521 billion represents **3% to 7%** of federal spending obligations.

Challenges:

GAO reported that key barriers facing officials who want to estimate fraud include:

- lack of appropriate data;
- inconsistency in reporting terms across government; and
- lack of expertise and data-analytics capacity.

These are similar to the barriers we have identified in UK government (see page 12).

Benefits:

GAO noted that fraud estimates can help government to improve fraud risk management by:

- **Demonstrating the scope of the problem** – without which some may assume that fraud does not exist.
- **Improve oversight prioritisation** – for instance, helping the centre of government to allocate resources most effectively.
- **Demonstrate a return on investment** – and thus help obtain additional funding for oversight of programmes in most need.

Source: US Government Accountability Office, *Fraud Risk Management: 2018-2022 Data Show Federal Government Loses an Estimated \$233 Billion to \$521 billion Annual to Fraud, Based on Various Risk Environments*, GAO-24-105833, 16 April 2024

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Part Three: Report regularly on how well you are managing the problem

Reporting an estimate in your annual report

Once you have produced an estimate of fraud and error, you should report on your findings and what you are doing to manage the problem in the performance section of your annual report.

Public reporting is crucial to enable Parliament and the public to hold government to account over how effectively it is using taxpayers' money.

Good performance reporting on fraud and error means telling a story that is rooted in the fraud and error risk management cycle (see page 9).

The boxes on the right set out the key elements you should disclose to help explain your fraud and error estimate.



How to discuss fraud and error in your performance report

Good performance reporting should enable the user to understand the extent of fraud and error in high-risk areas and how well your organisation is managing the problem. This means reporting on:

- The **nature of the fraud and error risks** you are facing and a description of the **risk appetite**.
- The **method of measurement**, including any **assumptions** made and **limitations** of the measurement.
- Your **estimate of the underlying extent of fraud and error** and the level of **uncertainty**. Show this as a **financial value** and as a **percentage** of spend or income.
- Ongoing **activity to reduce the risk**, including the **amount you have spent** and your return on investment.
- A **forward-looking assessment** of planned activities and the expected direction of fraud and error.

Information you should provide alongside your estimate

Wherever possible, you should include the following:

- A **multi-year comparison** so that trends are visible, and users can understand whether counter-fraud activity is working.
- Your estimate as a financial value both **gross and net of recoveries** so that users can properly understand the financial impact.
- The **period that the estimate applies to**, including where prior year rates have been applied to current period spend or income.
- An assessment of how much of your estimate was **fraud versus error**, where it is possible and cost-effective to determine this.

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Reporting an estimate: illustrative examples

It is important to achieve a balance between transparent disclosure and the need to be efficient in annual reporting – with a focus on what is useful to Parliament and the public.

There is no single cookie-cutter template for a fraud and error disclosure, but you should aim to include as many of the key elements set out on page 24 as possible.

We believe it should be possible in most cases to draft a useful fraud and error disclosure in a few hundred words (see illustrative examples that we have drafted on the right).

Fraud and error estimates can be reported in both the performance report of the departmental group and its arm’s-length body (ALB) – either can make sense, depending on the context.

Where the main disclosure is in the ALB, the group performance report should refer to the ALB accounts.

Nature of **key fraud and error risks** and your **risk appetite**

The **method** you used to measure the extent of fraud and error, including **assumptions and limitations**

Your **estimate of the extent of fraud and error** and the **level of uncertainty**

Show as a **financial value** and as a **percentage**, both **gross and net of recoveries**

Multi-year comparison so that trends are visible

Planned or undertaken **activity to reduce the risk**

Example: sampled grants	Example: modelled fee evasion
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Our general grant is subject to overpayments where people overstate their entitlement (fraud) and where officials misapply rules that limit entitlement in certain circumstances (official error). The nature of the grant makes underpayments unlikely.

We performed a statistical sample of grant expenditure to estimate fraud and error levels. Grant data for April 2023 to March 2024 was extracted from the grant management system. We sampled 50 grants representing 0.1% of total grant expenditure (£1.25 billion). Grant recipients were asked to validate their entitlement. Detailed methodology is set out on our website.

Our best estimate of the financial value of fraud and error overpayments in grant spending for 2023-24 is 0.8% (0.6–1.0% range at 95% confidence level). We found no underpayments.

Our estimate of 0.8% fraud and error is equivalent to a gross loss of £10 million. We recovered £0.5 million relating to this year, suggesting an estimated net loss of £9.5 million. We directly detected £1 million of this. We also prevented £3 million and recovered £1 million relating to prior years.

The overpayment rate has declined since we first started to measure and report on it:

2021-22: 1.0% (£12 million)
2022-23: 1.1% (£14 million)
2023-24: 0.8% (£10 million)

Our sample suggested the most likely cause of loss was customer error. We are undertaking a review of our customer guidance pages.

This revenue stream is subject to opportunistic fraud and genuine error where customers do not register and paid the mandatory fee to use the service.

We model evasion by comparing changes in customer usage data against the number of actual registrations. The detailed methodology is set out on our website.

Our estimate for 2023-24 is 0.9% (0.7–1.1% range of error). The estimate is subject to uncertainty due to outdated customer data, and around our assumption of the total number of customers we expect should be registered and paying.

Our estimate of 0.9% is equivalent to £67 million of loss due to evasion. We do not have significant detected or recovered fraud and error to report, in part because our modelling approach is not set up to identify specific instances of loss.

The evasion rate has been increasing since we began estimating in this way in 2021-22:

2021-22: 0.6% (£51 million)
2022-23: 0.8% (£64 million)
2023-24: 0.9% (£67 million)

Our customer research suggests that most non-payment is driven by intentional behaviour rather than error. We are increasing the number of enforcement officers by 10%.

Reporting on commercially or legally sensitive areas

Where fraud and error relates to a sensitive matter, such as a criminal investigation or commercial negotiation, you may need to adapt what you disclose in your performance report.

Where you believe your freedom to disclose is limited, there are steps you should take to support transparency and accountability:

- 1 Aim to set out what would meet the **transparency requirement**.
- 2 **Seek advice on the sensitivities around disclosure** – for example, from legal counsel or commercial experts.
- 3 **Disclose as much as possible** in your annual report, based on steps 1 and 2.
- 4 **Consider reporting confidentially to Parliament.** For example, *Managing Public Money* says that where a criminal investigation is ongoing it may be necessary to report in a confidential manner to avoid prejudicing any investigation or trial.

The boxes on the right set out examples of where public bodies have disclosed useful information to support transparency despite sensitivities.

Case study

Electronic monitoring contracts

In 2013 the Ministry of Justice (MoJ) undertook an exercise to retender its electronic monitoring contracts, which was at the time managed by private contractors G4S and Serco.

Following the completion of a forensic audit by PwC, MoJ entered a dispute with the contractors as it believed they had overcharged for work that had not taken place. A criminal investigation was also undertaken by the Serious Fraud Office.

In November 2013 [we reported](#) that in some instances the contractors were charging MoJ for monitoring fees months or years after electronic monitoring activity had ceased.

In its 2012-13 Annual Report, MoJ stated:

“As a result of information which came to light as part of the re-tendering process for electronic monitoring contracts, potential issues have been identified in relation to billing under the current contracts. Action is being taken to address this. Our suppliers are cooperating fully and have given clear assurances that if any adjustment is required to charges to date, this will be put right promptly and repayments made.”

In its 2013-14 Annual Report, the Accounting Officer of MoJ set out a fuller statement on the dispute and how MoJ had responded. This included that the matter “was now subject to a criminal investigation by the Serious Fraud Office.”

The Serious Fraud Office announced deferred prosecution agreements in 2019 and 2020.

Case study

Personal Protective Equipment contracts

In the months following the emergency of the COVID-19 pandemic in March 2020, the government awarded around £18 billion of contracts using emergency procurement regulations. Most of these contracts were for personal protective equipment (PPE). The Department for Health and Social Care (DHSC) bought 38 billion items of PPE at a combined value of £13.6 billion.

In its 2021-22 Annual Report, DHSC set out the number of high-risk PPE contracts it had reviewed and the value of identified fraud and error risk.

In its 2022-23 Annual Report, DHSC set out the number and combined value of contracts in commercial and legal dispute.

In March 2024 the Committee of Public Accounts asked DHSC how many contracts were still in dispute due to fraud. DHSC told the Committee the number of disputed contracts but requested a private session to discuss disputes over fraud, due to their sensitive nature.

DHSC also committed to reporting to Parliament on the total level of fraud in COVID-19 procurement in the following months.

In its 2023-24 Annual Report, DHSC reported cumulative losses related to the purchase of PPE, but noted that, in some cases, recovery action on disputed contracts may reduce the final loss.

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How to discuss fraud and error in your accountability report

Readers of annual reports, chiefly Parliament, use the accountability report section to understand how your organisation is governed, remunerated, and audited.

It should set out your overall approach to managing fraud and error, including how the level of risk is assessed and how you decide where to prioritise activity to tackle fraud and error.

It should set out at a high level the action you are taking to assess the extent of fraud and error in areas where there is little or no detected fraud and error or measurement activity.

The table on the right sets out some suggested good practice for drafting a clear and useful fraud and error section of your accountability report.

Do...	For example...
<p>✔ Be clear about your risk appetite</p>	<p>“This organisation has a clearly defined risk appetite for fraud and error, as set out in our published counter-fraud policy. We invest in prevention where cost-effective, but we accept risks necessary for effective delivery. We accept a higher risk in our emergency scheme. We have a lower risk tolerance in our ongoing contracts where extensive controls and procedures are in place.”</p>
<p>✔ Set out your approach to risk assessment</p>	<p>“Our Fraud Risk Assessment (FRA) policy is now embedded throughout the group. Areas over £X million must maintain a full FRA. Major spend, high-profile or sensitive areas undergo an Initial Fraud Impact Assessment. This means counter-fraud resources can be built in early to high-risk projects.”</p>
<p>✔ Acknowledge your key risk areas</p>	<p>“Full FRAs and IFIAs have been performed for all schemes of X type. This year we undertook proactive assessment of all schemes of Y type, to identify fraud and error risks early and give assurance over effectiveness of controls.</p> <p>The main causes of fraud and error identified are...</p> <p>We acknowledge that our main grant scheme is particularly susceptible to...</p> <p>In future we expect to focus more on...”</p>
<p>✔ Explain what you are doing to assess the level of undetected fraud and error</p>	<p>“The organisation undertook X fraud measurement exercises this year, which found...</p> <p>We are piloting a data matching exercise. We have increased the number of officials who have completed fraud risk assessment training and measurement, in recognition of the higher risk of fraud and error in our new grant scheme.”</p>
<p>✔ Use metrics that illustrate how well you are managing the problem</p>	<p>“Our target as an organisation is to achieve a return of X:1 on counter-fraud investment. We have invested in data analytics to identify undetected fraud in Y scheme and we expect a measurable return. This year we recovered £X millions, £X million more than last year, based on the same spend.”</p>

Do not only...	For example...
<p>✘ Say you have ‘zero tolerance for fraud and error’</p>	<p>“This organisation takes a zero-tolerance stance toward fraud, bribery and corruption.”</p> <p>Without explaining what this means in practice or how it is achieved, this statement carries little value.</p> <p>There will always be fraud and error and there are costs involved in tackling it.</p> <p>For this statement to be of value, it would need to discuss factors that influence risk appetite in terms of the trade-offs involved.</p>
<p>✘ Focus at a high level on how you have complied with requirements</p>	<p>“This organisation meets the requirements of the government functional standard on counter-fraud.”</p> <p>Instead, talk about how you have sought to meet the requirement.</p>
<p>✘ Rely on detected fraud and error as your main metric</p>	<p>“Our commitment to fighting fraud is demonstrated by our annual figures for fraud detected, prevented and recovered which are £X million, up by £X million compared with last year”.</p> <p>Instead, aim to report an estimate for significant areas at high-risk of fraud and error, as set out in this guide.</p>

Source: Examples drafted by the National Audit Office to illustrate information that might be helpfully included in an accountability report

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Appendices

Appendix A: fraud and error reporting requirements

Public bodies must report to Parliament on the losses they detect and their approach to managing fraud and error.

The table on the right sets out the key reporting requirements that public bodies must fulfil in their annual reports and accounts.

In addition to these requirements, public bodies must also:

- report the levels of detected, prevented and recovered fraud and error to the Public Sector Fraud Authority (PSFA) via a quarterly Consolidated Data Return; and,
- provide the PSFA with information about their counter-fraud and error resourcing, capability, and return on investment.

Fraud and error reporting requirements for annual reports and accounts

Section	Purpose of this section	What do public bodies need to report?	Source(s) of requirement
Performance Report	<p>To provide the user with an understanding of the entity and how it has performed.</p> <p>The performance report should include information on what bodies are doing to understand the extent of fraud and error and how effectively they are mitigating it.</p>	<p>All departments must:</p> <ul style="list-style-type: none"> • report what they have done to detect, prevent, and estimate fraud and error in areas of major spend, as well as high-risk and politically sensitive schemes; • report evidence-based estimates of the likely total level of fraud and error in areas of major spend that are both significant to the department and at significant risk of fraud and error; • declare material fraud and error, including in respect of receipts and payments recorded in the Trust Statement; and • where possible, do a comparative analysis with the last reporting period. 	Public Expenditure System (PES) Papers on the preparation of annual reports and accounts (HM Treasury)
Accountability Report	Sets out how the organisation is governed, how management are remunerated, and the results of our audit.	<ul style="list-style-type: none"> • Governance statement must set out risk management processes and review of their effectiveness. • Must disclose known net losses >£300,000 – including detected fraud and error. • Must also include a statement about the use of government functional standards – including GovS 013: Counter Fraud. 	Managing Public Money (HM Treasury)
Financial Statements	To provide a true and fair view of the financial activities of the organisation – its accounting policies, financial performance, expenditure, income, assets and liabilities.	<ul style="list-style-type: none"> • Detected fraud and error in expenditure is normally accounted for as negative expenditure and a debtor in accounts pending recovery or write-off, subject to impairment considerations. • Must disclose details of material fraud, evasion and error in respect of receipts and payments. • Auditors provide an opinion on the regularity of expenditure, which includes fraud and error. 	<p>Managing Public Money (HM Treasury)</p> <p>Public Expenditure System (PES) Papers on the preparation of annual reports and accounts (HM Treasury)</p> <p>Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Financial Reporting Council)</p>

Appendix B: notes to figure on page 7

Notes

- 1 The figure on page 7 was based on the PSFA's method, as reported in its Fraud Landscape Annual Report. We updated this using the most recent available information as at 31 December 2024 and made some minor changes to the method.**

Detected

- 2 HMRC (£9 billion).** We use 'cash expected' element of the compliance yield as a proxy for the value of fraud and error that HMRC detects. Cash expected is the amount of additional revenue that HMRC expects to get back from past cases of non-compliance it has identified. This was £12.4 billion for 2023-24. We then exclude a proportion that relates to behaviours in the tax gap that we do not consider to be fraud and error – legal interpretation, non-payment, and avoidance. This reduces the figure to £9.0 billion. Cash expected differs from detected amounts because it excludes amounts that HMRC identifies but does not expect to collect and includes fines and penalties.
- 3 DWP (£2 billion).** In 2023-24 DWP detected around £1.5 billion of overpayments in the benefits it administers. A further £0.5 billion was detected in Housing Benefit, which is administered by local authorities.

- 4 Other public bodies (£1 billion).** Other public bodies report detected fraud and error to the PSFA every quarter as part of the Consolidated Data Return. This is later published in the PSFA's cross-government fraud landscape report. The latest figure at the time of publishing this guide was £823 million from the [2021-22 Fraud Landscape Report](#), which we rounded to £1 billion.

Estimated

- 5 HMRC tax revenue (£30 billion).** We used the value of the tax gap that relates to behaviours we consider to be analogous to fraud and error. These are error, evasion, failure to take reasonable care, criminal attacks and the hidden economy. We applied the most recent tax gap rates for these behaviours (2022-23) to tax revenues for 2023-24. There is an unquantified amount of double counting of Corporation Tax research and development (R&D) relief in the tax gap and HMRC benefits.
- 6 HMRC benefits (£1 billion).** HMRC reports £1.2 billion of estimated fraud and error for Personal Tax Credits, Corporate Tax R&D Relief, Child Benefit and Cost of Living Payments in its 2023-24 Annual Report and Accounts.
- 7 DWP benefits (£8 billion).** DWP reported £9.7 billion of estimated fraud and error overpayments in benefit expenditure in its 2023-24 Annual Report and Accounts and separately in its fraud and error statistics. To avoid double counting, we deducted detected amounts (£2 billion) from estimated amounts.

- 8 Other public bodies (£2 billion).** We reviewed the most recent annual reports and accounts of public bodies to identify fraud and error estimates (see Appendix C on page 30). Excluding HMRC and DWP, these total £1.5 billion, which we rounded up to £2 billion.

Unknown

- 9** We took total government spend and income for 2023-24, deducted spend and income associated with known estimates and out-of-scope items, then applied a range of 0.5% to 5.0% fraud and error.
- 10 Total public expenditure.** We took total government spend of £1.1 trillion from HM Treasury's Public Expenditure Statistical Analyses 2024. We excluded spend that we consider out-of-scope or low risk, such as depreciation, locally financed spend, debt interest and accounting adjustments. To avoid double counting, we deducted spend associated with the estimates described above.
- 11 Total public revenue.** We took total public sector receipts of £1.1 trillion for 2023-24 from the Office for National Statistics dataset. We excluded revenues already covered by estimates mentioned above (chiefly HMRC tax and BBC licence fee). We also deducted income associated with local government and with debt interest payments.
- 12 0.5% to 5.0% fraud and error.** We applied a range of 0.5% to 5.0% fraud and error in unexamined areas of spend and income. This range comes from the Fraud Measurement and Assurance programme, which reviewed around 50 fraud and error measurements to produce this range for the likely level of fraud and error in areas where little or no measurement has taken place.

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Appendix C: most recent estimates reported by public bodies

This table brings together fraud and error estimates from across the public sector. Different areas of spend and income will have different inherent risks and competing policy objectives. We would not expect the level of loss to be the same in all areas (see pages 7 and 8).

Reporting body	Area/scheme	Year	Estimated fraud and error (£mn)	Estimated fraud and error (%)
HM Revenue & Customs	Fraud and error in the tax gap	See note 1	30,362.4	3.6
Department for Work & Pensions	Benefit overpayments	2023-24	9,700.0	3.7
HM Revenue & Customs	Corporation Tax Relief (research and development)	2023-24	601.0	7.8
BBC	TV licence fee evasion	2023-24	466.0	11.3
Department for Education	Newly issued Student Loans	2023-24	405.0	2.0
NHS Counter Fraud Authority	NHS vulnerability to fraud, bribery and corruption	See note 2	392.8	2.5
HM Revenue & Customs	Personal Tax Credits	2023-24	365.0	4.7
Department for Education	Education & Skills Funding Agency grants	2023-24	212.0	0.3
HM Revenue & Customs	Child Benefit	2023-24	200.0	1.6
Rural Payments Agency	Grants	2023-24	30.3	0.9
Department for Education	Grant by core department	2023-24	22.7	0.3
Legal Aid Agency	Legal aid (net of recoveries)	2023-24	14.7	0.7
Department for Energy Security and Net Zero	Energy Affordability schemes (see note 3)	2023-24	6.0	0.9
Department for Energy Security and Net Zero	GB Renewable Heat Incentive	2023-24	3.2	0.3
HM Revenue & Customs	Cost of Living Payments	2023-24	1.4	0.2
Department for Energy Security and Net Zero	Boiler Upgrade Scheme	2023-24	1.0	1.2
Building Digital UK	Gigabit Broadband Voucher Scheme	2023-24	0.3	0.6
Department for Environment, Food & Rural Affairs	Grants by Defra group (see note 4)	2023-24	0.2	0.1
	Total		42,784	
	Total (excluding HMRC)		11,254	
	Total (excluding HMRC and DWP)		1,554	

Notes

- We estimated fraud and error in the tax gap by applying the rates for 2022-23 to 2023-24 tax revenues. We consider tax lost due to error, evasion, failure to take reasonable care, criminal attacks and the hidden economy to be equivalent to fraud and error. HMRC publishes Official Statistics about the tax gap and discusses this in its annual report. It does not recognise the tax gap in its financial statements, in line with government financial reporting requirements.
- The NHS Counter Fraud Authority Strategic Intelligence Assessment 2024 reported that the NHS was vulnerable to fraud, bribery and corruption of £1.3 billion. This includes 2022-23 financial data and 2023-24 reporting data. The £392.8 million shown in the table aggregates the parts of the estimate that are based on fraud loss measurement, those being patient exemption (£240.2 million or 2.0%), optical contractor fraud (£94 million or 16.4%) and dental contractor fraud (£58.6 million or 1.9%).
- In its 2023-24 Annual Report & Accounts the Department for Energy Security & Net Zero reported an estimate that lifetime fraud and error in its energy affordability schemes was £292 million (equivalent to 0.7%). Most of this spend related to 2022-23. The 0.9% shown in our table was calculated using the lifetime fraud and error rates for the schemes that had relevant expenditure in 2023-24.
- Our figure for grants by Defra group excludes Rural Payment Agency grants shown above, acknowledging the differing accounting approaches to delinked payments.
- The Roadside survey, published in December 2023 by the Department for Transport, estimates that 1.3% of vehicles in traffic were unlicensed for 2023. DfT had estimated in 2021 that potential lost tax revenue for evasion was up to £119 million. The DVLA is working to develop an estimate of the value of potential loss to taxpayers attributable to this evasion for the 2024-25 financial year.

Source: National Audit Office analysis of estimates, spend and income recognised in 2023-24 annual reports and accounts, and other reports published by public bodies