Financial Reporting Advisory Board (FRAB) Paper

Issue	On 15th January, the Public Accounts Committee (PAC) held an inquiry of the government's use of data analytics to tackle fraud and error with HM Treasury, the Public Sector Fraud Authority (PSFA) and Department for Business, Innovation, Science and Trade. In their report, PAC recommended that "*HM Treasury should require public bodies to set out in their annual reports what they are doing to tackle fraud and error*". The government committed to updating the Government Financial Reporting Manual (FreM) accordingly. This paper sets out the proposals for amending the FReM accordingly.
Impact on guidance	N/A
IAS/IFRS adaptation?	N/A
Impact on WGA?	N/A
IPSAS compliant?	N/A
Impact on budgetary regime?	N/A
Alignment with National Accounts?	N/A
Impact on Estimates?	N/A
Recommendation	This report requests that: • FRAB agrees to revisions to FReM set out in Annex A.
Timing	If accepted, these changes would be implemented from 2027/28 onwards.

DETAIL

Requirement for public bodies to set out in their annual reports what they are doing to tackle fraud and error

Context and rationale

1. On 15th January, the Public Accounts Committee (PAC) held an inquiry of the government's use of data analytics to tackle fraud and error with HM Treasury, the Public Sector Fraud Authority (PSFA) and Department for Business, Innovation, Science and Trade.

2. In their report, PAC recommended that "*HM Treasury should require public bodies to set out in their annual reports what they are doing to tackle fraud and error. This should include information about the targets public bodies agree with the Public Sector Fraud Authority, and how public bodies are performing against these targets"*.

3. In response, the government committed that:

    a. *"HM Treasury (HMT) will work with the Public Sector Fraud Authority (PSFA) to review and update the government financial reporting manual (FReM), the technical accounting guide that supports public bodies in the preparation of their financial statements, to include a requirement for public bodies to set out in their annual reports what they are doing to tackle fraud and error".*

    b. *"A proposal will be presented to the Financial Reporting Advisory Board (FRAB), the independent advisory Board responsible for advising HM Treasury on the form and content of accounts for their review ahead of the annual publication of the FReM in December, for implementation from 2027/28".*

4. The rationale for the Committee's recommendation stems from the main conclusion in their report: "*Public bodies are not yet fully embracing the opportunity to save billions in fraud and error."* This is because fraud is a significant threat to public spending. The National Audit Office, supported by the PSFA's methodology, estimates that £55-£81 billion is lost every year - this drives up the deficit and prevents spending on vital public services.

5. Fraud and error loss is not simply an accounting issue either. Fraud corrodes the public's trust in government and makes it harder to deliver other priorities. It makes honest taxpayers think that: '*following the rules is not*

worth it' (e.g. 50% of UK adults[1] now believe it is 'reasonable' to commit fraud).

6. The calls for action against public sector fraud are louder than ever, and they are apolitical. There is growing criticism across the political spectrum, both in the UK and internationally, on the scale of fraud loss across governments. Select Committees and the NAO are demanding rapid and transformative change - as seen in this direct recommendation from the Committee to government.

7. When it's done well, government action on fraud is a win, win. It reduces public spending and protects the money needed to deliver the priorities of the government and it increases trust that the government is working for the taxpayer - we are on their side. We can share and codify this action in many ways, including accurate and transparent reporting.

Evidence

8. Standardising the manner in which departments and public bodies report their actions in tackling public sector fraud has the following advantages:

    a. **Consistent reporting** - Some departments - such as the Department for Education, the Department for Health and Social Care, Ministry of Justice and the Ministry for Housing, Communities and Local Government - already report their fraud and error activity such as their financial savings targets. However, each department's reporting differs. For example, the Department for Environment, Food and Rural Affairs reports how it uses data analytics tools to tackle fraud whilst the Department for Digital, Culture, Media and Sport does not. Outlier departments still do not publish anything (e.g. UK Export Finance).

    b. **Industry standards** - The banking sector includes efforts to identify and prevent fraud and error as standard in their annual reporting - one example includes Santander with a dedicated section on economic crime risks. Private sector companies are also reporting this as standard (e.g. BP Global Plc) or are in the process of adopting it (e.g. Greggs Plc).

[1] According to Cifas' Fraud Behaviours Survey 2025, half of UK adults (50%) now believe it is 'reasonable' to commit first-party fraud - a 2% rise on the 2024 results.

c. **Status of fraud and error** - Departments and public bodies are gradually moving towards a shifted mindset - that finding fraud is a good thing - but we could go further, particularly in areas such as accountability and transparency of reporting. Including a requirement to set out specific action in tackling fraud will help shift this mindset further.

Essential information to determine public bodies' counter fraud activities

9. The Public Sector Fraud Authority (PSFA) oversees the performance of ministerial departments and public bodies in understanding and taking action on fraud against the public sector. This means that there is already an active data provision process in place across all central government departments, and their largest arm's-length bodies.

10. The two primary examples are:

    a. **Consolidated Data Return** - Collects fraud and error performance data to understand the extent of fraud detection, prevention and recovery activity in public bodies. This is used to hold bodies to account on the effectiveness of their counter fraud activities; and

    b. **Workforce Review** - Delivers an annual review which requests staff and non-staff expenditure data, to understand how public sector organisations invest in tackling fraud.

11. We intend to use this existing infrastructure to form the basis of changes to the FReM, and Annual Reports and Accounts as a result. This will ensure changes are proportionate to what is already expected of larger, more mature public bodies.

12. We have determined that the following information should be requested through the FReM:

    a. **Exposure to fraud and error loss** - Public bodies setting out an assessment of their fraud and error exposure, with the option to say they don't hold this information.

    b. **Detected fraud and error** - Public bodies setting out how much fraud and error loss they detect.

    c. **Value of prevented fraud and error** - Public bodies setting out how much fraud and error they have prevented.

d. **Value of recovered fraud and error** - Public bodies setting out how much fraud and error they have recovered.

e. **Counter fraud performance**- Public bodies should provide examples of how they are improving their counter fraud performance.

f. Governance and resourcing - Public bodies should set out which roles within their senior leadership team have responsibility for counter fraud activity and how many counter fraud staff they have.

13. On the scope of reporting, we recommend that any changes to the FReM **only** apply to bodies that currently report this information to the PSFA - **with the exception of** exposure to fraud and error loss, which can be optional depending on the public body.

14. This approach has been informed through engagement with the National Audit Office and the approach taken by departments that currently set out their counter fraud activity in their Annual Reports and Accounts.

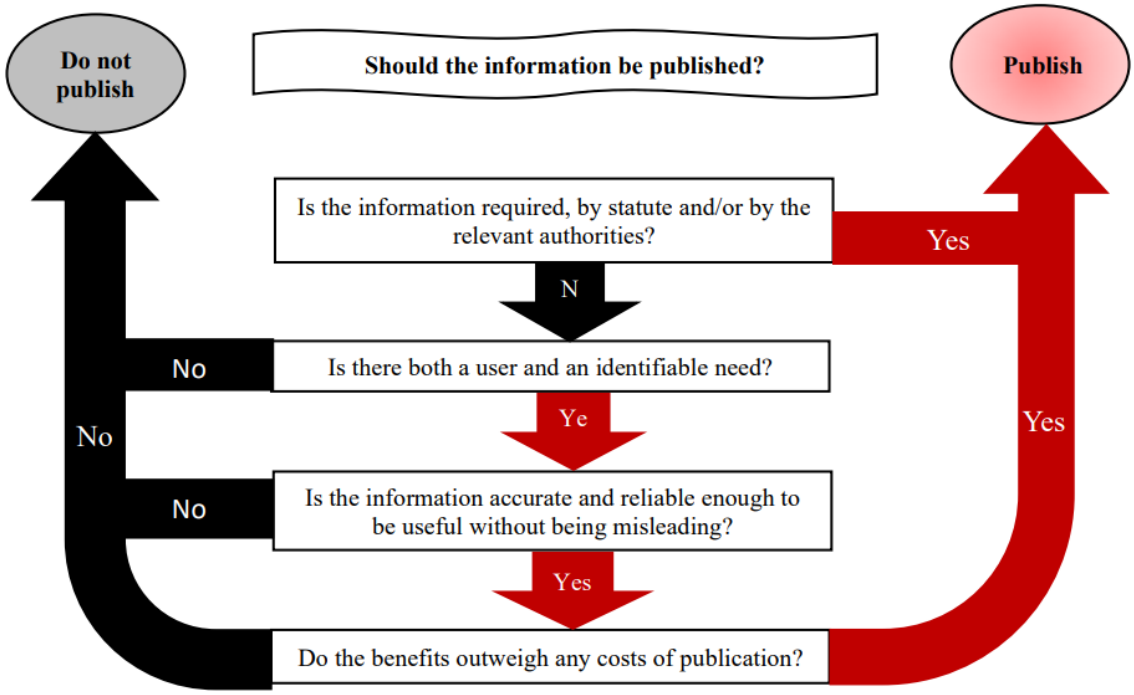
Placement within the FReM

15. Upon consideration, we recommend that information regarding efforts to tackle fraud and error be set out in the **Accountability Report** of an Annual Report and Accounts - specifically the **Corporate Governance Report.**

16. This is because public bodies can set out how addressing fraud and error is a part of their organisation's governance structures and how they support the achievement of the organisation's objectives.

17. Departmental counter fraud responsibility is commonly addressed through Audit and Risk Assurance Committees or a senior Director-General equivalent board - and it would align with similar areas that are reported in existing annual reports (e.g. commercial and security activities). In addition, most current departments use this section to report fraud and error action.

18. The publication of this information also satisfies the FReM's existing decision tree set out below:



Summary and recommendation

19. This paper requests that:
    - FRAB agrees to revisions to FReM set out in **Annex A**.

Annex A - Revision suggestions to the FReM

How it would appear in the FReM

Fraud and Error

Where public bodies hold information, please set out the methodology for the total estimation of fraud and error during the reporting period.

Bodies subject to Public Sector Fraud Authority (PSFA) reporting requirements should also disclose:

- *the total value of detected fraud and error loss during the reporting period reported to the PSFA*
- *the total value of prevented fraud and error loss during the reporting period reported to the PSFA*
- *the total value of recovered fraud and error loss during the reporting period reported to the PSFA*
- *which member of their senior leadership team/board has designated accountability for counter fraud activity in their organisation*
- *the total number (absolute and full-time equivalent) of counter-fraud staff working in their organisation reported to the PSFA (where relevant)*

[Bodies may also choose to report:

- *examples of how counter fraud performance is being improved]*

Illustrative example of an ARA response: Department of Health and Social Care (based on 2023-24 reporting)

Fraud and Error

The Strategic Intelligence Assessment (SIA) 2025 estimates that the financial vulnerability to fraud in the NHS, in England, is £1.346bn.

The following sets out DHSC group organisations' reporting requirements to the PSFA on counter fraud activities and performance:

Metric / Disclosure	Value / Details
Detected fraud and error loss	£226.2m
Prevented fraud and error loss	£119.4m
Recovered fraud and error loss	£187.1m

Governance and Oversight	Led by the Chief Financial Officer, supported by the Strategic Counter Fraud and Assurance Group
Counter-fraud Resourcing	12.11 FTE (14 absolute)

The DHSC Anti-Fraud Unit (AFU) has developed an enterprise and thematic Fraud Risk Assessment (FRA), to expand the oversight and understanding of fraud risk across departmental activity and groups. We have improved the fraud risk template to contribute greater detail to the enterprise and thematic processes.