

Fraud costs how much?

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The government's own data on fraud suggests it loses £58.8 billion a year, but that's bound to be understated as there are no systems to detect fraud in two-thirds of government activity. What is going on?

<https://www.youtube.com/watch?v=ldwwOD5IY98?si=9fDF8bu1iD-J-2Hz>

This is the audio version:

https://www.podbean.com/player-v2/?i=gdt8v-1760eaa-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

The government reckons that there's up to £58.8 billion of fraud perpetrated on it every year, and I think it's understating that number, and it doesn't seem to care very much.

That's what really worries me? Why is it that the government is just, sort of bland about the fact that it can have £58.8 billion pounds of public money disappear and this is something that they shouldn't get too excited about?

Let's break these numbers down because they are provided by the government.

The figure could, they say, be as low as £33.2 billion, but that's nonsense because they

also admit they lose at least £39 billion of tax revenue a year, so it can't be as low as £33 billion that they're losing, which is some indication of how bad their own accounting is that they can't even reconcile these two numbers.

And it could be much bigger than £58.8 billion for one very simple reason. And that is, that in [the same report where they give that number](#), they say that two-thirds of the government is not monitored for fraud risk.

Two-thirds of the government have no systems in place to check whether fraud is happening, even though in the one-third where there are systems and checks and balances in place to check whether there is fraud taking place, £58.8 billion is lost. How does that make sense?

Let me be clear. These numbers are, well, pretty much plucked out of the sky.

It's rather like the figure for the UK tax gap which is, as I say, now nearly £39 billion a year. That is pretty much plucked out of the sky as far as I'm concerned by HM Revenue and Customs because they measure each figure in isolation within the tax gap and they don't presume that because you've lost corporation tax payments, for example, and over 30% of corporation tax payments due by small companies are not settled, you will inevitably lose the VAT and PAYE also due by those companies. No, that apparently does not occur to them; that if you have a company not paying one tax, it isn't paying others as well. And therefore they claim the figures for tax lost on VAT and on PAYE are much smaller than the figure lost on corporation tax, which makes no sense at all.

So, there are massive problems with these estimates, but even if we lost £58.8 billion and that was the true loss, this would still be pretty staggering.

Now let's be clear, the figures in question are coming out of two much bigger numbers. One is government spending, which is over a trillion or £1,000 billion a year, and the other is tax income, which is not quite a trillion a year as yet because we run a government deficit, but not far away. Add the two together and we get to roughly £2 trillion, or £2,000 billion, of total government transactions on which fraud could take place. And the claim is that only £58.8 billion is lost. Do you believe that? No, I don't either.

Why don't I believe it? Because I think the tax gap is much bigger for a start than the figure that the government claims. I've already mentioned why. I don't think they do in any way state that figure correctly. But I also think there could be a lot of other fraud and other abuse and that's because they're simply not looking for it. And if you're not looking for fraud and abuse you don't find it. It's a simple, straightforward fact.

So, what is going on? And why are there no systems in place to find that abuse? Well, this is because the government does not appear to believe in good accounting.

I do believe in good accounting. Now, that's unsurprising. I decided when I was a teenager that I wanted to be an accountant. I prepared the first set of accounts in which I was ever involved when I was 17 years of age, and that's nearly 50 years ago now, slightly to my own surprise. And ever since, I have actually thought accounting can add value to society.

In this particular context, I think it adds value. by controlling the loss that the government suffers as a consequence of fraud and abuse, which will unfairly enrich someone else.

And let's be clear, what we're talking about here is something that is intended, in all the cases where it occurs, to enrich somebody in a way that society did not plan.

So, we need systems in place to prevent abuse.

We also need systems in place to prevent unjust enrichment.

And we need to have systems in place to enforce the rule of law, which is the basis on which society operates.

But the government isn't investing in that. In fact, they say, in the report that I've been looking at, that the largest government department expenditure on preventing fraud and abuse is £22 million in a year. £22 million to basically measure and understand fraud and abuse within the tax system where the losses are nearly 40 billion pounds.

That is near enough in technical terms called peanuts. It's obvious that there is not enough effort going into controlling the risk of fraud. And nor is there a sufficient focus on this in time management.

One of the massive errors that HM Revenue and Customs made in the last 15 years was to decide to close down all the local tax officers in the UK. When I set up as a chartered accountant way back in the 1980s, the local head of the local tax office of the Inland Revenue, as it then was, came to see me. He wanted to sort of get an eyeball on this chap who thought he might run a firm of accountants in Southwest London and get the measure of me to see whether he thought I was going to be a good accountant, a bad accountant, a crooked accountant, whatever.

And Bill Patterson - I remember his name, and I'm quite sure he's no longer with us - but Bill Patterson decided that he liked the look of me, and I have to admit that from thereon he and I had a good and constructive working relationship.

He knew that I wanted people to pay the right amount of tax, in the right place, at the right time and that was the aim of the firm that I was going to run.

He knew that I was not going to be selling dodgy tax advice.

He knew that I would try and keep my clients on the straight and narrow.

He knew as well that if my clients did make a mistake I would robustly argue their case to say this was a mistake and it was nothing more than that, and he shouldn't be penalising them for it, and he respected me for doing so. But the point was he knew. I don't know how many times I've said that in the last few seconds, but it's quite a number.

And that was the critical thing. HM Revenue and Customs did, by having a whole raft of people like Bill Patterson, who ran local tax offices throughout the UK, know what was going on.

In particular, they did know who were the dodgy accountants, who were the people who were likely to send in the information that needed further investigation, who were the people whose clients were choosing the accountant precisely because the accountant would let them get away with things that frankly they shouldn't be doing. They, therefore, could target fraud. And I don't believe that knowledge exists now because all of the local office infrastructure of HM Revenue and Customs has been dismantled and reassembled into 14 massive regional offices where thousands of people work.

Now, I'm not knocking any of those people, and I'm not saying that they don't want to deal with tax evasion and fraud. I think a great many of them will. I've met a lot of employees of HM Revenue and Customs, and most of them are deeply committed to their jobs. But, they don't know where to look, because the systems to let them find that fraud have disappeared. They simply don't have the local knowledge. It's not their fault. They don't know because their managers prevented them from knowing, and this is the problem. If you want to run a good system that is not subject to fraud and if you want to know what is going on, you have to have local accountability through a structure that collects information to ensure that you are in control of your operations.

The government is not in control of its operations. In two-thirds of their systems, there is no one looking for fraud. In organisations like HM Revenue and Customs, where fraud is likely, they've removed most of the knowledge systems that would enable it to be detected.

This is mismanagement on a gross scale. And it's been done because the government believes that they have to pursue productivity - maximum yield for minimum input. For But they haven't achieved that, because what they didn't take into account was that people knew. And you couldn't put a value on that. And yet, things worked as a result.

And the consequence is that we have a growing tax gap.

We have more fraud.

And we have more tax demanded from those who are willing to pay, because it's

essential that this happen for the government to be able to control inflation, which is why tax is essentially collected. And, as a consequence, not only are we suffering more fraud with some people being unjustly enriched, but if you're honest and straight and pay everything that is required of you, and only claim from the government that to which you are entitled, then you're paying the price for that fraud.

And that's unacceptable.