

Resource Account 2000-01
Department of Social Security

**Report by the Comptroller and
Auditor General**

Contents

	Page
Part 1: Introduction and Executive Summary	3
Part 2: The Comptroller and Auditor General's Audit of the Department's Consolidated Resource Account 2000-01	9
Part 3: Fraud and Error in Income Support	18
Part 4: The development of risk management arrangements	29

Part 1: Introduction and Executive Summary

Introduction

- 1.1 The Department of Social Security (from June 2001, the Department for Work and Pensions) administers a wide range of social security benefits including Income Support, Jobseeker's Allowance, and Incapacity Benefit. The Department accounts for expenditure of £99.2 billion on these benefits and the associated administration costs, in its consolidated resource account.
- 1.2 This report:
- summarises the results of my audit and sets out the reasons for my qualified audit opinion in more detail (Part 2);
 - examines the causes of fraud and error in Income Support, which is the largest means tested benefit administered by the Department, and the steps being taken to address the losses from these causes (Part 3); and
 - reviews the Department's development of risk management arrangements as part of its systems of internal control (Part 4).

Executive Summary

On the reasons for my qualified audit opinion

- 1.3 I have qualified my opinion on the account because of significant levels of estimated fraud and error in benefit awards, for which I have qualified the Department's appropriation account for the past 12 years, and significant uncertainties over certain debtor and creditor balances in the balance sheet.

Fraud and error

- 1.4 The Department estimates that in 2000-2001 there were losses in Income Support and Jobseeker's Allowance as a result of errors by officials, errors

by customers and fraud, amounting to £1.20 billion which is 7.4 per cent of expenditure on these two benefits. Although the level of loss remains significant, since 1997-98 there has been an 18 per cent reduction in the percentage of losses on these two benefits, which exceeds the Government target to reduce by at least 10 per cent benefit losses from fraud and error in Income Support and Jobseeker's Allowance by March 2002.

- 1.5 In addition, it is likely that in total some £322 million of Incapacity Benefit was over or underpaid in the year, representing around 5 per cent of expenditure on that benefit. The Department estimates that this comprises overpayments through fraud and error amounting to some £92 million, and underpayments of £230 million resulting from errors by customers and officials. However, in approximately 80 per cent of the cases of underpayments the customers affected suffered no financial loss as they received an equivalent sum of Income Support.
- 1.6 A further estimated £77 million was lost across all benefits as a result of the fraudulent encashment of order books and girocheques.
- 1.7 The Department has various strategies in place to further reduce error and fraud in Income Support and Jobseeker's Allowance. These include a Counter Fraud Strategy and a Performance Improvement Strategy, which is aimed at delivering a continuous reduction in regional variations in performance and a sustained improvement across the Department. The Department also has a programme to move to automated credit transfer of benefit payments by 2005, phasing out the use of order books and girocheques.

Debtor and creditor balances

1.8 As a result of weaknesses in the Department's audit trails mainly arising from deficiencies in accounting systems, there were serious limitations in the evidence available to support my audit of certain significant debtor and creditor balances. There is, therefore, significant uncertainty over the accuracy, existence and completeness of these amounts, which total around £1.7 billion.

On Income Support

1.9 The Department's estimates suggest that progress is being made in reducing fraud and error in Income Support:

- Although the whole amounts of Income Support overpaid due to fraud and error remained broadly the same as in the previous two years, this represented 6.7 per cent of total Income Support expenditure compared with 7.1 per cent in 1999-2000;
- The Department has exceeded for the first time a target set by the Secretary of State to obtain 87 per cent accuracy in Income Support awards.

1.10 The complexities of the Income Support regulations and inadequate information technology systems continue to be important barriers to improving performance. However, as the Department has already recognised, there is scope to achieve some improvement by reducing the wide variation in the levels of error and fraud across the Benefits Agency's Area Directorates and Districts that handle Income Support claims. This is being done by implementing more widely a range of good practices, the National Performance Improvement Plan, and by:

- providing a greater central prescription, co-ordination and control over organisation of the work and key process and initiatives, focusing on removing unnecessary demands on staff. This should include continuing with work to define good practice in the organisation and processing of Income Support work, and better

integration of the Counter Fraud and Performance Improvement strategies;

- aligning its human resource strategy more closely to national performance improvement objectives and local needs. First steps should include examining the business case for bringing base pay more into line with local external comparators and tackling areas where the Department is weakest in a competitive market. This would build on recent work to improve and focus on initial and continuing training, pay and career progression and the working environment;
- ensuring each level of management has the appropriate skills, is accountable for performance, and receives the support necessary to meet the Department's objectives. This should include providing appropriate management training and development and taking positive action to address under performance; and
- developing a framework for identifying and implementing good practice including using the results of key control activities to create comparable and meaningful performance data at district level, and further development of benchmarking activities.

On the development of risk management arrangements

- 1.11 In line with Treasury requirements the Department provides a Statement on the System of Internal Financial Control with the account. This statement highlights areas of weakness, concerning losses from fraudulent benefit claims and the fraudulent encashment of order books and girocheques, over and underpayment of benefit because of errors by officials, and the poor quality of accounting information to support assets and liabilities.
- 1.12 The Treasury also require that by 2003-2004, Departments will provide a more wide ranging Statement of Internal Control, although Departments are encouraged to make such a statement in 2001-2002 or 2002-2003 if all relevant risk management and review processes are in place.

- 1.13 The Department recognises that, because of its size, the complexity of its operations and recent machinery of government changes, it will not be in a position to produce a full Statement of Internal Control with its annual accounts until 2003-2004. This is realistic, given the Director of Internal Audit's annual report to the Accounting Officer in 2000-2001, which concluded that weaknesses in the Department's systems of control and the level of non-compliance with controls and rules by staff put the Department's objectives at risk.
- 1.14 In preparation for a Statement of Internal Control, the Department has developed and issued a risk management policy statement, which provides guidance on the risk assessment process including the need to identify risk owners and risk action managers, and the adoption of standardised risk registers.
- 1.15 Some preliminary work has been done. This includes the compilation of a strategic risk register covering the Department's modernisation programme and assessment of the risks of it not being delivered effectively on time and to budget. There is a risk that the challenges, in particular of restructuring and the implementation of new arrangements for decision making, mean that it may take some time before the principles and good practice of risk management permeate throughout the whole Department.
- 1.16 The Department's arrangements for oversight of its activities through independent audit committees and internal audit meet best practice. In taking forward the Statement of Internal Control, the Departmental Audit Committee should play an enhanced role in ensuring the Department and its agencies are developing effective risk management programmes by:
- ensuring that corporate governance and risk management is a standing agenda item so that it can discuss management's progress, the content of the risk registers and how risks are being dealt with;
 - reviewing the Department's strategy to embed systematic and robust risk management procedures and internal audit's work to examine the effectiveness of the strategy and its implementation; and

- providing advice to the Accounting Officer on how the profile of risk management can be raised throughout the Department.

Part 2: The Comptroller and Auditor General's Audit of the Department's Consolidated Resource Account 2000-01

Introduction

- 2.1 This part summarises the results of my audit of the Consolidated Resource Account of the Department of Social Security for 2000-01, which I have qualified because of the levels of estimated fraud and error in benefit awards and uncertainties over certain debtor and creditor balances on the balance sheet. I also qualified the Department's 1999-2000 consolidated resource account for these reasons.
- 2.2 Expenditure on contributory and non-contributory benefits is also recorded in the Department's Class XII Vote 1 Appropriation Account and the National Insurance Fund Account respectively. I have qualified the Department's appropriation account for the past twelve years primarily because of errors in awards of Income Support and other benefits and the level of benefit fraud, and I have again qualified it this year. I have also qualified the National Insurance Fund Account for the past thirteen years for similar reasons, and my audit of the account for 2000-2001 is currently in progress.

Operating Cost Statement (Schedule 2)

Fraud and Error in Income Support and Jobseeker's Allowance

- 2.3 The Department estimates that there are significant losses in Income Support and Jobseeker's Allowance as a result of errors by officials, errors by customers and fraud, amounting to £1.20 billion which is 7.4 per cent of expenditure on those two benefits (Figure 1).

2.4 The Government set a target to reduce by at least 10 per cent the percentage of losses from fraud and error in Income Support and Jobseeker's Allowance by March 2002. The baseline is the estimated loss on these two benefits for the twelve months October 1997 to September 1998, which amounted to 9 per cent or £1.38 billion. By reducing estimated losses in 2000-2001 to 7.4 per cent, the Department has already met the March 2002 target, and are well on their way to achieving revised Government targets of a 25 per cent reduction by March 2004 (or 6.75 per cent of expenditure) and a 50 per cent reduction by 2006 (4.5 per cent of expenditure).

2.5 The Office for National Statistics calculates the estimated losses, using information from two sampling systems in the Department. Our examination confirmed that the methodologies underlying these systems and the results they produce, are reliable. The two systems are:

- **Benefit Reviews.** The Department undertakes a six monthly rolling programme of measurement based on an in-depth examination of the circumstances of random samples of claimants, to determine the extent of claimant fraud and error in Income Support and Jobseeker's Allowance.
- **Quality Support Teams.** These teams examine a large sample of Income Support and Jobseeker's Allowance cases each financial year to estimate the accuracy of awards and an estimated monetary value of error arising from errors by officials.

Figure 1: Income Support and Jobseeker's Allowance overpaid due to fraud and error in 2000-2001

Percentage of benefit overpaid

	IS	JSA	IS & JSA
Fraud and customer error	5.4 (5.0-5.9)	7.3 (6.4-8.2)	5.8 (5.4-6.2)
Official error	2.4 (2.1-2.7)	3.4 (3.1-3.8)	2.6 (2.3-2.8)
Overlap	1.1	0.5	1.0
Total fraud and error	6.7% (6.2-7.4)	10.2% (9.0-11.3)	7.4% (6.9-7.9)

Amount of benefit overpaid

	IS	JSA	IS & JSA
Fraud and customer error	£730m (667-791)	£210m (185-238)	£950m (877-1016)
Official error	£320m (279-362)	£100m (89-109)	£420m (377-461)
Overlap	£140m	£20m	£160m
Total fraud and error	£900m (824-986)	£290m (259-328)	£1.2bn (1.12-1.29)

Notes:

- (i) 95 per cent confidence limits are shown in brackets.
- (ii) the percentage overlap represents the possible duplication of results arising from the same sample items being tested by Benefit Reviews and Quality Support Teams.
- (iii) Figures shown are subject to roundings which is why columns do not always total exactly.

Source: Department for Work and Pensions

Fraud and Error in Incapacity Benefit

2.6 From the results of a Quality Support Team's review and Benefit Review, the Department estimated that in 2000-2001 overpayments of Incapacity Benefit through fraud and error amounted to some £92 million. Further, estimated underpayments resulting from errors by customers and officials amounted to some £230 million. In total some £322 million of Incapacity Benefit was over or underpaid, representing around 5 per cent of expenditure in the year on that benefit (Figure 2).

Figure 2: Incapacity Benefit overpaid and underpaid due to fraud and error in 2000-2001

	Overpaid	Underpaid	Total
Fraud	£19m	-	£19m
Customer error	£16m	£15m	£31m
Official error	£57m	£215m	£272m
Total fraud and error	£92m	£230m	£322m

Source: Department for Work and Pensions

Note: in approximately 80 per cent of the cases of underpayments the customers affected suffered no financial loss as they received an equivalent sum of Income Support.

Instrument of Payment Fraud

2.7 In past years a substantial amount of benefit fraud has taken place through the wrongful encashment of order books and girocheques. New arrangements to control order books introduced by Post Office Counters Ltd at the behest and with the assistance of the Department, have led to some reduction in the level of fraud involving order books from an estimated £89 million in 1999-2000 to £58 million in 2000-01. Fraudulent handling of girocheques continues to total some £19 million each year.

2.8 In order to further reduce the levels of instrument of payment fraud, Consignia and the Department have established a Fraud Prevention Board to identify weaknesses in the system and a programme of work to address them. Further, the Chief Executive of Consignia and the Permanent Secretary of the Department have recently signed a protocol to exchange information that might assist fraud investigations.

2.9 The Department aims to pay 85 per cent of claimants their benefits by Automatic Credit Transfer by 2005, thereby reducing the use of order books as the normal method of payment and the scope for fraud arising from their misuse.

Underlying reasons for fraud and error in benefit awards and the Department's strategies for dealing with them

2.10 There are a number of difficulties the Department faces in seeking to reduce the levels of fraud and error. These include:

- the complexity of entitlement regulations;
- the inherent risk in a means tested benefit system dependent on information supplied by customers, of false declarations and failures to inform the Department of changes of circumstances;
- poor quality information technology systems to support Departmental staff making benefit awards;
- pressure on staff to calculate and deliver benefit awards quickly because customers need to be paid; and
- high staff turnover in lower administrative grades in some parts of the country.

2.11 The Department has taken action to reduce the levels of error and fraud in a number of ways. In addition to the Public Service Agreement targets and a Counter Fraud Strategy, it launched in February 2000 a Performance Improvement Strategy to deliver a continuous reduction in regional variations in performance and a sustained improvement across the Department. I look at this in more detail in Part 3 of this report.

Balance Sheet (Schedule 3)

2.12 There are weaknesses in the Department's audit trails mainly arising from deficiencies in their accounting systems. As a result, there were limitations in the evidence available to me to support significant debtor and creditor balances. I therefore cannot be certain as to the completeness, existence and valuation of these balances.

2.13 In the light of this, I assessed whether the balance sheet gives a misleading view, taking account of the impact on the accuracy of these balances of other matters such as inaccurate information provided by field recovery systems (see paragraph 2.17). I consider that the most

likely impact is that the net assets of the Department are understated but not to such a degree that the balance sheet as a whole is misleading. I have therefore qualified my opinion solely on the grounds that the scope of my audit was limited.

***Contributory and Non Contributory Benefit Overpayment Debtors -
£1,191,163,000***

- 2.14 Overpayments to customers arise as a result of errors by officials and through fraud or error on the part of the customer. In 2000-01 the Department recovered £177 million of debt against a target of £175 million. However, the Department's general ledger cannot produce a list of individuals owing money. Further, the Department does not have a debt management system capable of generating this information.
- 2.15 Once overpayments have been identified, local Benefits Agency offices record the individual amounts on their field recovery systems. These, and subsequent movements in debts outstanding, are posted to the general ledger, but in total rather than the individual debts.
- 2.16 At 31 March 2001, the debtor balance recorded in the general ledger did not agree with the combined balances from each of the field recovery systems. In response, the Department reduced the balances recorded in the general ledger to bring them into line with those held on the field recovery systems, by creating a provision of £172 million.

- 2.17 However, a Departmental review during the year suggested strongly that the debtor balances held on the field recovery systems were not accurate. For example, 12 per cent of the debts reviewed could not be supported by an Adjudication Officer's decision and 14 per cent of amounts accurately recovered could not be matched with entries in the field recovery systems.
- 2.18 I also have concerns over the completeness of overpayment debt. In many cases staff failed to take recovery action in accordance with laid down procedures. In August 2000, the Department estimated that, for this reason, some £222 million of Income Support and £8 million Jobseeker's Allowance debt may be foregone each year.
- 2.19 In the absence of a satisfactory audit trail between the general ledger and the more detailed information held on the field overpayment recovery systems, my examination of overpayment debtors was severely limited. Therefore, having taken account of evidence that the information held on the field systems is unreliable and incomplete, I conclude that there is significant uncertainty over the accuracy, existence and completeness of the data recorded on these recovery systems.
- 2.20 Following the abandonment in 1999-00 of the project to create a fully integrated Debt Accounting and Management System, the Department has produced a Tactical Accounting and Financial Control Improvement Plan which aims to improve the integrity and quality of information held on these systems in the short to medium term.
- 2.21 In addition, the Department's Strategic Debt Solution sets out the longer-term objective of replacing all the existing debt management systems with a new integrated management and accounting system. The Department expect that significant progress will have been made by the end of 2004 in implementing a new debt system for the majority of benefit payments.

Encashment Control Creditor - £456,231,000

- 2.22 This balance represents the Department's estimate of the total value of order book foils and girocheques which have been issued to customers

and are due for encashment at Post Offices or Banks, but which remain unencashed at the year-end.

- 2.23 The Department is unable to confirm the actual encashment of individual order book foils and the majority of girocheques, because encashment data from paying agents does not provide this level of detail. The Department's accounting systems are also unable to capture all order book foils and girocheques produced and issued to customers. For girocheques, the Department is able to support a figure for unencashed girocheques by using statements from Girobank plc. However, for order books, there is a lack of accounting information on individual payments encashed and the accounting information on payments issued is also incomplete. Therefore, the Department is unable to provide detailed evidence from its accounting systems to support the encashment control creditor balance.
- 2.24 To provide a reasonableness check, the Department estimates the likely unencashed amount at the year-end. I reviewed its model for calculating this and found that the underlying assumptions were reasonable and the Department had made good use of the available information. However, given the complexities surrounding customer encashment patterns, it was not possible to construct a model that would provide sufficient certainty that the encashment control creditor balance for order books was accurately stated.
- 2.25 I therefore conclude that there is significant uncertainty over the encashment control balance.
- 2.26 The Department expects that the introduction by 2005 of benefit payments by automatic credit transfer will reduce this creditor balance substantially.

Compensation Recoveries - £16,430,000; Provision for refunds - £37,700,000.

- 2.27 Where claimants who receive benefit are subsequently awarded compensation from insurance companies, the Department can recover the benefit payments from these companies when a settlement is made between the compensator and the injured party. The amounts that have

been formally agreed with insurance companies as recoverable, and are still outstanding at year-end, should be included as debtors in the balance sheet.

- 2.28 In my report on the Department's resource account for 1999-2000, I reported that the Department had omitted to include these balances. This year, I am glad to report that it has taken steps to include the amounts outstanding at the year-end.
- 2.29 However, my examination of this balance was limited, as the Department had not retained the relevant documents to support each debtor within it. As a result, the Department could not provide me with sufficient evidence that the balance was complete, correctly stated or properly due to the Department. It is now addressing this weakness by introducing appropriate document retention policies.
- 2.30 The Department included a provision in the resource account of £37.7 million in respect of monies that might have to be refunded to insurance companies depending on the outcome of appeals against settlements. However, I was unable to verify the amount shown because of a lack of supporting evidence.

Part 3: Fraud and Error in Income Support

Introduction

3.1 This part of my report reviews:

- the actions the Department is taking to reduce losses from error and fraud in Income Support;
- what more the Department can do to improve performance.

The Department's actions to reduce losses from error and fraud

3.2 In 2000-01 the Department paid out over £13 billion in Income Support to about four million claimants at an administrative cost of around £600 million. Income Support is a complex means-tested benefit requiring considerable resources and skill to deliver. The effective administration of the benefit is heavily reliant on the customer's own declaration of means, which is then subject to checks by the Department, and the Department being kept up to date with all relevant changes to a customer's circumstances throughout the life of a claim.

3.3 Income Support is the benefit of last resort for those most in need in society. This makes it essential for the Department to make accurate and prompt payments while also protecting the public purse.

3.4 The Department's goal is to pay the right amount to the right person at the right time, every time. But in practice large amounts are estimated to be lost through error and fraud each year. To reduce these estimated losses the Department has two major strategies to strengthen its defences against loss (Figure 3) and address variations in performance at local level (Figure 4).

Figure 3: The Department's Counter Fraud Strategy

Implemented from 1 April 1999. Key developments include:

- introduction of Area Benefit Reviews to improve estimates of error and fraud;
- a programme of more rigorous checking of evidence supplied by claimants and new powers to obtain information from third parties;
- the implementation of Area Directorate programme protection plans;
- the establishment of a new National Fraud Strategy Unit and the reorganisation and increased professionalism of fraud investigation resources;
- the introduction of new sanctions including the withdrawal of benefit from persistent offenders;
- a national publicity campaign aimed at changing peoples' attitudes to welfare fraud;
- the planned introduction of new benefit payment arrangements involving automated credit transfer aimed at stopping the theft and fraudulent encashment of existing instruments of payment.

Figure 4: The Department's Performance Improvement Strategy

Implemented from February 2000 to deliver continuous reductions in regional variations in performance and continuous and sustained improvement across the Department. Early priority has been given to improvement in poorer performing offices focusing on error and fraud, accuracy and clearance times. Key actions include:

- establishing a performance improvement framework initially focused on all districts achieving minimum benchmark standards, but superseded by Area Directorate performance improvement plans with significant improvement targets supported by additional targeted funding to implement planned actions;
- Performance Improvement Action Teams working within each Area Directorate focusing on the resolution of local problems, including enlisting the support of better performing districts to assist poorer performers, including the spreading of good practice. Their aim is to facilitate activity which enables sustainable performance improvement, not just a quick, temporary boost;
- implementing new technical training packages and programmes for staff;
- mapping out and generating new management information on how Income Support work is organised and staffed to aid the identification of best practice;
- Performance Improvement Training is being rolled out to managers within the Benefits Agency.

3.5 The results of the Department’s Area Benefit Reviews and checking by its Quality Support Teams (paragraphs 2.3 to 2.5) show that progress is being made in reducing error and fraud and addressing the problems in the poorer performing districts. The Department estimates on the basis of validated data that:

- while amounts of benefit overpaid due to fraud and error on Income Support in 2000-2001 remained broadly the same as in the previous two years this represented 6.7 per cent of total Income Support expenditure compared with 7.1 per cent in 1999-2000 (Figure 5);
- it has exceeded for the first time a target set by the Secretary of State to achieve 87 per cent accuracy in Income Support awards;
- from a total of 118 Districts the number achieving below the minimum benchmark standards of 80 per cent accuracy fell from 10 to 2, and the lowest level of accuracy achieved by a district increased from 72 per cent in April 2000 to 79 per cent in April 2001.

Figure 5: Income Support estimated to have been overpaid due to error and fraud

Year	Amount of benefit overpaid £ million	Percentage of total expenditure
October 1997-September 1998 (baseline period)	900	7.7
1999-2000	890	7.1
2000-2001	900	6.7

What more the Department can do to improve performance

3.6 There are three main areas that are central to further performance improvement by the Department. These are:

- reducing the complexity of the benefit;
- improving their Information Technology; and
- building on planned steps to tackle variations.

The complexity of the benefit is a continuing constraint

3.7 The complexity of the Income Support regulations is a key constraint to improving performance. The regulations are complex because they cater for the wide range of circumstances in which individual claimants find themselves. In turn this adds to the complexity of administration, but the level of control must not unduly restrict accessibility to Income Support for genuine claimants. The many millions of changes in claimants' circumstances each year affecting the rate of benefit in payment, some of which are not reported by the claimant when they should be, give rise to risks of errors by staff, and errors or fraud by claimants.

3.8 Despite the Department's efforts to simplify benefit rules and their administration, amendments and additions to already complex rules over time have exacerbated the problem. Significant simplification would require major changes in policy and legislation. It would also involve trade-offs because payments would be less closely related to individual needs, and could potentially increase costs. In the short term at least, it is probable that transitional payment arrangements to protect claimants' existing entitlement would have to be implemented.

The Department's Information Technology systems are a constraint until 2006

- 3.9 The Department's inadequate Information Technology systems continue to constrain improved performance. As part of their Information Technology strategy, the Department aims to replace existing systems for calculating benefit entitlement on Income Support by 2006. The Department expects the new system to provide common access to benefit claimant data currently held in over 20 separate systems, maximise the automation of benefit calculations and reduce the need for clerical interventions.
- 3.10 The major challenge facing the Department is to design and implement a system that can cope with the complexity of the rules governing the benefit, and the linkages to other benefits. Until this happens the Department will continue to rely heavily on clerical intervention.

Meanwhile, the Department can improve performance by building on the steps being taken to tackle variations

- 3.11 Notwithstanding these constraints, there remains wide variation in the levels of error and fraud across the Department's 13 Area Directorates and 118 districts. For example, the Department estimates that error and fraud as a percentage of programme expenditure in the poorest performing Area Directorate (Chilterns, encompassing part of London) is double the level in the best performing (East Scotland). At district level, payment accuracy¹ rates range from 79 per cent to 97 per cent (Figure 6). By continuing to tackle these variations under their Performance Improvement Strategy the Department can make worthwhile improvements, while developing and implementing longer-term action to improve its systems.

¹ The percentage of individual cases where errors made by the Department's staff are identified as part of internal quality assurance work.

3.12 The most important causes of variation in the performance of districts relate to the experience of the administrative staff and the organisation of their workload. External factors such as labour market competition for new and existing staff affect performance but to varying degrees. These hit districts hardest in London, the South East of England and the major cities, though even there some local offices have secured performance improvement in recent years (Figure 7).

Figure 6: Variations in district accuracy rates

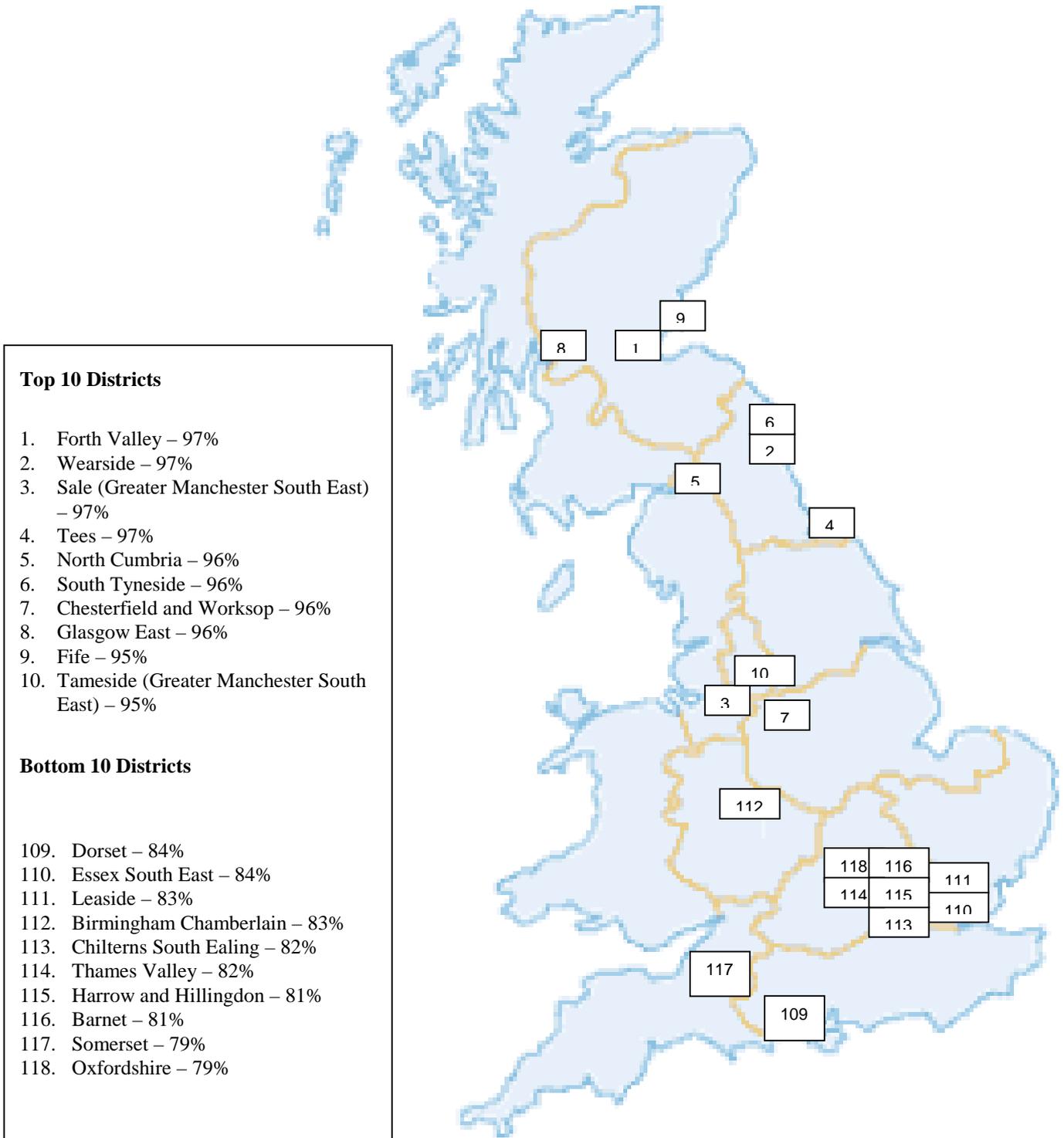


Figure 7: Improving performance in an inner London location

Hackney and Islington District has seen sustained increases in accuracy and is heading towards achieving the national target of 87 per cent accuracy. More focused action to improve performance has been achieved by:

- developing and making full use of local management information to facilitate better understanding of workflow management and the reasons for poor performance;
- reorganising the responsibilities of the District management team and establishing a District communication strategy;
- establishing a dedicated Accuracy Improvement Manager with responsibility for implementing District and team specific accuracy improvement plans;
- regularly communicating management accountability to meet targets to make all staff fully aware of national targets and what is needed to achieve results;
- creating a stable workforce by converting non-permanent staff to permanent, enabling the District to distribute staff evenly, prioritise its workload and allocate staff to make best use of their skills and knowledge;
- managers working closely with staff to identify training requirements, develop a District training plan and establish a District training budget;
- Income Support managers actively involved in Area selection of new recruits to help ensure the selection and employment of individuals with the right aptitudes for Income Support work;
- higher levels of support and coaching to junior managers carrying out human resource tasks, and implementing action plans to address sick absence, attendance and punctuality;
- introducing performance appraisal standards package for all staff and establishing individual work objectives including required standards of accuracy;
- drawing up recovery plans to address shortfalls in performance against targets;
- forming District Accuracy Network groups to share and implement best practices.

3.13 Other management practices also help to explain differences in performance. Districts with relatively poor performance are characterised by a number of common and often inter-related problems within the control of local managers. These include lower priority being given to staff training and development and failure to target checks on the basis of risk to payment accuracy. All districts appear to experience some or all of these problems, but the poorer performers tend to experience more of these, and to a greater severity.

3.14 The better performing offices are typically characterised by more stable and experienced staffing, but in many cases better performance is also supported by more rigorous, innovative and progressive working and

managerial practices. The Department's and our own work identified a range of good practices (Figure 8) which, if implemented more widely should lead to significantly improved performance.

Figure 8: Summary of key local good practices
<p>Organisation of the work:</p> <ul style="list-style-type: none"> • high priority given to key initiatives such as the 'evidence requirement', including ensuring all staff (front desk, backroom and visiting officers) fully understand them; • limited numbers of separately managed teams with fewer physical transfers of work ('hand-offs') between teams responsible for different parts of the process; • development of local case tracking systems and 'end to end' management of cases; • good use of risk management techniques to target key controls, such as home visits, on those cases most likely to reduce the monetary value of error and fraud.
<p>Human resources:</p> <ul style="list-style-type: none"> • Income Support managers actively involved in the local recruitment and selection process; • high priority and adequate time given to initial staff training and consolidation and subsequent staff development, with a range of additional activities undertaken; • development of appropriate flexible working practices enabling better use of more experienced staff on Income Support work.
<p>Management:</p> <ul style="list-style-type: none"> • low numbers of staff on higher duty allowances and relatively low staff to manager ratios; • development of local management information to monitor progress and performance; • active development of individual objectives, regular feedback on performance and the development of staff succession planning.
<p>Accountability and culture:</p> <ul style="list-style-type: none"> • clear local accountabilities aligned with the appropriate span of management control; • priority given to achieving positive outcomes (reductions in monetary value of error) over achievement of work throughput targets; • the results of management control activities are used as a staff development opportunity; • good awareness of the practices adopted and outcomes achieved by other districts.

3.15 Sustaining performance improvement at the local level is also dependent on the Department continuing to take action to address more profound organisation-wide issues, by, for example:

- Providing greater central prescription, co-ordination and control over organisation of the work and key processes and initiatives, focusing on removing unnecessary demands on staff. This should include continuing work to define good practice in the organisation and

processing of Income Support work, and better integration of the programme protection and performance improvement strategies.

- Aligning its human resource strategy more closely to national performance improvement objectives and local needs. Initial steps have included examining the business case for matching base pay with local external comparators and tackling areas where the Department is weakest in a competitive market. This would build on recent work to improve initial and continuing training, pay and career progression and the working environment. However, the extent of action needed to develop the skills and capacity of the workforce depends crucially on how far the Department can simplify Income Support and standardise and streamline the organisation of the work and administrative processes.
- Ensuring each level of management has the appropriate skills, is accountable for performance, and receives the support necessary to meet the Department's key objectives. This should include providing appropriate management training and development and taking positive action to address under-performance.
- Developing a framework for identifying and implementing good practice including using the results of key control activities to create comparable and meaningful performance data at district level, and the further development of benchmarking activities.

The Department's restructuring is intended to provide a stronger basis for delivering the Government's working age objectives

3.16 The Department is also undertaking a major restructuring with the launch of JobCentre Plus from April 2002 which will assume responsibility to all benefits and related services for those of working age currently being performed by the Benefits Agency and the Employment Service. In support of the new organisation a new regional network and new methods of benefit delivery are being developed.

3.17 It is intended that JobCentre Plus will provide a single, work-focused, integrated service to both employers and benefit claimants. This new agency aims to provide:

- a more streamlined approach to delivering improved customer service to those of working age, for example a single point of contact;
- a stronger basis for delivering the Government's objective of "work for those who can and support for those who cannot", by increasing the capacity to provide tailored work focused interventions to encourage people of working age back into the labour market;
- a personalised service for customers with access to nominated Personal Advisers;
- better services for people who can work through wider access to and improvements to calculations undertaken to show that unemployed claimants are better off in work than relying on benefit payments, and job information; and
- greater attention to the customer's individual circumstances, which should have a positive impact on casual fraud.

Part 4: The development of risk management arrangements

Introduction

- 4.1 The Department faces the challenge of reducing and preventing the significant amounts of error and fraud within the benefits system, providing a system that is efficient and easy for people to use, and making the best use of the resources it has available.
- 4.2 This part of my report looks at how well placed the Department is to identify risks that could prevent it from achieving these objectives and

meeting other statutory requirements, and how it ensures that, once identified, risks are managed effectively. In particular, it reviews:

- the Department's strategy for identifying and managing risk; and
- progress in taking the strategy forward.

The Department's Risk Management Strategy

4.3 In 1997, HM Treasury introduced a requirement for Accounting Officers to produce a Statement on the System of Internal Financial Control as part of their organisation's annual financial statements. The aim was to provide assurance on whether there were effective management systems in place, including financial monitoring and control systems. The Department's statement on the 2000-2001 account highlights areas of weakness, concerning losses from fraudulent benefit claims and the fraudulent encashment of order books and girocheques, over and underpayment of benefit because of errors by officials, and the poor quality of accounting information to support assets and liabilities.

4.4 In September 1999, the Turnbull Committee issued "Internal Control: Guidance for Directors on the Combined Code" which required companies to extend the existing statement to cover a more wide ranging "Statement of Internal Control". In response, the Treasury issued further guidance in December 2000 requiring Accounting Officers to prepare Statements of Internal Control from the 2001-02 financial year. Accounting Officers would need to comment that:

- they have maintained a sound system of internal control that supports the achievement of departmental aims and objectives as set by ministers whilst safeguarding public funds and departmental assets; and
- they are responsible for having mechanisms in place for reviewing the effectiveness of the system of internal control, including:
 - taking periodic reports from the chairman of the audit committee concerning internal control;

- receiving and considering reports from internal audit, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the department's system of internal control and recommendations for improvement; and
 - maintaining an appropriately prioritised risk register.
- 4.5 However, in recognition that some bodies might need to do further work before all relevant risk management and review processes were fully in place, the Treasury have said that the 2001-02 and 2002-03 Statements may include descriptions of planned further work. All development work will need to be complete by 1 April 2003 so that departments can fully comply with the Treasury's guidance by 2003-04 at the latest.
- 4.6 Due to the size and complexity of its operations and recent major machinery of government changes, the Department is unlikely to be in a position to produce a full Statement of Internal Control until 2003-04. This is realistic, given the Director of Internal Audit's annual report to the Accounting Officer in 2000-2001, which concluded that weaknesses in the Department's existing systems of control and the level of non-compliance with controls and rules by staff put the Department's objectives at risk.
- 4.7 In July 2001, the Departmental Board issued "Departmental Guidance for Risk Management". This document includes the Department's risk management policy statement and methodology, and provides guidance on the risk assessment process including the need to identify risk owners and risk action managers, and the adoption of standardised risk registers.
- 4.8 In order to take the strategy forward, once risks have been identified, the Department propose to allocate these to particular risk owners who will appoint risk action managers to develop mitigation plans and undertake, where necessary, contingency planning. They will be responsible for reviewing and reporting to senior management on the progress in controlling their allocated risks.
- 4.9 The Department's Executive Team will expect to receive regular updates on major risks. The Departmental Board, in turn, should receive

quarterly reports to help them assess whether there are significant risks to the delivery of the Department's core objectives.

Progress in taking the strategy forward

- 4.10 Since the guidance was issued, the Department has not been able to complete the identification and documentation of risk and establish on a systematic basis what internal controls are, or should be in place. This is a huge undertaking given the changes taking place in the Department that will see the introduction of Jobcentre Plus (paragraphs 3.16 and 3.17) and the new Pensions Directorate to be introduced from April 2002 with a full pensions service organisation in place in 2003.
- 4.11 There is sufficient impetus from senior management for staff to be encouraged to apply the guidance and develop risk management arrangements in their areas of responsibility. Some preliminary work has been done. For example, the Department has compiled a strategic level risk register covering its modernisation programme and the risks of it not being delivered effectively on time and to budget. The modernisation programme is one of the key strands in the Department's strategy to improve its service delivery to benefit claimants and its accountability to Parliament.
- 4.12 The Department has allocated ownership of the risks identified in this register, to particular individuals and call for periodic reports on developments and areas of concern.
- 4.13 There is a risk that the challenges, particularly of restructuring and the implementation of new arrangements for decision making, mean that it may take some time before the principles and good practice of risk management permeate throughout the whole Department.

The Department's audit committees and internal audit

- 4.14 Audit committees and internal audit have a clear role in providing an independent assessment as to the effectiveness of the system of internal control. In June 2001, the National Audit Office reviewed the Department's Audit Committee and Internal Audit arrangements. They concluded that both were suitably independent and competent to give

appropriate feedback to the Accounting Officer, the Department's Management Board and the boards of the Department's executive agencies.

On Audit Committees

- 4.15 The Department's Audit Committee is a Committee of the Departmental Management Board. Its Chair is a non-executive member of the Board and is appointed by them. The remaining members are non-executive Chairs of Departmental Agency Audit Committees. Each of the Department's four executive agencies in 2000-2001 (the Benefits Agency, the Child Support Agency, the War Pensions Agency and the Appeals Service Agency) had its own audit committee.
- 4.16 The operations of these audit committees are independent of the day-to-day management of the Department and its agencies. The Chairs of the agency audit committees report back to the Department's Audit Committee on key themes and concerns, with the aim of ensuring that audit matters are considered in a co-ordinated way.
- 4.17 The Internal Assurance Director, and a representative of the National Audit Office normally attend meetings of the Departmental Audit Committee, which are held at least four times each year, as observers. The Committee asks other members of Departmental senior management to attend meetings to take assurances from them or discuss issues of concern.
- 4.18 The National Audit Office concluded that the terms of reference for each of the Departmental and agency audit committees and their membership, are in accordance with standards outlined by Lord Sharman in his recent "Review of Audit and Accountability for Central Government" and Treasury guidance. Amongst other things, the National Audit Office recommended that the audit committees should play an enhanced role in ensuring the Department and its agencies are developing effective risk management programmes by:
- ensuring that corporate governance and risk management is a standing agenda item so that it can discuss management's progress, the content of the risk registers and how risks are being dealt with;

- reviewing the Department's strategy to embed systematic and robust risk management procedures and internal audit's work to examine the effectiveness of the strategy and its implementation; and
- providing advice to the Accounting Officer on how the profile of risk management can be raised throughout the Department.

On Internal Audit

4.19 The Department's Internal Assurance Services Unit undertakes a wide range of functions on behalf of the Accounting Officer including:

- the provision of an Internal Audit unit;
- developing risk management guidance and focus; and
- departmental security including internal staff fraud investigations.

4.20 The Director, as Head of the Unit, reports directly to the Accounting Officer, the Departmental Board and the Departmental Audit Committee. He is responsible for the proper planning of the work of his unit and for ensuring that appropriate standards are met.

4.21 The National Audit Office found that the internal audit function is suitably independent with clear lines of reporting. It is of an appropriate size, status and calibre in relation to the complexity, high risk and sensitivity of the Department's business.

**John Bourn
Comptroller and Auditor General
January 2002**

**National Audit Office
157-197 Buckingham Palace Road**

**Victoria
LONDON SW1W 9SP**