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**Department for Work and Pensions  
Resource Accounts 2001-2002**

**Report by the Comptroller and Auditor General**

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# DEPARTMENT FOR WORK AND PENSIONS RESOURCE ACCOUNTS 2001-2002

## Report by the Comptroller and Auditor General

### Introduction

1. In its consolidated resource account, the Department for Work and Pensions accounts for expenditure of £107 billion on a wide range of benefits, employment programmes, the associated administration costs, and assets and liabilities at the year-end.

### Audit Opinion

2. I have qualified my opinion on the account because of significant levels of estimated fraud and error in benefit expenditure recorded in the operating cost statement (paragraphs 3 to 7) and significant uncertainties over certain debtor and creditor balances in the balance sheet (paragraphs 7 to 19).

### Estimated fraud and error in benefit expenditure (Schedule 2 of accounts)

3. On the basis of estimates produced by the Department, it can be confirmed that in total there may have been as much as £3 billion of losses in benefit payments in 2001-2002 (Figures 1 and 2), arising from fraud (£2 billion) and customer error and official error (£1 billion). This represents some 2.8 per cent of the gross expenditure recorded in the Department's resource account. Historically, the scale of fraud and error has meant that I have qualified my opinion on the accounts of the Department's predecessor, the Department of Social Security, for the last 13 years. I have indicated to the Department that, to avoid qualification, it would need to reduce the level of estimated fraud and error to below one per cent of gross expenditure, that is, just over £1 billion in 2001-2002.
4. On Income Support and Jobseeker's Allowance, which are regarded as the benefits most vulnerable to losses, the Department's estimates are derived from an in-depth rolling programme of reviews of some 27,000 cases each year that continuously measure levels of estimated fraud and error. On other benefits, the Department's estimates are based on a mixture of rolling programmes to measure official error, for example, in Incapacity Benefit and Retirement Pensions, and snapshots of customer error and fraud - national benefit reviews and pilot benefit reviews - taken at various times dating back to 1996-97. Over time these snapshot reviews become less reliable guides to the scale of losses in the areas they cover, but remain the best evidence available to me as the Department's external auditor.

**Figure 1: Estimated losses from fraud each year**

<u>Continuously measured benefits in 2001-2002</u>		
Income Support	£530m	
Jobseeker's Allowance	£170m	£700m
<u>National Benefit Review in 2000-2001</u>		
Incapacity Benefit		£19m*
<u>Instrument of Payment Fraud</u>		£82m
<u>Fraud losses from other benefits subject to reviews prior to 2001-2002</u>		£1100m
In addition there are losses from fraud in benefits that have not been subject to review.		
<b>In total the Department estimates there are annual fraud losses of approximately £2 billion.</b>		
* <i>Estimate of maximum fraud loss</i>		

Source: Department for Work and Pensions

5. In my forthcoming report *Tackling Benefit Fraud*, I examine the success of the Department for Work and Pensions in tackling benefit fraud, in particular the scale and nature of fraud faced by the Department, the efforts to prevent, detect, and investigate frauds against benefits directly administered by the Department and the efforts to tackle fraud in Housing Benefit, administered by local authorities. My report will also include details of the Department's methods for measuring benefit fraud and error.

**Figure 2: Estimated losses from customer and official error each year**

<u>Continuously measured benefits in 2001-2002</u>		
<i>Customer Error</i>		
Income Support	£180m	
Jobseeker's Allowance	£10m	£190m
<i>Official Error</i>		
Income Support	£160m	
Jobseeker's Allowance	£90m	£260m
		(rounded)
Incapacity Benefit		£32m
<u>Losses due to errors in benefits reviewed prior to 2001-2002</u>		£500m
In addition there are losses due to customer or official error in benefits that have not been subject to review.		
<b>In total the Department estimates there are annual losses due to errors of approximately £1 billion.</b>		

*Source: Department for Work and Pensions*

## Fraud and error in Income Support and Jobseeker's Allowance

6. The Department estimates that losses in Income Support and Jobseeker's Allowance as a result of fraud, errors by officials and errors by customers, amounted to £1.15 billion in 2001-2002, which is 6.8 per cent of expenditure on these benefits (figure 3).

**Figure 3: Income Support and Jobseeker's Allowance overpaid due to fraud and error in 2001-2002**

### Percentage of benefit overpaid

	IS	JSA	IS & JSA
Fraud	3.7 (3.4-4.1)	6.6 (5.9-7.4)	4.1 (3.8-4.5)
Customer error	1.2 (1.1-1.4)	0.5 (0.3-0.7)	1.1 (1.0-1.3)
Official error	1.1 (1.0-1.3)	3.5 (2.9-4.2)	1.5 (1.3-1.7)
<b>Total fraud and error</b>	<b>6.1</b> <b>(5.7-6.5)</b>	<b>10.7</b> <b>(9.8-11.6)</b>	<b>6.8</b> <b>(6.4-7.2)</b>

### Amount of benefit overpaid

	IS	JSA	IS & JSA
Fraud	£530m (480-590)	£170m (150-190)	£700m (650-770)
Customer error	£180m (160-220)	£10m (10-20)	£190m (170-220)
Official error	£160m (140-190)	£90m <sup>(i)</sup> (80-110)	£260m (230-290)
<b>Total fraud and error</b>	<b>£870m</b> <b>(810-940)</b>	<b>£280m</b> <b>(250-300)</b>	<b>£1.150bn</b> <b>(1,090-1,220)</b>

*Total fraud and error*

*Notes:*

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- (i) *The National Audit Office validation work of 390 cases identified 3 possible errors which had not been included in the Department's estimate. If these additional errors were found to be representative of the whole case load the Department's estimate might be understated by approximately £20 million. This would still be within the confidence limits around the Department's estimate, which are £80-£110 million.*
  - (ii) *95 per cent confidence limits are shown in brackets*
  - (iii) *Figures shown are subject to roundings, which is why columns do not always total exactly.*

*Source: Department for Work and Pensions*

7. The Government set the Department 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 benefits in the twelve months October 1997 to September 1998, which amounted to 9 per cent of expenditure or £1.38 billion, making the March 2002 target 8.1 per cent. By reducing estimated losses to 6.8 per cent, the Department exceeded this target.
8. In the 2002 spending review, revised targets were set for 2004 and 2006 against a new baseline of 10.4 per cent, relating to the levels of estimated fraud and error in payments to customers of working age only. This follows the creation of Jobcentre Plus to deal with customers of working age, and also changes in the conditions of benefit paid to pensioners with the introduction of the Pensions Credit in October 2003. The new targets are to reduce the level of loss in Income Support and Jobseeker's Allowance by 33 per cent by March 2004 (a target loss of 6.9 per cent) and by 50 per cent by March 2006 (a target loss of 5.2 per cent). To achieve the March 2006 target, the Department would have to reduce estimated losses from fraud and error to around £640 million at 2001-2002 levels of expenditure. In addition a new target has been introduced to reduce the level of loss in Pensions Credit by 20 per cent by March 2006. The baseline for this target is the level of loss in Income Support for Pensioners at March 2002.

### **Significant uncertainties over some debtor and creditor balances (Schedule 3 of accounts)**

9. 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 certain significant debtor and creditor balances. I therefore cannot provide a high degree of assurance as to the completeness, existence and valuation of these balances.
10. In the light of this, I assessed whether Schedule 3 of the accounts gives a misleading view. 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 Schedule as a whole is misleading. I have therefore qualified my opinion on the grounds that the scope of my audit was limited.

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## **Contributory and Non Contributory Benefit Customer Overpayment Debtors - £1,242 million**

11. Overpayments to customers arise from errors by officials and from fraud and error by customers. Once overpayments have been identified, the Department's local offices record the individual amounts on their field recovery systems. These, and subsequent movements in debts outstanding, are posted to the general ledger in total.
12. As in previous years, the debtor balance at 31 March 2002 in the general ledger, did not agree with the combined balances from each of the field recovery systems. Historically, a provision has been made to reduce the general ledger balance to the level of the combined field recovery systems. As at 31 March 2001 this provision stood at £172 million. As a result of improvements the Department has made to the accounting procedures, no additional provision was necessary in 2001-2002. Further, the Department's investigation and adjustment of differences between the general ledger and field systems reduced the provision by £9 million to £163 million at 31 March 2002. However, evidence from the Department's extensive work during the year to validate the accounting treatment of sums recovered, confirms that the debtor balances held on the field recovery systems still contain substantial inaccuracies.
13. I also have concerns about the completeness of overpayment debt. This is because, at the year-end, not all benefit overpayments had been identified, some overpayments had been identified but not referred for recovery action, and others had been referred but were awaiting input to the field recovery systems. The Department is carrying out an exercise to quantify the sums involved in unidentified overpayments and overpayments that have not been referred for recovery.
14. 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 limited. Having taken account of evidence that the information held on the field systems is incomplete, I conclude that there is significant uncertainty over the accuracy, existence and completeness of the amounts recorded in Schedule 3 in respect of benefit overpayment debtors.
15. The Department has various plans in place aimed at improving the integrity and quality of debtor information held on existing systems, until such time as a new debt management and accounting system can be introduced. The Department expects that significant progress will have been made by the end of 2004, towards the implementation of a software accounting package that will cover debts arising from the majority of benefit systems.

## **Encashment Control Creditor - £436 million**

16. 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.



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17. 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. As a result the Department is unable to perform a full reconciliation between the general ledger balances and statements from paying agents.
  18. To provide a reasonableness check, the Department estimates the likely unencashed amount at the year-end. I reviewed the model for calculating this and concluded that, because of the complexities surrounding customer encashment patterns and lack of transaction level data, it does not provide sufficient certainty to provide a high degree of assurance that the encashment control creditor balance for order books is accurately stated.
  19. I therefore conclude that there is significant uncertainty over the encashment control balance.

### **Compensation recoveries - £20 million**

20. Where customers who receive benefit payments are subsequently awarded compensation from insurance providers, the Department can recover these payments from the providers when a settlement is made between the compensator and the injured party. The amounts that have been agreed with providers as recoverable and which remain outstanding at the year-end are included as debtors on the Department's balance sheet.
21. In my report on the Department of Social Security's resource account for 2000-2001, I noted that my examination of the balance attributed to compensation recoveries at 31 March 2001 was seriously limited because the Department had not retained the relevant documents to support each debtor within it. The Department has since taken steps to improve document storage in this area of its business and, as a result, was able to provide sufficient evidence to support these balances as at 31 March 2002. Therefore, my qualification on these grounds has been removed.

**John Bourn**  
**Comptroller and Auditor General**  
**28 January 2003**