

Department for Work and Pensions Resource Accounts 2002-2003

Report by the Comptroller and Auditor General



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DEPARTMENT FOR WORK AND PENSIONS RESOURCE ACCOUNTS 2002-2003

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Introduction

1. In its consolidated resource accounts, the Department for Work and Pensions account for expenditure of £112 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 accounts because of significant levels of estimated fraud and error in benefit expenditure recorded in the operating cost statement (paragraphs 3 to 9) and significant uncertainties over certain debtor and creditor balances in the balance sheet (paragraphs 10 to 19).

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

3. As recorded in note 38 to the accounts, the Department estimates that there is some £2 billion of fraud within the social security system across the range of benefits. Further, the Department estimates that the losses in benefits resulting from customer and Departmental error amounted to around £1 billion. These estimates are based on a mixture of in-depth rolling programmes that re-perform a large sample of benefit awards each year in certain benefits, and snapshots of customer error and fraud – national benefit reviews and pilot benefit reviews – on other benefits, taken at various times back to 1996-97.
4. The highest risk of fraud and error lies within Income Support and Jobseeker's Allowance. For these benefits the Department have in place a continuous rolling programme of checking to determine and monitor the extent of fraud and error. The Department's latest estimate from this process, for the year ending 30 September 2002, is that total overpayments from customer fraud, customer error and Departmental error in Income Support, including Minimum Income Guarantee for pensioners, amounted to £860 million (5.9 per cent of expenditure on that benefit in the period) comprising £510 million of fraud, £180 million in respect of customer error and £170 million from errors by officials. The equivalent figure for the year ending 31 March 2002 was £870 million (6.1 per cent of expenditure).
5. For Jobseeker's Allowance, the Department estimates total overpayments for the year ending 30 September 2002 at £290 million (11.2 per cent of expenditure) broken down between £170 million of fraud, £20 million for customer error and £100 million resulting from errors by officials. The

equivalent figure for the year ending 31 March 2002 was £280 million (10.7 per cent of expenditure).

6. The Department was unable to finalise its estimate of fraud and error in Income Support and Jobseeker's Allowance for the year ending 31 March 2003 before the National Audit Office completed its examination of the resource accounts. These estimates will be published later as National Statistics.
7. Housing benefit is another area where levels of fraud and error are a concern. The first results of a new continuous Housing Benefit Review to measure fraud and error published in December 2003, indicate that around £750 million (6.2 per cent) of Housing Benefit expenditure is estimated to have been overpaid by local authorities on behalf of the Department in 2002-2003 due to fraud and error. Based on a benefit review undertaken in 1998 Housing Benefit fraud and error had been previously estimated as £840 million.
8. In summary the National Audit Office, based on evidence provided by the Department and its own independent testing, have concluded that it is likely that around £3 billion of losses occurred in benefit expenditure in 2002-2003, that is £2 billion from fraud and £1 billion from errors by customers and officials. Because of the nature of the Department's evidence, based on rolling programmes that produce estimates subject to statistical uncertainties and snapshot reviews that are up to 6 years old, the £3 billion cannot by its nature be a precise figure but it is the best estimate available.
9. Historically, the scale of fraud and error has meant that I have qualified my opinion on the Department's accounts and that of its predecessor, for the last 13 years. I have indicated to the Department that, to avoid qualification of the accounts, it would need to reduce the level of fraud and error to below one per cent of expenditure, that is, just over £1 billion in 2002-2003. In this context, even allowing for possible uncertainty over some components of the Department's £3 billion estimate, I am able to conclude that in 2002-2003 the Department suffered material losses in benefit expenditure. I have therefore qualified my audit opinion.

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

10. 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.
11. 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 misstated 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.

Contributory and Non Contributory Benefit Customer Overpayment Debtors - £1,145 million

12. 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.
13. Historically the Department's general ledger did not agree with the combined balances of each of the field recovery systems. As a result of extensive work and improvements the Department has made to accounting procedures in 2002-2003, the ledger balances can now be reconciled and a provision to align them is no longer required. Therefore, I have removed this aspect of my qualification.
14. I 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. 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. Although the general ledger balance can be agreed to the sum of the field recovery systems, having taken account of evidence that the information held on the field systems is incomplete, I conclude that there remains significant uncertainty over the accuracy, existence and completeness of the amounts recorded in Schedule 3 in respect of benefit overpayment debtors.
15. Until such time as a new debt management and accounting system can be introduced, the Department has various plans in place aimed at improving the integrity and quality of debtor information held on existing systems. The Department expects that significant progress will have been made by April 2005, towards the implementation of a software accounting package that will cover debts arising from the majority of benefit systems.

Encashment Control Creditor - £424 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. I therefore conclude that there is significant uncertainty over the encashment control balance.
 19. During 2002-2003, the Department started an exercise to calculate more accurately the value of the unencashed creditor by using encashment data recorded by Post Offices. The findings are not yet finalised and I shall review the outcome as part of my audit of the 2003-2004 accounts, to consider whether the qualification can be removed.

John Bourn
Comptroller and Auditor General
12 December 2003