

**Department for Work and Pensions
Resource Accounts 2003-04**

Report by the Comptroller and Auditor General

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DEPARTMENT FOR WORK AND PENSIONS RESOURCE ACCOUNTS 2003-2004

Report by the Comptroller and Auditor General

Introduction

1. In its consolidated resource accounts, the Department for Work and Pensions accounts for expenditure of £109 billion on a wide range of benefits, employment programmes and the associated administration costs, together with its assets and liabilities at the year-end.

Audit Opinion

2. I have qualified my opinion on the accounts because of substantial levels of estimated losses from fraud and error in benefit expenditure recorded in the operating cost statement (paragraphs 4 to 9), a significant limitation in the evidence made available to the National Audit Office during the audit of expenditure on Incapacity Benefit (paragraphs 10 and 11), and material uncertainties over certain debtor balances in the balance sheet (paragraphs 12 to 15).

3. As a result of work carried out by the Department to improve the accuracy of certain creditor balances (paragraphs 16 and 17) I have been able to remove a long-standing qualification on this aspect of the accounts.

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

4. The National Audit Office, based on evidence provided by the Department and its own independent testing, concluded that it is likely that around £3 billion may have been lost from benefit payments because of fraud and error, the same estimate as reported in 2002-2003 and 2001-2002. 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 six years old, the £3 billion is not a precise figure but it is the best estimate available at present. The Department hopes to produce a more accurate estimate in the course of 2005 when the results of a national benefit review of Disability Living Allowance becomes available. The £3 billion represents some 2.8 per cent of the £109 billion of gross expenditure, and is in my view a material sum. I have therefore qualified my audit opinion on the account.

5. I have indicated to the Department that to avoid qualification it would have to reduce the level of estimated fraud and error to below one per cent of gross expenditure, equivalent to just over £1 billion in 2003-04. I have now qualified the Department's account and those of its predecessor Departments for the past 15 years because of the scale of fraud and error in welfare benefits.

Income Support and Jobseeker's Allowance

6. Income Support and Jobseeker's Allowance are, with Housing Benefit, the two benefits with the highest risk of fraud and error. For Income Support and Jobseeker's Allowance the Department have in place a continuous rolling programme of checking to determine the extent of fraud and error each year and provide figures that are published as National Statistics. As in previous years, as part of their work to verify the accuracy of the Department's fraud and error estimates, the National Audit Office was able to rely on the estimates arising from this rolling programme, having completed a review of the methodology used and reperformance of a sample of the checks.

7. The Department estimates that overpayments to customers of working age from fraud and error in Income Support and Jobseeker's Allowance in the year to 31 March 2004 amounted to £610 million for Income Support (5.8 per cent of expenditure on that benefit) and £230 million for Jobseeker's Allowance (9.0 per cent of expenditure). Therefore the total of overpayments on these two benefits was £840 million (6.4 per cent of expenditure). This compares to an equivalent sum of £1220 million in the period October 1997 to September 1998, the first year that the Department produced accurate estimates for fraud and error in these benefits and £920 million in 2002-2003.

8. In the 2002 spending review, the Government set the Department fresh targets to reduce the percentage of overpayments to customers of working age from fraud and error in these benefits, against a baseline of 10.4 per cent. These were to reduce the levels of loss from fraud and error by 33 per cent by 31 March 2004 (a target loss of 6.9 per cent) and by 50 per cent by 31 March 2006 (a target loss of 5.2 per cent).

9. The estimated loss of 6.4 per cent (£840 million) in 2003-2004 on the Income Support and Jobseeker's Allowance is a 38 per cent reduction from the baseline of 10.4 per cent, against the Government's target of 33 per cent. The Department acknowledge that within this reduction, one percentage point results from a change in the methodology for recording fraud and error. However, the Department has still exceeded its target by 4 percentage points.

10. To achieve the March 2006 target, the Department will have to reduce estimated losses to Income Support and Jobseeker's Allowance to 5.2 per cent or £682 million at 2003-2004 expenditure levels.

Housing Benefit

11. Levels of fraud and error in Housing Benefit, which is paid by local authorities on the Department's behalf, are also a concern. The results of a new continuous Housing Benefit Review indicate that an estimated £650 million (5.3 per cent) of Housing Benefit expenditure was overpaid by local authorities in the twelve months to September 2003 due to fraud and error. The Department's Internal Assurance Service undertook a limited examination of these results and raised a number of issues about the methodology used, which the Department is considering as part of its continuous improvement of the measurement arrangements. The examination confirmed that the Department's performance measurement process for Housing Benefit Review is a reliable source of assurance.

Incapacity Benefit

12. From a programme of checks the Department was able to estimate that overpayments of Incapacity Benefit in 2003-2004 arising from errors by officials amounted to some £67 million (around 1 per cent of expenditure on the benefit). However, customers did not gain any advantage from £15 million of this amount of overpayment, because if Incapacity Benefit had not been in payment, other benefits should have been payable equivalent to their entitlement to Incapacity Benefit.

13. It was also estimated that underpayments amounted to around £97 million, although for £79 million of the underpayments customers suffered no financial losses as they received other benefits up to the level of their entitlement to Incapacity Benefit.

14. In order to verify these estimates the National Audit Office sought to examine an independent sample of 800 Incapacity Benefit cases to check that eligibility conditions were met and that accurate payments had been made. To do so, they asked the Department for the supporting papers, which include the medical assessment that provides evidence of customers' entitlement to Incapacity Benefit. In 694 cases the supporting papers were provided and the National Audit Office's results in these cases checked were consistent with those of the Department. In 106 cases the Department were unable to locate the supporting papers. As a result this limits the National Audit Office's ability to confirm the accuracy of the Department's estimates. The absence of this evidence from the 106 cases is a significant limitation on the scope of the audit and I have qualified my audit opinion to reflect this.

Contributory and Non Contributory Benefit Customer Overpayment Debtors - £1,151 million

15. Overpayments to customers arise from fraud and error by customers and from errors by officials. These are identified by staff in local offices and referred to Debt Centres for confirmation of the existence of a debt, its valuation and recovery.

16. Debt Centres record overpayments on systems that in the majority of individual cases do not provide a satisfactory audit trail from the original valuation of the debt through subsequent recoveries. Therefore it is not possible to confirm the existence and valuation of a significant number of customer overpayment debts. The Department is continuing with a project to create a new debt management and accounting system which is intended to produce robust audit trails. The Department expects to complete the migration of existing data on debt to the new system by September 2005.

17. As in previous years I have concerns about the completeness of customer overpayment debt. This is because at the year-end not all benefit overpayments have been identified, some overpayments have been identified but not referred to Debt Centres for recovery and others have been referred but await input to the debt recovery systems. This suggests that the figure in the accounts for customer overpayment debtors could be significantly understated. The Department is taking steps to improve its performance in identifying and referring debts.

18. As there remains significant uncertainty over the completeness, existence and accuracy of the amount recorded in the account for benefit overpayment debtors, I have qualified my audit opinion.

Encashment Control Creditor (£294 million)

19. In previous years I have qualified my opinion because of significant uncertainty about the accuracy of the amount recorded in the balance sheet for the encashment control creditor. This represents the value of order book foils and girocheques that have been issued to customers for encashment at Post Offices or banks but remain uncashed at the year-end.

20. In 2003-2004 the Department developed manual procedures designed to produce an accurate value for the uncashed balance at 31 March 2004. The National Audit Office reviewed the outcome of this work and worked with Departmental staff to ensure that the balance is accurately stated in the account. As a result I have been able to remove this qualification.