



National Audit Office

International benchmark of fraud and error in social security systems

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Comptroller and Auditor General
National Audit Office

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PREFACE



This report, which was commissioned by the National Audit Office (NAO), presents the results of a benchmarking exercise investigating the issue of fraud and error in the social security systems of eight European and non-European countries. The structure of the country studies follows a template (see Appendix B), which contains the main salient issues around fraud and error as identified by the NAO. The study describes the different systems studied, assesses the scale and prominence of the problem in a national context, and outlines measures taken to reduce fraud and error and steps taken to measure fraud and error. In addition to individual country profiles, an overarching analysis, which is presented in the Executive Summary, draws out the principal themes emerging from the comparison of the findings for the individual countries, and identifies considerations of particular interest in the context of fraud and error within the UK's Department for Work and Pensions (the Department). The analysis produced the following key findings:

- rates of fraud at the Department appear comparable to those of other countries where comparisons can be made;
- availability of data and methodologies for measuring fraud and error at national level vary considerably, but the Department is at the forefront in developing estimates of losses from fraud and error in social security expenditure;
- the Department compares favourably in terms of awareness of fraud and error, and activities to combat the problem;

- the Department, with support of the NAO, could lead an international exchange on the measuring and management of fraud and error; and
- other countries' initiatives to tackle the problem of fraud may be of potential interest to the Department.

The report will be of particular interest to Parliament and the Department for Work and Pensions. It is also relevant for other national audit bodies, policy makers, as well as a wider audience concerned with the challenge of administering social benefits efficiently and equitably.

RAND Europe is an independent not-for-profit policy research organisation that aims to serve the public interest by improving policymaking and informing public debate. Its clients are European governments, institutions, and firms with a need for rigorous, impartial, multidisciplinary analysis. This report has been peer-reviewed in accordance with RAND's quality assurance standards.

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EXECUTIVE SUMMARY

1 Fraud, customer error and official error represent a major risk to the successful delivery of social benefits in the UK. Overpayments incurred due to fraud and error were estimated to amount to £2.6 billion for 2004-2005.¹ Underpayments lead to distress for claimants, and poor administrative performance also has an adverse effect on the morale of Department for Work and Pensions (the Department) staff.² The issue of fraud and error has been an important factor in the Comptroller and Auditor-General's decision to give a qualified opinion of the Department's account for the past 16 years. Over recent years, the Department has undertaken a range of initiatives to tackle the problem. There has been progress in reducing fraud and error, although the effects of some recent initiatives remain to be assessed. However, overall losses from fraud and error have remained significant.

2 The Department considers fraud to occur when someone deliberately makes a false statement or representation to obtain a benefit or deliberately fails to provide relevant information.³ Within error, a distinction is made between customer error, where incorrect information is provided without fraudulent intentions, and official error. Official error is described as due to a mistake by an act or omission by staff, which the customer did not cause or materially contribute to, and which the customer could not, at the time they received the payment, reasonably have been expected to be aware.⁴

3 The complex nature of the UK's social security system, which delivers a broad range of income-related benefits to a diverse population, is susceptible to error, and may also facilitate fraud.⁵ Such complexity, however, is not unique to the UK; rather, other countries with established social security systems face similar challenges. International benchmarking is routinely used by the NAO to provide fresh insights into Value for Money issues, and has also recently been called for by the Committee of Public Accounts. Investigating other countries' experiences with fraud and error makes it possible to put the Department's performance in a comparative context, which is currently lacking. Moreover, it opens up possibilities for valuable lessons in the management of fraud and error.⁶

4 The benchmark undertaken considered eight countries similar to the UK in terms of wealth and diversity of population.⁷ All of the countries acknowledge public responsibility for the provision of (some) social support, and spend very substantial amounts on benefit payments, most of which are tied to specific eligibility criteria (see **Figure 1 overleaf**). At the same time, across the selection there is considerable variation in the organisation of government social security provision. Apart from France, Sweden, and the Netherlands, all countries considered participate in an annual conference on fraud and error (Six Nations Benefit Group), although it appears

that approaches to controlling the problem of fraud and error have been developed in relative isolation. As a result, there is considerable scope for international learning. An overview of the different countries' social security system and handling of fraud and error is provided in **Figure 3 on pages 10 to 19**. For readers outside the UK, relevant information relating to the Department for Work and Pensions is included both in this table, and as a country profile in Appendix A.

5 The delivery of social benefits involves large amounts of public expenditure, which is further increased by losses through fraud and error. Fraud and error therefore represent an auditing risk for departments responsible for benefit administration. Moreover, as a criminal activity, benefit fraud represents a serious legal and moral concern. The issue therefore is hard to ignore, and indeed all of the eight countries examined have put in place anti-fraud measures. In the area of error, the picture is less consistent. Overall, the comparative analysis of the different countries' approaches produced the following insights:

Rates of fraud at the Department appear comparable to those of other countries where comparisons can be made.

6 Direct comparisons between the levels of fraud and error across the benchmarked countries can be difficult to make. In the case of error, data availability is poor, as a majority of the countries studied place less emphasis on this area. With regard to fraud, methods of quantifying the problem at national level differ considerably. Nevertheless, given that the Department has long been criticised for not bringing fraud below an acceptable level, it is important to make at least a tentative comparison with those countries for which relevant data is available: New Zealand, Canada, Ireland and the USA for specific benefits. The comparison shows that despite differences in structures, types of benefits and anti-fraud measures, total fraud and error rates in those countries where data is available mostly range between two per cent and five per cent of expenditure as shown in **Figure 2**. The occurrence of fraud and error in these countries is thus relatively similar to that measured in the UK. However, it should also be borne in mind that while the range of percentages is small, given the substantial sums spent on social support, even small differences between total or benefit-specific fraud levels can signify considerable amounts of public money lost or saved.

7 Despite the observed comparability of fraud and error rates, the Department is the only responsible government department for whom fraud and error has had a severe impact on the external auditor's judgement of departmental finances. This is because there is a statutory requirement for the NAO to have a view on whether expenditure in the accounts has been incurred in accordance with Parliament's intentions.⁸ Across the benchmarked countries, there exist varying responses from supreme audit institutions to the problem of fraud and error. Notably, in the Netherlands, in Australia and in France, auditors have criticised existing risk management in social security administration. Scrutiny of departmental performance in this area can thus constitute a complementary, rather than central, feature of the auditing process. Nevertheless, the comments have acted as a driver of anti-fraud initiatives in the countries concerned.

1 Expenditure on Social Security in Countries Studied¹

	Total Expenditure on social security in £ billion (most recent year available)	Social Expenditure as % of GDP in 2001
Australia	44.2	18
Canada	62.5	17.8
France	115.5	28.5
Ireland	7.5	14
The Netherlands	42	21.8
New Zealand	5.5	18.5
Sweden	32	29
USA	718	14.8
UK	110.9	21.8

NOTE
 1 These amounts are indicative and based on the exchange rates at the time of writing. The same applies for equivalent amounts in £ in the country studies. For further references, see country studies following this summary. Data on social expenditure as a per centage of Gross Domestic Product were taken from: OECD (2004), The Social Expenditure Database, Paris: OECD. Some of the country studies contain more recent per centages. The OECD data refers to total social expenditure rather than spending on social security. In the case of the USA, this spending also includes medical payments such as Medicaid and Medicare, which accounted for £310 billion of spending in 2002.

2 A comparison of fraud and error rates in countries studied¹

As % of expenditure/payments	UK (2004-2005)	Canada (1994, 2003)	Ireland (2004)	New Zealand (2001)	USA (2003)
Total Fraud and Error	2.3%	3.5% ('94)	–	2.7%	–
Fraud and Error in Housing Benefit	5.2%	–	–	–	3.6%
Fraud and Error in Income Support	5.3%	3.5% ('03)	–	–	5.07%
Fraud and Error Old Age, Disability	4.9%, 0.1%, 1.9% ²	–	7%	–	0.53%

NOTES

1 Please see respective country reports for details on these rates and references. Comparisons are difficult as benefit types differ between countries. This table shows rates for the following benefits. The Income Support benefit for Canada and the US is Unemployment Insurance. In the category, Old Age and Disability, the benefit in Ireland is Disability Allowance and in the case of the US Old Age, Survivors and Disability. Also measurements vary. Rates for the UK refer to fraud and error as % of total expenditure. Rates for Canada ('03) refer to the total savings identified as a per centage of total payments. Ireland measures fraud and error as a per centage of expenditure for specific benefit types. New Zealand estimates this per centage as the number of cases sampled that contained errors, which led to benefits being paid incorrectly. The USA measures the total value of improper payments per benefit type.

2 These rates are for Pension Credit, Retirement Pension, and Disability Living Allowance respectively.

Availability of data and methodologies for measuring fraud and error at national level vary considerably, but the Department is at the forefront in developing estimates of losses from fraud and error in social security expenditure.

8 The benchmark shows that the Department stands out for its attention to customer and official error, as most other countries concentrate on fraud. Its system of rolling reviews of benefit payments on the basis of large samples also measures fraud and error more comprehensively than the rest of the Countries. For example in France, fraud has not been captured systematically at national level. In Ireland, reviews are not as systematic as in the United Kingdom. In the USA, they are limited to certain benefit types. Furthermore, in many cases measuring focuses on other criteria than the total number of cases, and the total value of fraud and error. These criteria include:

- **Minimal accuracy targets** (New Zealand, Sweden, Australia): These measurements focus on the proportion of accurate decisions to pay benefits and the proportion of accurate payments being made.
- **Totality of improper payments per benefit type** (USA): This measurement based on performance and accountability reports estimates the total amount of improper payments per benefit type for fraud and error together. There is no system-wide aggregation of the total value of improper payments.

- **Savings and prosecutions achieved** (Australia, Ireland, the Netherlands, and New Zealand): This measurement focuses on savings, performance and also prosecutions, based on observations and outcomes of reviewed cases. There may be targets for the number of cases that should be reviewed and even for the number of prosecutions (the Netherlands and New Zealand). In Ireland, multipliers are used to produce an aggregate number of savings made within the system. Centrelink (Australia) counts as fraud only those cases successfully prosecuted in the court of law.
- **Sampling in specific benefit schemes** (Ireland and USA): Measurements of the baseline fraud and error rates are targeted on specific benefit schemes, which are perceived at high risk from fraudulent claims.
- **Benefit-specific definition of fraud** (the Netherlands): Social security agencies have different definitions of fraud and error and consequently different ways of measuring fraud and error per benefit type. In Canada, there are also variations in measurement between the provincial and federal levels, making aggregation difficult.

9 The Department’s assessment of the overall incidence of fraud appears a suitable tool for developing policy measures and monitoring their impact. This is notable given the importance of informed policy making for reducing the losses resulting from fraud and error, of which all of the benchmarked countries are aware. Some of the differences in approaches can be traced to systemic or cultural factors, such as decentralisation of administration, independent social security funds, or political climate. For example, in Canada, benefits are administered both at the federal and provincial levels; in Australia, benefit administration is outsourced to a central agency; in France, the role of the state is limited to that of supervisor of independently run social security funds; in Sweden, a strong emphasis is placed on the state’s, rather than the customer’s responsibility to ensure that payments are correct; and in the Netherlands, the autonomy of different agencies administering benefits means that a variety of definitions of fraud and error are being used. There are also some changes underway: in France, the first nationwide, cross-benefit study of fraud is currently being conducted, and its results will be scrutinised by the national supreme audit institution in 2006.

The Department compares favourably in terms of awareness of fraud and error, and activities to combat the problem.

10 All of the countries examined acknowledge that benefit fraud is a problem that needs to be addressed, both because of its illegality and because of the losses incurred. In response, a wide variety of approaches to tackle the issue have been developed. However, the Department not only shows above average awareness of the specific issue of error, but is distinguished by a comparatively comprehensive range of actions both in the area of prevention and of detection. Moreover, whilst some of these initiatives are recent, overall the Department’s record of launching and monitoring activities to counter fraud and error seems more established than that of its peers. The Department’s comparatively high level of awareness and activity is likely to be partly linked to its experience of regular scrutiny by the NAO, and the resulting sharp parliamentary and public criticism. Nevertheless, there may be some scope for developing further initiatives based on the experiences of other social security administrations.

11 The prevailing political and economic climate is a notable influence on the general prominence of benefit fraud. Although fraud is always a legal matter, its impact on public finances is a function of the overall number of claims and support paid out. For example, in France, a sharp rise in unemployment led to widespread calls to clamp down on misuse of the social security system in the early 1990s. In Canada, by contrast, provincial bids to take a tough line on social support, for example in Ontario and British Columbia, failed to win the support of the broad population over time.

The Department, with support from the National Audit Office, could lead an international exchange on the measuring and management of fraud and error.

12 Despite the unique national context and internal structures of the social security systems, issues surrounding fraud are similar. This is evident for the causes of fraud and for anti-fraud actions. Common ‘trouble spots’ include illegal work, document and identity fraud, weakness of internal controls, staff burden and systemic complexity. The most common responses are risk assessment, (random) checks and sampling, improvements to information technology (IT) infrastructure, communication with the public and staff training, as well as dedicated anti-fraud groups.

13 Because there are shared concerns, the benchmark countries are likely to benefit from sharing experiences regarding their effort to identify and counter these issues. The Six Nations Benefit Group is an existing forum that could accommodate such exchange, but it does not appear to have achieved widespread mutual awareness. The Department is well placed to take the lead in encouraging an open and practice-oriented process of international learning. As the auditing body judging the Department’s progress in containing and reducing fraud and error, the NAO represents a natural partner in facilitating this process. This joint approach makes it possible to approach the management of fraud and error from multiple angles, while also considering implications for national audits.

Other countries' initiatives to tackle the problem of fraud may be of potential interest to the Department.

14 The Department has important experiences to share, but also stands to gain from learning about novel approaches developed by other administrations.

Box 1 overleaf shows an overview of some of the innovative or interesting tools to improve a variety of aspects of the management of fraud and error, ranging from prevention to detection. Particular examples of interesting practice include the use of:

- random response surveys to examine the motivations for fraudulent behaviour to assist in risk profiling and the directing of control measures (the Netherlands);
- specific instruments to understand the characteristics of fraudulent behaviour⁹;
- unique identifying numbers (identification number) to allow for comprehensive inter-agency data-matching and tracking of claimants in a system (France and the Netherlands);
- a central national database for customer records (Australia and France [planned]);
- cost-benefit calculations to determine the effectiveness of control measures (New Zealand, Australia, and the Netherlands);
- targets for the number of reviews and specific types of reviews (Australia and New Zealand);
- a single core benefit with one set of rates, eligibility criteria and add-ons (New Zealand); and
- instruments such as information sessions and contracts/declarations in benefit claim forms, which emphasise the rights and obligations of claimants (Canada and the Netherlands).

15 Each of these tools is worth being examined closely by the Department, both to learn what has worked in other countries, and to assess the potential for use within a UK context. In practice, the adoption of certain approaches employed successfully elsewhere may not be straightforward. For example, several of the benchmarked countries use inter-agency data-matching, which in the UK may conflict with both data protection rules and technical compatibility. Nevertheless, other countries' experiences in such areas will provide important input for an informed debate of such issues.

BOX 1

Fraud management tools and initiatives of potential interest to the Department¹

Australia's central and extensive control process, developed by the central agency handling social benefits, Centrelink. Centrelink's accountability to the Australian Government is underpinned by Business Partnership Agreements, which detail 'joint' outcomes and Key Performance Indicators. Centrelink manages a national database for customer records, the Income Security Integrated System (ISIS). This system centrally holds 23 million customer records (6.2 million records support a current benefit determination). In terms of indicators, measures and indicators of fraud control in the Department of Family and Community services include: a targeted multimedia education campaign to reduce the number of people who fail to inform Centrelink about changes to personal circumstances (the performance indicators [per year, from 2004-2008] for the campaign are for 100,000 customers to notify Centrelink and for Centrelink to receive 15,000 tip-offs); setting of targets for the number of overall compliance reviews (147,000 reviews per year); and the determination of the number of data-matching reviews (25,000 per year). Each measure is associated with targets for expected savings (the reduction of overpayment multiplied by the potential period of benefit overpayment), which are indicated for a four-year period (2004-2008). These programmes are continuously reviewed for cost-effectiveness (savings made against the cost of administration) and on this basis can be cancelled. The general trends have been the expansion of data-matching reviews and the emphasis on joint targets and outcomes.



Canada's focus on prevention, which has achieved savings through risk-based Claimants' Information Sessions (Integrity Information Sessions). These sessions provide high-risk clients with information on benefit programmes, their rights and obligations, and control measures. The result of the sessions has been that to some extent the occurrence of fraud and error in certain high-risk groups has been pre-empted and reduced. Since 1999, 225,000 sessions have been held. Through this process, CA\$800 million (£390 million) in actual savings was identified.



France's recently launched range of measures to improve data management, including the planned development of a national database of customer records and use of national reference numbers to identify claimants across different benefit schemes and insurance funds. This national reference number would also allow more comprehensive data-matching and targeted compliance reviews.



Ireland's comparative risk assessment through the Fraud and Error Surveys, which establish baseline rates of error and fraud per benefit type (e.g. recorded fraud and error rates per programme). These surveys have taken place in 2003 and 2004 for specific benefit schemes and will become more comprehensive and regular in the coming years. They allow for a more thorough analysis of the change in the baseline rates over time and the main causes of this change. The analysis of the drivers for change tries to find out the characteristics of fraud, such as for instance the profiles (marital status, age) of claimants involved in fraud. Control instruments (such as data-matching and compliance reviews) are directed accordingly. Fraud and error is measured on the basis of randomly selected cases, which are then reviewed (taking into account the size of the sample and the duration of the review). The monetary value of any changes as a result of the review activity together with the monetary value of the sample are captured in order to extrapolate the estimated value of the loss and the baseline rate of fraud and error.

NOTE

¹ For more extensive information on these initiatives, see the sections on 'examples of actions being taken to combat fraud and error' in the respective country studies.



The Netherlands' use of random response surveys, the use of cost-benefit analyses to determine the cost-effectiveness of control measures, the presence of unique fiscal identifiers, and the emphasis in the Dutch social security system on the rights and obligations of the claimant. The Netherlands conducted random response surveys (POROSZ) of claimants in 2000, 2002, and 2004 to establish the motivations behind fraudulent behaviour and types of fraudulent behaviour associated with specific benefit types. The analysis of the survey outcomes over time allows the Dutch government to better understand fraudulent behaviour, to establish risk profiles, and to direct control measures to specific types of fraud. The Netherlands also performs cost-benefit analyses of new control programmes, in which savings in benefit payments are set against administrative costs. These analyses are set out in the annual report of the Ministry and serve to determine whether programmes are or remain cost-effective. The use of a unique fiscal identifier allows the Dutch government to track individuals through the system and more comprehensively data-match specific cases. The Dutch benefit system places much emphasis on the rights and obligations of the claimant to inform the authorities of new circumstances. For instance, benefit claim forms contain a contract, which stipulates the rights and obligations of the claimant. Claimant profiles are also updated once every two years.



New Zealand's Accuracy Reporting Programme (ARP), the setting of targets for control measures, the requirement for claimants to re-establish core eligibility for benefits after a fixed period, and the introduction of single core benefit. ARP aims to estimate the accuracy of the total population of benefits based on a relatively small sample. It reports on the overall accuracy of benefits rather than the size of incorrect payments. New Zealand has an extensive target regime for control activities ranging from the number of reviews (e.g. 35,000 for data-matching; 80,000 over number of reviews) to the outcome of the reviews. The New Zealand Government also has targets for the return on investment per control measure (e.g. NZ\$2.5 [reduction of overpayment] for every NZ\$ spent on data-matching). The core eligibility for benefits is re-assessed after 26 to 52 weeks depending on the benefit. The government agreed in principle to introduce a single core benefit from 2007–08. The single core benefit will involve one set of rates and one set of eligibility criteria and add-ons for people with high housing, childcare or disability costs.



Sweden's integration of measures of fraud in the overall quality reporting system (Qben II). Qben II requires social security agencies to measure and report the correct proportion of decisions to pay benefits and the proportion of correct payments. The initial results of a new IT system to cross-check data showed some impressive reductions in the number of cases of overpayment. However, in keeping with Sweden's customer-oriented approach, Qben II is primarily a quality control system to check whether claimants receive payments accurately and on time, rather than a system to aggregate fraud and error.



The USA's use of neural networking. Neural networking (developed to study how the brain processes information) is a technique for processing and analysing large volumes of data. In social security systems, neural networking analyses associations and patterns among data elements, which allows it to find relationships that can result in new reviews. The more data a neural network processes, the better it performs (i.e. the better it identifies the characteristics of potentially fraudulent payments). In Texas, a neural networking programme was commissioned to look at fraud and abuse in the State's Medicaid programme. In 2000, the programme managed to recover \$3.4 million (about £2 million) in payments. Such initiatives complement the wider use of data mining (the analysis of the characteristics of fraudulent behaviour based on data patterns) and data-matching programmes throughout the USA.

3 Summary table for international benchmark of social security systems

(references for data in the table are found in the country reports)

		Australia	Canada
Description of social security systems (benefit +administrative organisation)	General overview	Commonwealth Government departments and agencies administer the social security system – the majority via Department Family and Community Services (FaCS) and the Commonwealth Services Delivery Agency (Centrelink). There is a system of targeted payments (mostly non-contributory and financed from Government tax revenue) to those in need of income support. Access to most income security programs is restricted by income, assets and eligibility relating to personal circumstance, i.e. mostly means-tested (or income-tested) benefits.	At the federal level, Human Resources Development Canada (HRDC) is the department responsible for the administration of the Canada Pension plan (with the exception of Quebec), the Old Age Security Programme, and Employment Insurance. Below the federal level, provinces play an important role in social assistance. The federal government through a programme called the Canada Social Transfer (CST) transfers a block fund to the provinces, which the provinces may distribute as they see fit. Canada has four main types of benefit: social insurance; supplementary benefits; universal benefits; and tax credits.
	Scale of expenditure	Total public social expenditure in percentage of GDP was approximately 18% in 2001. Figures on the extent of public expenditure from FaCS 2003-04 (as % of total spending, in AU\$ '000, £ '000), in descending order: Age pension (31%) AU\$ 19,540,401 (£8,335,939); Family tax benefit (25%) AU\$ 12,869,904 (£5,490,301); Disability support pension (12%) AU\$ 7,492,532 (£3,196,314); Parenting payment (10%) AU\$ 5,995,135 (£2,557,524).	Total social expenditure in Canada was 257.57 billion Canadian \$ (CA\$), about £124.5 billion (at current 2005 prices) in 2002-2003. This total expenditure is 21.88% of GDP and represents 55.5% of total government expenditures. In 2003, Canada spent CA\$14.8 billion on Employment Insurance, CA\$20.4 billion (about £9.6 billion) on Old Age Security; CA\$28.3 billion (about £14 billion) on the Canadian Pension Plan (CPP)-Quebec Pension Plan (QPP) and CA\$20.5 billion (about £10 billion) on Provincial Welfare.
Fraud and error	Extent of fraud and error	Fraud cases (number of convictions) at Centrelink have been reported in 1999-00 and 2004-05 for the various types of fraud, including program, administrative, information, identity (external), identity (internal), welfare fraud, and via entitlement reviews. For example in 2004-05 there were 3.8 million convictions via entitlement reviews, resulting in outstanding debts/savings of AU\$390.6M (£166.6M).	Overall measures of fraud and error do not exist. Provinces also have limited and variable fraud and error measurements. The total amount of fraud and error is not aggregated. Some performance-related information is available in terms of total savings in the social security systems. However, this performance-related information is only available in a small number of schemes.
	Extent of fraud and error broken down by benefits	This information was not obtained.	The HRSDC measures savings in the Employment Insurance Income Benefits programme. These measurements are part of the implementation of the 'Results-Based Accountability Framework'. In 1997-1998, estimated savings of CA\$575 million (about £275 million) were identified. In 2003-2004, total savings of CA\$514 million (about £255 million) were identified in the Employment Insurance programme. This savings figure in 2003 represents about 3.5% of total Employment Insurance expenditure.

France

A highly complex, largely contributions-based mosaic of benefit schemes for different professional groups, run by various funds (caisses) at regional and national level, and supervised by the State. Responsible government departments are the Ministry for Health and Solidarities (Ministère de la Santé et des Solidarités) and the Ministry of Agriculture (Ministère de l'Agriculture et de la Pêche). There are four main categories:

1. sickness, maternity, invalidity and death;
2. employment injuries and occupational diseases;
3. old age; and
4. family insurance.

In 2004, expenditure for the basic compulsory branches of French social security, totalled €351.5 billion (about £215.5 billion in 2006 prices). Expenditure per benefit area, 2004: Health €145.0 billion (£97 billion); old Age/survivors €147.3 billion (£99 billion); family €49.0 billion (£32 billion); work accidents/illnesses €10.2 billion (£7.5 billion). France spent 28.5% of GDP on public social expenditure in 2001.

No figures available; the Ministry of Health and Solidarities is currently in the process of carrying out the first national, cross-benefit study of fraud. Publication of the resulting report is expected for the summer of 2006. Directors of the regional funds of the Family Branch (branche famille) estimate that cases of fraud amount to 2,000 to 3,000 cases per year.

[awaiting preliminary figures from Ministry of Health study]; a study carried out by the Family Fund (CNAF) in 2001 estimated that 16% of incorrect payments by the fund were due to official (legislative or human) error.

Ireland

The Department of Social and Family Affairs is the main administrator of social security in Ireland. It has a regional and local network of offices and has five executive agencies, Comhairl, the Combat Poverty Agency, the Family Support Agency, the Office of the Pensions Ombudsman, and the Pensions Board. The system itself has undergone substantial change. There are three main types of benefit: social insurance (based on Pay-Related Social Insurance Conditions); means-tested benefit; and universal payments.

Social welfare expenditure in 2004 was around €11.291 billion (about £ 7.5 billion). Welfare spending in 2004 was about 7.7% of GDP and 28.5% of total government expenditure. Main benefit expenditure is: €2.7 billion (about £1.9 billion) on Old Age benefits; €1.9 billion (about £1.25 billion) on Child Related payments; and €1.8 million on Widows (about £1.2 billion), Widowers, and One-Parent Families.

The Republic of Ireland does not know the total amount of fraud and error within the system. The Irish government has undertaken several surveys in particular types of benefits to measure fraud and error. The Irish government measures fraud and error in three ways: 1, the total overpayments recorded in the system; 2, recorded fraud and error rates per programme; and 3, the amount of savings made within the system.

One survey indicated that 29% of payments in one-parent family payments could be terminated. Other measurements show fraud and error as a % of expenditure per benefit type, e.g. 3.5 % for the Family Income Supplement. Performance focuses on recovered overpayments. For unemployment benefits, €65.67million (about £41.5 million) of savings were made in the first six months of 2005. Savings for One-Parent Family payments were €52.21 million (about £37 million) over the same period.

The Netherlands

The Ministry of Social Affairs and Employment (Ministerie van Sociale Zaken en Werkgelegenheid) is the overarching administrative body for social security. From the Ministry payments are distributed to implementation agencies, which deal with the claimants and the processing of claims. In 2002, several agencies were consolidated and the supervisory and inspection functions re-organised. The Netherlands has three main types of benefit: means-tested and supplementary benefits; social insurance; and universal benefits.

Social expenditure is currently around €62 billion euro (£42 billion) a year in 2004. Of this €62 billion euro, about €39 billion euro (£26 billion) comes from contributory social insurance funds. In 2001, total social expenditure in the Netherlands was 21.8% of GDP. The Netherlands spent €22,999 million (about £14,700 million) on Old Age, €10,378 million (about £6,500 million) on Disability, and €5,137 million (about £3,300 million) on Unemployment.

The Netherlands has no overall measure of fraud and error. At the moment, the Netherlands has two ways of measuring fraud and error. The first approach measures the fraud and error occurring based on the rates of detection and prosecution. Another approach consists of random response surveys among benefit recipients, the so called 'Periodiek Onderzoek Regelovertreding Sociale Onderzoek' (POROSZ) I, II, and III.

The Netherlands has performance measures for Disability and Old Age benefits among others and also undertakes surveys on fraudulent behaviour in these benefits. The POROSZ surveys show that between 10 to 20% claimants show some form of fraudulent behaviour.

3 Summary table for international benchmark of social security systems (continued)

	Australia	Canada
Definitions of fraud and Error	Fraud against the Commonwealth is defined as “dishonestly obtaining a benefit by deception or other means”. Example of behaviours defined as fraud include theft; providing false and misleading information; failing to provide information; bribery, corruption, or abuse of office; obtaining property, financial advantage, or any other benefit by deception; and making, using, or possessing falsified documents. Other types of fraud include external, internal, program, information, administrative, and complexity. There is also reference to processing errors.	There seem to be two main classifications of reasons for overpayment, intentional fraud and unintentional fraud.
Causes of Fraud and Error	Causes of external fraud include: customers seeking to obtain payments they are not entitled to receive; providing Centrelink with incorrect information on forms; false identification; and/or deliberately telling Centrelink incorrect information. Causes of internal fraud include: weaknesses in fraud control plans; inadequate monitoring and reporting procedures; problematic information management; and poor internal control or override of internal controls.	The following types of fraud account for the majority of inappropriate expenditures and overpayments: undeclared income; multiple program claims; identity fraud; and cross-jurisdictional claims.
Trends over last five years	No statistical figures obtained, however fraud and error likely to be decreasing given explanatory factors outlined below.	There is no accurate data to measure trends with any precision. Most data is performance data.
Explanatory factors influencing trends	1, Increasing range of service delivery options and use of third party providers to supply services directly to public; 2, increased use of purchaser/provider relationship (outsourcing components of fraud control); 3, increasing use of technology; 4, increased focus on fraud by ANAO; and 5, the new payment systems.	See box directly above
Actions to combat fraud and error	Data-matching with information held by Centrelink or obtained from other agencies; information from the public (tip-offs); regular payment checks; identity checks; inter-agency compliance activities; internal fraud frameworks and risk assessment; selecting customer for reviews (customer and risk profiling); ANAO Better Practice Guide (August 2004); compliance reviews (data-matching, tip offs, targeted investigations); profiling reviews; and time based reviews.	Specific action involves stepping up efforts to detect fraud and error, risk assessment, and preventative measures such as ‘Integrity/Claimant Information Sessions’ with social security claimants. Other control measures include the introduction of results-based management, staff training, and improving management structures. Some provinces have taken quite extensive steps in the past. Examples from Ontario include life-time bans for those committing fraud, the introduction of a fraud hotline, and home visits.

France

The Social Security Code defines fraud as 'actions aiming to obtain, help to obtain or try to obtain social security benefits which are not due'. According to the Ministère de la Santé et des Solidarités, fraud differs from excessive claims by being intentional in nature. Abuses, on the other hand, are defined as contravening the spirit, but not the letter of the law.

Fraud is linked in particular to incorrect information provided about personal circumstances, residency and means. Types of fraud behaviour perceived as prominent are undeclared work while receiving Guaranteed Minimum Income, pretending to be a single parent, and assuming a false identity. Simplification in requirements for the provision of documents (e.g. acceptance of photocopies) is by some seen as a facilitator for fraud through incorrect information.

There is an absence of data. Data collected in the first nationwide study of fraud will be considered by auditors in 2005-2006.

No information available for the French social security system as a whole; perception that fraud based on the provision of false documents may have been facilitated by less strict rules on the form of documents to be submitted (e.g. photocopies).

To complement legal sanctions for convicted fraudsters, a range of steps have been taken in order to tackle the problem of fraud and error, including measures focused on prevention and detection. Furthermore, the following levels of actions can be distinguished: initiatives where benefit fraud is one of several aspects targeted; overarching initiatives applying to the whole social security system; and actions designed specifically for the benefits handled in the *branche famille*.

Ireland

The Department of Family and Social Affairs uses four main categories to describe overpayments: Fraud cases; Estate cases; Client error cases; and Departmental error.

Fraud is defined as: providing false and misleading information; impersonation; using false or forged documents to procure a benefit or assistance payment; and failing to report changes in material circumstances.

The absence of data on the overall extent of fraud and error and the extent of fraud and error per benefit make establishing trends difficult. There is some information available on savings and the breakdown of fraud and error per benefit based on the cases investigated.

See box directly above

Examples of action taken include: Fraud and Error Surveys; a student data-matching project; a revenue data-matching project; IT improvements; and a renewed commitment to prosecution.

The Netherlands

The Netherlands does not have an explicit definition. This definition is not given on purpose as different implementation agencies use different definitions. There are four main categories of fraud: identity fraud; income fraud; estate fraud; and living situation fraud.

The Random response surveys, POROSZ I, II and III, give a breakdown of the percentage of fraud per type of behaviour among respondents in a 'random response' survey. The most common occurrence, 18-22% of claimants in 2004, is doing odd jobs without notifying the benefit authorities.

There has been a drop in the number of fraudulent cases detected between 2001 and 2004. The random response surveys show little change in the motivation of people to commit fraud between 2000 and 2002.

Changes in the number of detections are mostly associated with changes in control activities. The main reason behind these unchanged motivations seems to be the unchanged risk of detection of fraud in the benefit schemes.

Intensive control measures consist of: information exchange and cooperation between departments and agencies; data-matching; regular controls; and risk analyses.

3 Summary table for international benchmark of social security systems *(continued)*

		Australia	Canada
	Steps being taken to measure fraud and error	Agencies are required to report annually to the Attorney General and should report on review and prosecution activities in the format indicated by the Commonwealth Fraud Control Guidelines Annual Reporting Questionnaire.	Documentary evidence seems to indicate that the main focus in Canada remains on detecting savings in benefit schemes rather than measuring aggregate fraud and error.
Accounting	How are benefits/pensions accounted for in national accounts?	Expenditure on benefits, including pensions, is recorded in the annual reports of the Ministry of Family and Community Services.	The earnings-related pension and Employment Insurance Programmes are administered by the HRDC (HRSDC). General assistance paid out of taxation is kept on the accounts of the relevant Departments. Through the CST, federal funds are dispersed to the provinces
	Effect of fraud and error on external audit's opinion on national accounts	The ANAO has signed off the accounts in 2004.	The Auditor-General of Canada signed off the financial statements of the Government of Canada in the period of 2004-2005.

France

The regional funds since 1995 are required to report all detected cases of fraud to the CNAF with details on the area and mechanism of fraud. From 2001, the CNAF investigated the causes of incorrect allocation, estimating that official error amounted to around 16% of cases, 4% of which were caused by human error. In the course of 2006, a first nationwide study of fraud will be undertaken under the auspices of the Ministère de la Santé et les Solidarités through its regional services (DRASS).

Insurance contributions and payments are kept in the accounts of the various social insurance funds.

The effectiveness of measures to control and prevent fraud will be a deciding factor in the outcome of a pioneering audit of the accounts of the social security bodies, to be carried out in 2006-2007.

Ireland

The Department is moving towards the use of surveys. The Review by the Comptroller and Auditor-General led to a survey undertaken in the unemployment and lone parents schemes. The results indicated a significant proportion (up to 28% for One Parent Family and 16% of Unemployment Assistance cases) of cases where people were paid incorrect amounts. The introduction of a rolling measurement to determine the total amount of fraud and error, similar to the system used in the UK, was being considered.

Expenditure on benefits, including pensions, is recorded in the annual resource accounts of the Department of Family and Social Affairs.

The Comptroller and Auditor-General of Ireland in 2005 signed off the Appropriation Account for 2004.

The Netherlands

A study commissioned by a steering group ('Stuurgroep Fraude en Financieel-Economische Criminaliteit') of the Dutch government investigated if and how the total amount of fraud could be determined. The conclusion of the report was that it is possible to measure the total amount of fraud. However, no single method can capture all kinds of fraud or can comprehensively determine how much fraud occurs.

Social insurance funds such as the Social Insurance Bank keep social insurance payments and receipts on their accounts. The Ministry of Social Affairs and Employment keeps 'other' payments and government spending on its accounts.

The accounts of the Department and those of its predecessor departments have been approved in 2004. However, the Dutch Audit Office was quite critical of the fraud strategy in 2004.

3 Summary table for international benchmark of social security systems (continued)

		New Zealand	Sweden
Description of social security systems (benefit +administrative organisation)	General overview	System is delivered by the Ministry of Social Development and Work and Income New Zealand (an agency of the Ministry). It is funded out of general taxation revenues and does not involve employer/ee levies. There are eligibility criteria with flat-rate payments. Assistance is targeted to those in highest need by means of an income test (except for public pension). There is social insurance programme – Accident Compensation. Benefits types are structured in three tiers: 1st tier: core entitlement; 2nd tier: supplementary benefits; and 3rd tier: temporary needs.	The Ministry of Health and Social Affairs (Socialdepartement) is responsible for most of the social security system including the pension scheme, while the Ministry of Industry, Employment and Communications (Näringsdepartement) is responsible for unemployment benefits and labour market related programmes. Administration and the implementation of the programmes is delegated to central agencies. Old-age, disability, survivors and unemployment benefits consist of employment-related (social insurance), universal as well as means-tested benefit types.
	Scale of expenditure	The Ministry administered NZ\$13.7 billion (£5.5 billion) payments over 2004-2005. NZ\$5.9 billion (£2.4 billion) in social security benefits. Social security benefits in percentage of GDP is approximately 18%. Domestic purposes benefit NZ\$1.5 billion (£617 million); invalidity benefit NZ\$1 billion (£409 million); unemployment benefit NZ\$831 million (£331 million); and Accommodation Supplement NZ\$750 million (£299 million). New Zealand spent 18.5% of GDP on social expenditure in 2001.	In 2004 a total of about SEK 445 billion (£32 billion at 2005 current prices) was spent on social welfare, and an additional SEK 32 billion (£2.2 billion at 2005 prices) on unemployment benefits. In 2001, total social expenditure in Sweden was about 29% of GDP. In 2004, Sweden spent SEK 186,557 million (about £14,200 million) on Old Age pensions, SEK 64,201 million (about £4,800 million) on Sickness and Inactivity, and SEK 31,613 million (about £3,350) on unemployment benefits.
Fraud and error	Extent of fraud and error	New Zealand measures performance rather than the overall levels of fraud and error. Service Performance Result Measures (quality, quantity, timeliness etc): For every dollar spent, the return in relation to prospective savings due to intervention will be no less than NZ\$2.00 (£0.80). The Ministry has systems to measure payment accuracy, e.g. the percentage of entitlement assessments completed accurately will be no less than 88%-90%. A study in Dec 2001 of processing benefit applications found 2.7% of sampled cases had errors.	Recent data on the overall scale of fraud and error is not available. Estimates by the Swedish National Audit Office (Riksrevisionsverket) from 1995 are in the range of annual losses from 5.3 billion SEK (£380 million at 2005 current prices) to 7.4 billion SEK (£533 million). Since the introduction of a new quality management tool (QBen II), the Swedish Social Insurance Agency reports annually on errors in the processed cases.
	Extent of fraud and error broken down by benefits	This information was not obtained.	This information is only available for cases of fraud reported to the Police. Most of the cases reported were in the Temporary Parental Cash benefit. Moreover, there have been specific reviews of cases. For instance, 39% of cases reviewed in the Temporary Parental Cash benefit showed payment errors.
	Definitions of fraud and Error	Fraud refers to a violation of a civil or criminal statute that involves intentional misrepresentation of facts for the purpose of obtaining unauthorised benefits from a programme; the misrepresentation may involve either the deliberate provision of failure to provide correct facts. There is limited reference to error – instead the focus is on the measurement of ‘accuracy’ – the Ministry’s obligation is “to pay benefits correctly on the basis of the information available to it”.	The Swedish National Audit Office makes several distinctions. These are: error; fraud, a deliberate attempt to unlawfully obtain benefits; fraud committed by employees; and ‘overexploitation’, cases where overpayments occur due to cross-payments and changed circumstances (legislation stipulates that such occurrence is the responsibility of the state).

USA

The United States has a federal system of government under which powers and responsibilities are shared between the central (federal) government, state government, and local government. Most of the social security system is funded at the federal and state level, although some benefits may be distributed locally. The social security system can be broken down into a number of main areas (shown in box directly below).

Currently around \$1,221 billion a year (2002) (£718 billion using £1:\$1.70). In expenditure terms the major benefits are: Retirement and Disability Benefit \$472 billion (£278 billion); Medical Payments \$526 billion (£310 billion); Income Maintenance Benefits \$122 billion (£72 billion); Unemployment Insurance \$54 billion (£32 billion); Veterans Benefits \$30 billion (£17 billion). The USA spent 14.8% of GDP on social expenditure in 2001.

The Office of Management and Budget (OMB) has estimated improper payment levels of \$55 billion across the federal government. It is not possible to provide estimates of the full extent of fraud and error in US social security programmes because the system is so disaggregated and falls under multiple federal departments (which may not differentiate between social security and other programmes). However, it is possible to compare the relative extent of fraud and error within specific federal programmes.

In FY2003, the Department of Housing and Urban Development estimated total improper payments of 3.6% of HUD's total payments. In FY2004, the Social Security Administration estimated total improper overpayments of 0.53% of payments for the OASDI programme, the Department of Labour estimated total improper payments of 5.07% of payments for their Unemployment Insurance programme, and the Department of Veteran's Affairs estimated total improper overpayments of 0.64% of payments for their compensation programme.

Fraud is a type of illegal act involving the obtaining of something of value through willful misrepresentation. Abuse is distinct from fraud, illegal acts, or violations of provisions of contracts or grant agreements. When abuse occurs, no law, regulation, or provision of a contract or grant agreement is violated. Rather, abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances.

UK

The main social security benefits are administered by the Department for Work and Pensions (DWP) through Jobcentre Plus, the Pension Service and the Disability and Carers Service, including Housing Benefit, which is delivered on behalf of the DWP by local authorities. Categories of benefits are: benefits for those seeking work; benefits for sickness and disability; and payments to the elderly.

Expenditure was around £110.9 billion a year in 2004-2005. Expenditure in 2003-2004 was £105.8 billion. Public social expenditure as a percentage of Gross Domestic Product (GDP) in 2001 was 21.8%. Expenditure on the main benefits in 2004-2005 were: £48.8 billion in Retirement Pension; £13.1 billion on Housing Benefit; £10 billion on Income Support; and £8.1 billion on Disability Living Allowance.

In 2003-2004 losses of an estimated £3 billion, £2 billion from fraud and £1 billion from error. Estimates in 2004-2005 show fraud and error at £2.6 billion. This represents about 2.3% of benefit payments.

"The Department measures fraud and error rates as a % of total payments per type of benefit. In 2004-2005, some of these were: 4.9% of total payments in Housing Benefits; a minimal rate in Retirement Pension; 5.6% of Income support; 4.9% of Pension Credit; and 8.2% of Jobseeker's Allowance."

The Department has three definitions of fraud and error: official error; customer error; and deliberate fraud.

3 Summary table for international benchmark of social security systems (continued)

	New Zealand	Sweden
Causes of Fraud and Error	Causes include: Applicant/beneficiary unwittingly provides inaccurate or incomplete information about circumstances; Applicant/beneficiary provides false information to the Ministry; Ministry's staff (usually a case manager) makes an incorrect decision regarding: eligibility, entitlement, or amount of benefit payable; Ministry's staff makes a clerical error; Case managers' caseloads; Indadequate support and training of case managers and team coaches; Failure of Ministry's payment system; and the complexity of benefits.	Causes of fraud and error are: claiming multiple benefits; claiming benefits by providing false and misleading information; undeclared income from other sources.
Trends over last five years	No statistical figures obtained, however fraud and error likely to be decreasing given explanatory factors outlined in the box below	There is no reliable quantitative data on the development of fraud and error over the last 5 to 10 years. However, according to the Swedish National Audit Office the number of errors in social insurance has not decreased from 1995 to 2002. No assessment can be made for unemployment insurance so far.
Explanatory factors influencing trends	Introduction of the Single Core Benefit in 2006–07; Limited sharing of information between regions; Accuracy Reporting Program; Staff incentives (case managers pay and promotion linked to achievement of individual targets); and checks against Key Performance Indicators.	See box directly above
Accounting Actions to combat fraud and error	Actions include: benefit fraud field offices; dedicated output class: services to protect the integrity of the system; data matching; early intervention programmes; risk management; standard reviews; client review processes; and selective client reviews.	Activities in different areas consist of: risk assessment; data-matching; implementation of IT-tools to identify high risk cases; training of staff; the publication of a new handbook; special controls for certain high risk areas; and regular random sampling.
Steps being taken to measure fraud and error	Characteristics of the Ministry's Accuracy Reporting Programme include: measuring and reporting accuracy versus error/fraud, based on small random of samples; unverifiable (missing parts in file); and proportion of cases found to be accurate rather than any measure of the incorrect size of an incorrect payment or fraud. It does not estimate the total value of overpayments (including fraudulent overpayments) that exists. In 2004–05, the Ministry recovered NZ\$73 million (£29 million) in overpayments, recoverable allowances and debt from former clients.	In 2005 the Social Insurance Agency was commissioned by the Ministry of Health and Social Affairs to develop an indicator to measure the extent of fraud and error within the administration of social insurance, based on a random sample of cases. It plans to integrate measures of fraud for the different benefit schemes into the quality reporting system (Qben II). Furthermore, the Social Insurance Agency has since 2004 been working on a measure to quantify savings made from the detection of fraud.
How are benefits/pensions accounted for in national accounts?	Expenditure on benefits, including pension, is recorded in the annual reports of the Ministry of Social Development.	With the exception of old-age-pensions, social insurance contributions are not transferred to specific funds, but go instead into the national budget. The state's contributions to unemployment insurance are transferred to the Unemployment Insurance Funds from the annual appropriations of the National Labour Market Agency.
Effect of fraud and error on external audit's opinion on national accounts	The Auditor-General of New Zealand signed off the financial statements of the Government in June 2004.	In 2003, 2004 and 2005 there were no references to the level of fraud and error in the annual audit of the accounts of the Swedish Social Security Agency by the Swedish National Audit Office. However, the Swedish National Audit Office in occasional in-depth evaluations did propose to improve measures of control and to adapt the regulatory framework.

USA

There are many causes of fraud and error in social security (and other) programmes. However, some appear more prevalent than others, to include: lack of internal control – a 2001 GAO study found that “the basic or root causes of improper payments can typically be traced to a lack of or breakdown in internal control”; programme administrator error; income reporting error; employment reporting error; and billing error.

Government departments have more systematically examined improper payment issues. This has resulted in increased efforts to reduce improper payments. Key actions to reduce these overpayments included improved income verification efforts, increased beneficiary voluntary compliance, improved computer matching processes, and improved methodology for reviewing discrepancies identified.

See box directly above

Within its control activities, the General Accounting Office recommends six specific types of control to detect improper payments: Data sharing; Data mining; Neural networking; Recovery auditing; Contract audits; and prepayment investigations.

There are a number of steps taken in the United States to measure fraud and error; many of them following from the internal control environment recommendations from the GAO. These include: risk assessments; statistical sampling; and continuous reviews.

Social security benefits and pension are accounted in US national accounts through individual federal and state departmental accounts. Because the United States operates under a federal system, benefit and pension expenditure are included in multiple departmental accounts.

In the course of this research, we have not been able to find any examples where the US Government Accountability Office has qualified departmental accounts because of fraud and error issues.

UK

Causes include: identity fraud; deliberate misinformation (such as concealing earnings); complexity of rules and regulations; poor IT systems and training; and lack of clear information from Department.

Trends over time cannot be measured across the whole of benefit expenditure with any precision. They can only be assessed in those benefits which are continuously measured: Income Support; Jobseekers Allowance; Pension Credit; and Housing Benefit.

See box directly above

The actions of the Department include: professional training for fraud investigators; the introduction of an anti-fraud advertising campaign; increased capacity of the hotline; expanded data-matching; the introduction of risk profiling; sanctions review; new error strategy, operational intelligence units; review targets; and customer compliance.

The Department’s estimates of fraud and error are based on in-depth continuous rolling programmes of reviews in specific benefits (e.g. Income Support) and snapshots in other benefits.

Expenditure on benefits, including pensions is recorded in the annual resource accounts of the Department for Work and Pensions.

The accounts of the Department and those of its predecessor departments have been qualified for the past 16 years because of the scale of fraud and error in benefits.

CHAPTER ONE

Country Study: Australia

Description of social security system

1.1 The major Commonwealth (Federal) Government departments and agencies that govern social security arrangements in Australia include Centrelink (the Commonwealths Services Delivery Agency, which is part of the Department of Human Services), and the Department of Family and Community Services (FaCS).¹⁰

1.2 Government expenditure on income support payments in Australia can largely be characterised as a system of targeted payments (financed largely from tax revenue) to those determined to be in need of income support (i.e. instead of being based on a proportion of claimants' previous wages). Access to most income security programs is restricted by income, assets, and eligibility relating to personal circumstances (e.g. age, unemployment, disability, sole parenthood). Payment rates of these benefits are not related to previous earnings and are typically tapered to extend support to those not eligible for the maximum rate.

1.3 Centrelink was established on 1 July 1997 and delivers social and economic payments services, on behalf of 16 Commonwealth Departments and agencies and all State Housing Authorities under formal purchase/provider arrangements. Its services are delivered through a network of over 1,000 sites including: 15 Area Support Offices; 310 Customer Service Centres; 28 Call Centres; and about 350 agency arrangements.

1.4 Australia has purchaser-provider arrangements. In the area of fraud control, Centrelink's accountability to the Australian Government is underpinned by Business Partnership Agreements (BPAs) with Centrelink's major

purchasing departments. Nearly 90 per cent of total payments and services delivered by Centrelink are on behalf of FaCS. FaCS provides Centrelink with policy advice, direction, and support to enable effective service delivery. Centrelink implements strategies for payment control. BPAs list joint outcomes, key performance indicators (e.g. measuring payment correctness and accuracy) and describe the relationships and accountability parameters between purchasing departments and Centrelink. Business Assurance frameworks are included in all key business agreements to provide assurance on the integrity of outlays and to identify risks and the control frameworks that mitigate those risks.

Scale of expenditure on social security and pensions

1.5 Centrelink provides services to 6.4 million customers each year, involving AU\$9 billion (£3.8 billion)¹¹ in benefit payments. FaCS total expenditures in 2003-04 were AU\$67.7 billion (£28.9 billion), around eight per cent of Australia's Gross Domestic Product (GDP). The majority of FaCS expenditures consist of 30 individual income support and family assistance payments. Total payments were AU\$61.4 billion in 2003-2004. Total public social expenditure as a percentage of GDP was approximately 18 per cent in 2001.¹²

1.6 Social expenditure by governments, non-government community service organisations (NGCSOs) and households in 2002-03 was estimated at AU\$103.8b (£44.2 billion) (see Figure 4). Of this, AU\$52.0 billion (£22.2 billion) was spent on social security benefits and

other cash payments; AU\$34.7 billion (£14.8 billion) was spent on mandatory employer-funded superannuation; the remaining AU\$17.1 billion (£7.3 billion) was spent on the provision of welfare services.¹³

1.7 Expenditure on welfare services in Australia involves all three levels of government (Australian Federal Government, state and territory, and local), NGCSOs and households (see [Figure 5](#)).

Extent of fraud and error¹⁴

1.8 Centrelink reports as fraud only those cases successfully prosecuted in a court of law. In 1999-2000, there were 2,960 convictions for programme fraud ([Figure 6 overleaf](#)) involving over AU\$27 million (£11.5 million)

in payments, two cases of administrative fraud involving a total of AU\$1100 (£469) and 488 cases of information fraud. Between 1st July 2004 and 30 June 2005, Centrelink made 3,446 convictions for welfare fraud involving AU\$41.2 million (£17.6 million) in payments. In the same period, Centrelink conducted 3.8 million entitlement reviews, which resulted in 525,247 payments being cancelled or reduced. Almost AU\$43.2 million (£18.4 million) a week was saved and debts to Centrelink totalling AU\$390.6 million (£166.6 million) were raised as a result of this review. Included in these figures were 55,331 reviews of customers from tip-offs received from the public, resulting in 10,022 payments being cancelled or reduced and debts and savings of AU\$103.1 million (£43.9 million).

4 Social expenditure, current prices, 2000-2001 to 2002-03

AU\$ million	2000-01		2001-02		2002-03	
	AU\$	£	AU\$	£	AU\$	£
Welfare services	14,025	5,983	15,289	6,522	17,130	7,308
Social security benefits (cash benefits)	49,444	21,093	50,129	21,385	51,954	22,164
Employer superannuation contributions	27,416	11,696	28,574	12,190	34,676	14,793
Total	90,885	38,772	93,991	40,097	103,761	44,264

Source: FaCS Annual Report (2003-04)

5 Major income support and family assistance payments, 2003-04

	%	2003-04 AU\$ 000	£ 000
Age Pension (means-tested, non-contributory)	31	19,540,401	8,335,935
Family Tax Benefit (income-tested, non-contributory)	25	12,869,904	5,490,301
Disability Support Pension (means-tested, non-contributory)	12	7,492,532	3,196,314
Parenting Payment (Partnered and single) (income-tested, non-contributory)	10	5,995,135	2,557,524
Newstart Allowance (means-tested, non-contributory)	8	4,754,733	2,028,369
Other ¹	8	n/a	
Youth Allowance (means-tested, non-contributory)	4	2,257,447	963,027
Child care Benefit (income-tested, non-contributory)	2	1,387,946	592,098

Source: FaCS Annual Report (2003-04)

NOTE

1 Other benefits may include the orphan benefit, Family Assistance Legislation 2004, maternity allowances, Austudy payment, Fares Allowance, Student Financial Supplement Scheme, Child Care Rebate, Mobility Allowance, Sickness Allowance, Wife Pension, Aged Persons Savings Bonus, Self-funded Retirees' Supplementary Bonus, Telephone Allowance for Commonwealth Seniors Health Care Holders, Widow B Pension, Wife Pension (Age), Bereavement Allowance, Mature Age Allowance, Partner Allowance (Benefit); Partner Allowance (Pension); Pensioner Education Supplement; Widow Allowance.

Definitions of fraud and error used

1.9 Fraud against the Commonwealth is defined as “dishonestly obtaining a benefit by deception or other means”.^{15, 16} Agencies are required to report annually to the Attorney General using the above definition, however a survey of fraud control arrangements revealed that Australian Public Service (APS) agencies are using a variety of definitions of fraud.¹⁷

1.10 The Australian National Audit Office (ANAO) also distinguishes between external and internal fraud. External fraud is fraud committed by someone from outside the agency, for example a customer or a third party, and internal fraud is fraud committed by an employee directly against the agency for which they work.

1.11 Centrelink operates under the *Financial Management and Accountability Act 1997*. Centrelink is required to comply with the *Commonwealth Fraud Control Guidelines* issued in May 2002 under regulation 19 of the *Financial Management and Accountability Regulations*. Guideline No. 2 provides a list of behaviours that may be defined as fraud, such as: theft; providing false and misleading information to the Commonwealth, or failing to provide information when there is an obligation to do so; bribery, corruption or abuse of office; obtaining property, a financial advantage or any other benefit by deception; causing a loss or avoiding or creating a liability by deception; making, using, or possessing forged or falsified documents; unlawful use of Commonwealth computers, vehicles, telephones and other property or services; relevant bankruptcy offences; and any similar offences to those listed above.

1.12 Centrelink separates fraud into programme fraud, information fraud, and administrative fraud. Little information has been found on error, except in some Centrelink reports where they are references to processing error. Centrelink also defines complex fraud, which includes cases of collaboration between customers and staff and other systematic frauds designed to circumvent existing detection procedures.

Causes of fraud and error

1.13 External fraud is caused by individuals seeking to obtain payments they are not entitled to receive. This is usually when a person knowingly gives false and misleading information to get payment(s) he/she should not be getting, or does not provide Centrelink with the information he/she is obliged to give. Fraud can be committed in a number of ways, such as providing Centrelink with incorrect information either through forms completed, false statements or false identification (**Figure 7**).

1.14 Causes of internal fraud within Centrelink are weaknesses in fraud control plans, inadequate monitoring and reporting procedures, and problematic information management. Poor internal controls and overrides of internal control systems often contribute to the occurrence of fraud. For instance, Australian Tax Office (ATO) staff makes excessive use of a special access authority on their system, called ‘firecell’, which bypasses regular access control procedures.

Trends over last 5-10 years and explanatory factors influencing trends

1.15 Trends over the last 5-10 years:

- The size and geographical spread of Centrelink’s operations mean that there are inherent fraud risks associated with its business environment.
- There is an increasing use of technology and links with commercial infrastructure that has provided improvements in processing efficiency and has assisted in preventing and detecting fraud. By the same token, (digital) technology can provide more opportunities to commit fraud, particularly in the creation of false identification documents and the diversion of payments.
- An increased focus on fraud by the ANAO, e.g. the *Better Practice guide on Fraud Control in Australian Government Agencies*.
- An increased range of service delivery options and the use of third party providers to supply services directly to the public.

- An increased use of purchaser/provider relationships – contractor staff have less exposure to fraud prevention training or do not appreciate accountability requirements in public sector. Between 50-60 per cent of APS agencies outsourced components of fraud control arrangements – including fraud risk assessment, fraud control plan, and fraud investigation function. 28 per cent of APS agencies outsourced fraud training.
- New payment systems, for instance the use of welfare checks in 1980s versus the provision of direct debit in the 1990s. The latest system is the delivery of benefits by way of magnetic strip card, Electronic Transfer Benefit Cards (ETBC).

Examples of actions being taken to combat fraud and error or to reform social security system

Reform

1.16 From July 2000, the Australian Government introduced major tax reform as part of 'A New Tax System'. Among other changes, this reform involved the introduction of a broad-based consumption tax. Social expenditures rose significantly in the year 2000-2001, because income support recipients and other low-income groups received compensatory increases in benefits. As part of this reform, family assistance was also restructured and benefits were increased significantly. The Australian Government restructured 12 existing types of assistance for families into three main types through the tax and social security system (Family tax benefits, part A; Family tax benefits, part B; Child care benefits).

6 Number of identity fraud cases detected 1998-2000

		1998-99	1999-00
External	Detected	110	168
	Finalised	93	92
Internal	Detected	41 ¹	18
	Finalised	8	28
Estimated Savings (AU\$)		\$11.6 million	\$14.4 million
Estimated Savings (GB£)		£4.9 million	£6.1 million

Source: Commonwealth of Australia (2001)

NOTE

1 The high incidence of internal identity fraud perpetrated during 1998-99 coincided with the introduction of the Electronic Benefit Transfer (EBT) cards and resulted in a large number of cases of internal fraud. Controls for the issue of EBT cards have been improved. EBT delivers social security benefits through a plastic card capable of use in ATMs, and EFTPOS (similar to debit cards). Through the use of an EBT card, social security recipients can access their benefits in the same way they access their savings or checking accounts.

7 National Proof of Identity (POI) compliance results

POI processing error	Number	Percentage
POI not fully established at time of claim ¹	5	0.4
Coding ²	272	22.0
Administrative ³	660	53.4
No error ⁴	298	24.2
Total claims assessed	1235	100.0

Source: Commonwealth of Australia (2001)

NOTES

- 1 Cases where the information provided at the time of claim was not sufficient to determine with any degree of confidence the identity of the claimant.
- 2 Those errors where the POI documents and personal information presented by a customer at the time of claim is not accurately recorded on Centrelink's mainframe system by staff.
- 3 Administrative errors are minor in nature and would not have an adverse impact on data-matching detection approaches. Examples of these errors include failure to apply the correct procedures for entering bank account details on the mainframe.
- 4 Cases where all POI procedures were correctly applied.

Actions to combat fraud and error

1.17 The importance of effective fraud control arrangements has also been recognised in legislative provisions in the *Financial Management and Accountability Act 1997*. Some of the actions are:

1) Data-matching with information held by Centrelink or obtained from other agencies/organisations:

Centrelink can detect incorrect payments by matching data with a large number of Commonwealth, state and territory Agencies, such as ATO, the Department of Veterans' Affairs, the Department of Immigration and Multicultural and Indigenous Affairs, the Department of Corrective Services and the Registrar-General's office. There is also matching of Australian Securities and Investment Commission (ASIC) and ATO data with the Centrelink customer records programme protocol to detect customers failing to declare assets. Risk parameters are used to enable higher risk cases to be identified based on key criteria, such as recent employment history. Centrelink has also developed strategies to manage residual risks associated with the type and quality of information held at external agencies. Centrelink has access to data from the Australian Transaction Reports and Analysis Centre (AUSTRAC). AUSTRAC is Australia's anti-money laundering regulator and specialist financial intelligence unit.

2) Income Security Information System (ISIS):

Centrelink manages a complex and large database containing 23 million customer records, of which 6.2 million support a current benefit determination. These records contain details of customers' identity, circumstances and eligibility for benefits under various social security programmes. In order to distinguish between customer records, a unique identifier is assigned to each record, the Centrelink Reference Number (CRN). The information in ISIS is organised around the CRN, which links customer information in various parts of the database. For example, the CRN links information on a customer's circumstances and benefit determinations with that in the payments file. Centrelink's data holdings are growing at a rate of approximately 30 per cent each year, and at September 2005, the ISIS database held information in over 440 billion fields, or an average of 21,000 fields per customer.

3) Information from the public:

Based on public tip-offs received between 1 July 2004 and 30 June 2005, Centrelink conducted 55,331 reviews of customer entitlement, resulting in 10,022 payments being cancelled or reduced and debts and savings of AU\$103.1 million (£44 million) made. The public can report suspected fraud on the fraud tip-off line ('Report-a-Fraud') or via the web.

4) Regular payment checks:

Since July 2002, Centrelink has quarterly random sample surveys. Results are used to assure and improve the correctness and accuracy of social security payments and are the primary quality assurance tool for the Business Assurance Framework. Results are independently and externally audited and validated. The target for payment correctness is 95 per cent (since this random sampling process began in July 2002, figures have exceeded 95 per cent every quarter, with an annual figure for 2004-2005 of 96.8 per cent).

5) Identity checks:

These checks involve the determination of fraudulent claims based on the use of false or stolen identities. Centrelink has internal and external data sources and new detection software and tools. Centrelink has also increased the number of identity fraud intelligence analysts and investigators throughout the network. Front-line staff has access to identity fraud specialists.

6) Selection of customers for review:

Selection for review occurs based on their circumstances, duration of payments or a specific event, including customer profiling.

7) Centrelink fraud investigation teams:

These teams detect and investigate fraud using traditional desk-based reviews and field reviews. The joint field operations involve other Australian Government, state, and regional departments and agencies. In total, 133 field operations were undertaken during the year and AU\$86.7 million (about £37 million) in savings and debts were identified.

8) Internal fraud framework, risk assessment (including fraud control plans) framework, and performance management frameworks (performance indicators and targets):

The internal fraud framework includes pre-employment screening, management and staff skill awareness campaigns and process controls. Performance management frameworks provide regular management reports to its client agencies on the level and results of fraud review activity. Fraud risk assessments must be carried out every two years.

9) Investigating fraud:

These measures include: letters to financial institutions, current/past employers, real estate agents, local government, family and friends to confirm customer details; interviews with customers to check the integrity of Centrelink payments; checks with external data providers, e.g. Australian Post (to check names, addresses and re-direction information) and local councils (to verify property owned, etc.).

10) Australian National Audit Office Fraud Control in Australian Government Agencies Better Practice Guide (August 2004):

The Guide defines and outlines: fraud; governance and ethics to support fraud control; fraud prevention; awareness-raising and awareness; detection, investigation and response; and performance monitoring and quality assurance. The guide also includes a checklist of better fraud control practices, a list of the Commonwealth agencies with responsibilities in fraud control and better practice examples in information and communications technology against fraud.

Business Partnership Agreement

1.18 Centrelink's accountability to the Australian Government is underpinned by BPAs with Centrelink's major purchasing departments, the Department of Employment and Workplace Relations, FaCS and the Department of Education, Science and Training. The agreements detail joint outcomes and key performance indicators.

1.19 Performance indicators for the 2004-2005 budget measures for FaCS include:¹⁸

- Compliance – parenting payment (single) relationship status reviews: These reviews consist of face-to-face interviews with Parenting Payment recipients. The programme aims to conduct 20,000

interviews. The indicator measures the number of disclosures of marriage-like relationships as a result of interviews (estimate 1,200 per year). This measure is expected to lead to net savings of AU\$4.1 million (£1.7 million) over four years.

- Compliance – 'Keeping the System Fair' education campaign: This campaign is a national multimedia campaign to encourage income recipients to notify Centrelink about changes in circumstances. The performance indicators for the campaign outline the number of customers reporting changes to their circumstances as a result of the campaign (estimate 100,000 a year) and number of tip-offs received by Centrelink about changes in people's circumstances as a result of the campaign (estimate 15,000 a year). This measure is expected to lead to savings in social welfare payments of AU\$271.3 million (£115.5 million) over four years. The campaign will cost AU\$56.4 million (£22 million) to administer.
- Compliance – continuation and expansion of data-matching measures to improve control of incorrect payment and fraud. Measures include data-matching reviews and enhancement of data-matching detection systems, including internal (Centrelink) data-matching with Rent Assistance customers, to improve detection of incorrect payments; and data-matching with employment records held by the Department of Employment and Workplace Relations. These measures returned savings of approximately AU\$30 million (£12.8 million) in 2002-2003. The Australian Government has also committed to undertake 25,000 reviews of income support payments. Data-matching occurs between job placement records held by the Department of Employment and Workplace Relations and Centrelink customer records. The net saving generated through this process is estimated at AU\$59.2 million (£25.2 million) over four years. The Government will further discontinue a specific element of data-matching, which involved the exchange of information between the Australian Taxation Office and Centrelink tip-off recording systems, since this has not proven to be effective. Its termination will result in reduced administrative costs of AU\$7.9 million (about £3.4 million) and a corresponding loss of compliance savings of AU\$2 million (£0.85 million), leading to net savings of AU\$5.9 million (about £2.5 million) over four years.

- **Compliance Reviews – ‘Improved Service Profiling’:** The Australian Government will undertake an additional 147,000 reviews in the period 2005-2006 to ensure correct income support payments. The estimated breakdown of reviews across benefits is as follows: Old-Age Pension (21,000); Austudy (6,000); Disability Support Pension (21,000); Newstart Allowance (28,500); Parenting Payment Single (21,000); Parenting Payment Partnered (21,000); Youth Allowance (28,500). The net savings generated from these additional reviews are estimated to be AU\$96.5 million (about £40 million) over four years (Figure 8).

1.21 In 2004-2005 Centrelink referred 4,702 cases relating to the Department of Employment and Workplace Relations, FaCS, and Department of Education Science and Technology payments to the Commonwealth Director of Public Prosecutions for prosecution (Figure 9).

Details of how benefits/pensions are accounted for in national accounts

1.22 Expenditure on benefits, including pensions is recorded in the annual reports of the Ministry of Family and Community Services.

Steps being taken to measure fraud and error

1.20 Measurement of fraud and error in Australia focuses on the measurement of savings within the system and the number of prosecutions made. Agencies are required to report annually to the Attorney General and should report in the format indicated by the *Commonwealth Fraud Control Guidelines Annual Reporting Questionnaire*.

Effect of fraud and error on external audit’s opinion on national accounts

1.23 We have not found this information in documentary evidence. It appears the ANAO has signed off the accounts in 2004. There have been specific proposals on certain actions that could be implemented to address error and fraud, for instance data-matching.

8 Centrelink review activity					
Reviews completed Number	Reductions in payments		Fortnightly savings		Debts
	Number	%	AU\$	Number	AU\$
3,808,302	525,247	13.8	86,481,143 (£36,892,855)	392,116	390,623,646 (£166,640,047)

Source: Centrelink (2005)

9 Centrelink prosecution activity			
Prosecuted	Dismissed	Convicted	Debt amount involved in convictions
3511	65	3446	AU\$41,150,735 (£17,554,903)

Source: Centrelink (2005)

CHAPTER TWO

Country Study: Canada

Description of social security system

2.1 The administrative organisation of the social security system has two main components. At the federal level, Human Resources and Skills Development Canada (HRSDC) is the department responsible for the administration of the Canada Pension Plan (with the exception of Quebec, where the province is responsible), the Old Age Security Programme, and Employment Insurance among other federal programmes. HRSDC has its roots in Human Resources Development Canada (HRDC), which in 2003 was divided into two departments: Social Development Canada, and Human Resources and Skills Development Canada (HRSDC). Recently, these departments have been re-combined into the HRSDC. The earnings-related pension and Employment Insurance Programmes are administered by the HRSDC, while the Canada Customs and Revenue Agency collects the contributions for the earnings-related pension and insurance contributions. In 2005, the social administration system was restructured further in the context of the broader Modernising Service for Canadians (MSC) Initiative with the introduction of Service Canada. Service Canada is a single Government of Canada Service initiative placed as a separate entity within the HRSDC. Service Canada aims to provide improved client service (a one-stop information provider) and to demonstrate efficient stewardship of skills and resources. The creation of Service Canada also meant that control functions from the Employment Insurance (EI), Canada Pension Plan (CPP) and Old Age Security (OAS) schemes were grouped together into a single Integrity organisation. This Integrity organisation is now responsible for investigation and control activities across all of these programmes as well as any future programmes/services that Service Canada might deliver.

2.2 Below the federal level, provinces play an important role in social assistance. The federal government through a programme called the Canada Social Transfer (CST) transfers a block fund (tax transfers and cash payments) to the provinces, which the provinces may distribute as they see fit. Audit and supervision of these programmes are the responsibility of the provinces. This programme split off from the larger Canada Health and Social Transfer (CHST) programme in 2004 (health and social expenditure were split in 2004 [total funding was CA\$35.9 billion (about £17 billion) in 2002-2003]).¹⁹ The CHST had replaced the Canada Assistance Plan (CAP) in 1996. The CAP, like the CST, was aimed to meet the needs of claimants regardless of cause. The main difference between the CST and the CAP is the nature of funding. Whereas in the CAP half of the costs on all shareable items was assumed by the federal government (on the basis of a needs-test), in the CST funding comes as a pre-determined block. The provincial discretion to organise the social security system also means that below the federal level social security systems can exhibit some variation.

2.3 Social security benefits in Canada consist of:

- social insurance (earnings-related);
- supplementary benefits;
- universal benefits; and
- tax credits.

2.4 The pension system incorporates three types of benefit. The Canada Pension Plan (CPP) is a social insurance scheme (earnings-related). CPP is funded through employment contributions. The CPP has some qualifying conditions based on the length of contributions, type of employment, and residency. Old-age benefits also have a supplementary benefit component, which is income-tested. The universal old-age benefit provides a minimum payment available to all Canadian residents and is calculated on the basis of the length of residency. For these last two components of the pension system, the Canadian government bears all the costs (from general taxation revenue). The pension of high-income earners is subject to recovery. Unemployment benefits are primarily a social insurance scheme with a supplementary benefit for those who are not covered in the insurance scheme (non-contributory).

2.5 Family benefits mostly consist of an income-tested child benefit supplement and a child tax benefit. The Canada Customs and Revenue Agency administers the latter programme. The Quebec Pension Board administers the programme in Quebec.

Scale of expenditure on social security and pensions

2.6 Total social expenditure in Canada was 257.57 billion Canadian \$ (CA\$), about £124.5 billion (at current 2005 prices) in 2002-2003. This total expenditure is 21.88 per cent of Gross Domestic Product (GDP) and represents 55.5 per cent of total government expenditures. Total social expenditure as a percentage of GDP has gradually declined from a peak in 1992-1993 when social expenditure was 28.27 per cent of GDP. Expenditure on social welfare programmes is about CA\$118.3 billion (about £62.54 billion) (**Figure 10**).²⁰ The Canadian and Quebec Pension Plans incorporate retirement benefits, survivor's benefits, disability pensions, and child benefits as well.

Extent of fraud and error

2.7 Overall measures of fraud and error do not exist. Provinces also have limited and variable fraud and error measurements. The total amount of fraud and error is not aggregated. Some performance-related information is available in terms of total savings in the social security systems. However, this performance-related information

is only available in a small number of schemes. For instance, these measurements are not available for all of the Income Security Programmes. The HRSDC does measure performance in the Employment Insurance Income Benefits programme. These measurements are part of the implementation of the 'Results-Based Accountability Framework' in the HRSDC in which the HRSDC committed itself to providing better information to Parliament. Total savings comprise of direct and indirect savings. Direct savings measure the value of overpayments detected and penalties imposed. Indirect savings represent the estimated value of improper payments that were not made as a result of investigations.

2.8 In 1997-1998, estimated savings of CA\$575 million (about £275 million) were identified in the Employment Insurance scheme.²¹ In 2002-2003, identified savings were CA\$525 million (about £255 million).²² In 2003-2004, total savings of CA\$514 million (about £250 million) were identified.²³ This savings number in 2003 represents about 3.5 per cent of total Employment Insurance expenditure.

10 Canadian social expenditure in 2003

Type of benefit	CA\$000 2003	£000 at 2005 prices 2003
Employment Insurance (EI)	14,827,735	7,132,141
Old Age Security (OAS)	20,464,192	9,843,276
Canadian Pension Plan (CPP) Quebec Pension Plan (QPP)	28,302,276	13,613,395
CPP/QPP Retirement Benefits	19,832,002	9,539,193
CPP/QPP Disability Benefits	3,330,119	1,601,787
CPP/QPP Survivor's Benefits	4,663,225	2,243,011
Guaranteed Income Supplement (GIS)	5,740,623	2,761,240
Child Tax Credit	7,740,546	3,723,203
Provincial Welfare	20,552,751	9,885,873
Provincial Tax Credit/Rebate	4,570,987	2,198,645
Total Welfare expenditure	118,287,363	62,541,763

Source: Social Development Canada (2005)¹

NOTE

¹ <http://www.sdc.gc.ca/en/cs/sp/sdc/socpol/tables/table2.shtml>, accessed February 2006.

2.9 Some more dated studies have attempted to look at fraud, either for specific benefit schemes at the federal level or at the provincial level. Some examples are:

- A report on income security fraud in Canada of 1994 written by a consultancy put the extent of fraud at three to five per cent of total expenditures. In addition, it stated that “client error” at least triples the amount of overpayments attributable to fraud and client error to between 9 to 15% of total expenditures. In 1994, overpayments accounted for between CA\$3.5 and CA\$5.8 billion of the total expenditure of CA\$39.2 billion (about £18.5 billion) on the various income security programs offered by the federal, provincial, territorial and municipal governments in Canada.²⁴
- The province of Alberta conducted a major study of welfare fraud in the province between 1977 and 1979 that measured and classified the type of fraud by type.²⁵
- Quebec initiated a controversial welfare fraud investigation between 1986-1988, which uncovered levels of welfare estimated to be over nine per cent of the total caseload.
- A 1987 study of Ontario’s welfare system conducted by the accounting firm KPMG found that fraud accounted for between 2.6 to 3.6 per cent of total welfare payments.
- In 1992, the provincial Auditor-General reported in 1992 that fraud in Ontario’s family benefits system was costing taxpayers CA\$70-100 million (about £34-48 million) per year.
- The British Columbia Ministry of Social Services reported in 1993 that welfare fraud was costing the province CA\$100 million a year (approximately five per cent of provincial welfare payments).
- A more recent review of income assistance cases in the province of Alberta seemed to indicate that only one per cent of people on income assistance cheat the system. Most of these cases related to a failure to report additional income.

Definitions of fraud and error

2.10 There seem to be two main classifications of reasons for overpayment:²⁶

- intentional fraud; and
- unintentional fraud.

2.11 Intentional fraud consists of a deliberate attempt on behalf of the claimant or the social security staff to defraud the social security system. Client error and administrative error are the main causes of unintentional overpayment. There is a grey area of what client error entails. In Ontario under the last Conservative government elected in 1995, some instances of client error were reclassified as intentional fraud.

Causes of fraud and error

2.12 The following types of fraud account for the majority of inappropriate expenditures and overpayments:

- Undeclared income: Claimants in the income support programmes are required to declare their income. Various programme regulations define how this income is handled, ranging from income exemptions, through to benefit reductions or complete disqualification. Undeclared income results in significant overpayments in publicly funded programs.
- Multiple programme claims: Claimants are often eligible for more than one income support programme. When income from other programmes is reported by the claimant, various regulations clarify how that income affects benefit levels and eligibility. However, when this income is not reported, overpayments result.
- Identity fraud: This type of fraud refers mostly to abuse of Social Insurance Numbers (SIN) and includes identity theft, organised fraud, and abuse of insecure electronic service channels.
- Cross-jurisdictional claims: Claimants who are willing to travel can establish eligibility in similar programmes offered by several jurisdictions (e.g. two or more provincial welfare programmes plus municipal welfare benefits). This results in overpayments, particularly at the provincial level.

Trends over last 5-10 years and explanatory factors affecting trends

2.13 There is no accurate data to measure trends with any precision. Most data is performance data. HRSDC puts considerable efforts in measuring performance. In 2002-2003, it was estimated that 95 per cent of payments in the Employment Insurance scheme were made correctly. However, given the decentralised nature of service provision, performance varied considerably among regions.²⁷

2.14 Savings in the system is another example of performance measurement. Mostly, this savings data, as in the case of Employment Insurance, is given for specific benefit schemes rather than aggregated. For Employment Insurance, the total savings identified decreased slightly from CA\$575 million (about £275 million) in 1997-1998 to CA\$514 million (about £250 million) in 2003-2004.

Examples of actions being taken to combat fraud and error or to reform social security systems

2.15 The overall framework for the mitigation of fraud and error has the following components:

- deterrence;
- prevention; and
- detection.

2.16 Most of the data available is from control measures in the Employment Insurance (EI) scheme. The primary focus in fraud mitigation in EI has been on detection. Detection measures support the current performance indicators and facilitate simple calculations of overpayments and administrative penalties. In 2002-2003, 770,207 investigations took place, of which 596,813 were computer-generated. However, current initiatives aim to expand this focus of fraud mitigation. In the area of EI, the HRSDC and more recently Service Canada have undertaken an extensive risk assessment to identify the major risk challenges to the insurance system.²⁸ These were identified through the use of workshops in 2003 as:

- technology;
- capacity and organisational structure;
- external fraud;
- internal fraud; and
- internal control.

2.17 These are challenges that the Department aims to address by refocusing its strategy and building the capacity to manage these risks. Prevention has become a key component of fraud and error mitigation. In 1994, Canada instituted Group Information Sessions (GIS). These sessions provided clients with information on benefit programmes, their rights and obligations, and control measures. Since 1999, 225,000 sessions have been held. 2.6 million clients were directed to attend sessions, of which 1.7 million clients attended. Through this process, CA\$800 million (about £390 million) in savings was identified. Now, Service Canada wants to transform these GIS into Claimant Information Sessions (CIS).²⁹ These sessions would be client-focused, risk-based interventions. Selection criteria would include: previous violations; high demand occupations; and other criteria determined through risk assessment sessions run regionally and locally. Standardised guidelines are currently being drawn up. The functions of Service Canada, aside from determining risk factors in benefit payments, also continue to include responsibility for the Social Insurance Number and identity management.

2.18 The HRSDC has taken some specific control initiatives in the past:³⁰

- the implementation of results-based management within the Department (results-based performance measures for benefit schemes);
- the establishment of a more structured working relationship and more effective information exchange between the HRSDC and CCRA (especially in the field of employment insurance rulings);
- training of staff to deal with complex fraud cases (staff up to 1997 were not trained in investigations and control);
- strengthening of overall management (selection and approval, monitoring, and payments) and financial control procedures for benefit schemes; and
- initiatives to strengthen the integrity of the Social Insurance Number (SIN) and consultation on the introduction of a more integrated SIN, which could allow data matching and more effective identity control.

2.19 On the provincial level, many initiatives have focused on sanctions. The Province of Ontario has been the most active in welfare fraud and in the late 1990s introduced some initiatives:³¹

- home visits at the discretion of the social service agency as a condition for welfare eligibility-recipients refusing to participate in a home visit have their assistance cancelled unless reasonable justification can be given;
- the introduction of a 1-800 hotline to identify individuals defrauding social assistance through the help of phone tips left by the citizens of Ontario;
- overhauling the Social Assistance Review Board – the government implemented policies to limit the eligibility to, and length of, interim assistance;
- the “Business Transformation Project” (BTP) – the BTP was a technological overhaul of the province’s outdated welfare system, with respect to its administrative and, to a lesser extent, delivery services. A number of fraud-control mechanisms were put in place, including the creation of a single province-wide welfare database, expanded information sharing with government bodies including Human Resources Development Canada and the Canada Customs and Revenue Agency, and an automated eligibility review process; and
- a lifetime ban on the receipt of welfare for those who have been convicted of welfare fraud.

2.20 It was estimated by the Ministry of Community and Social Services of the Province of Ontario that the overall programme had resulted in CA\$400 million (£195 million) of taxpayer savings in the period of 1997 to 2000. In 2005 under a new government in Ontario, the hotline and lifetime ban measures were reversed.³²

2.21 Welfare reform overall has focused less on the combating of fraud and error and more about reducing payments and reducing the number of welfare claimants (case loads). These foci are also partly a function of the new system of financing (fixed payments rather than overall cost-sharing) under the CHST and CST. The Province of British Columbia in 2002, for instance, introduced time limits on welfare benefits. In 1993, the Province of Alberta introduced a comprehensive diversion strategy, which was aimed to reduce the number of first-time applicants entering the welfare system. As part of the scheme, applicants were required to exhaust all other means of support, including job search and active labour market programmes, before they are granted assistance.

Steps being taken to measure fraud and error

2.22 Documentary evidence seems to indicate that the main focus in Canada remains on detecting savings in benefit schemes rather than measuring aggregate fraud and error.

Details of how benefits/pensions are accounted for in national accounts

2.23 The earnings-related pension and Employment Insurance programmes are administered by the HRSDC, while the Canada Customs and Revenue Agency collects the contributions for the earnings-related pension and insurance contributions. General assistance paid out of taxation is kept on the accounts of the relevant Departments. Through the CST, federal funds are dispersed to the provinces. Employment contributions for CPP are kept in a separate CPP account.

Effect on fraud and error on external audit’s opinion on national accounts

2.24 The Auditor-General of Canada signed off the financial statements of the Government of Canada in the period of 2004-2005. Outstanding issues that were addressed in 2004-2005 (e.g. the surplus in the Employment Insurance accounts) did not relate to the integrity of the social security accounts.³³ The Office of the Auditor-General of Canada also concluded that the HRSDC generally met professional internal audit standards in 2004.

CHAPTER THREE

Country Study: France

Description of social security system

3.1 Social security (*sécurité sociale*) is a key institution in France, but there is no single, government-run system of benefit administration comparable to that of the Department of Work and Pensions. Rather, a highly complex mosaic of benefit schemes for different groups and circumstances has developed through the years since the first social insurances were created in the 19th century. Due to the traditional separation of government and social security administration according to the principle of *démocratie sociale*, benefit administration is run by various self-governed funds (*caisses*) at the regional level.

3.2 However, Parliament does have responsibility for laying down the basic principles of the Social Security system, setting benefit and contribution levels, and attempting to ensure the system's financial stability via a Social Security Law passed every year.³⁴ Individual funds are supervised by the Ministry for Health and Solidarities (*Ministère de la Santé et des Solidarités, [MSS]*) via its subsidiary, the Ministry for Social Security, Aged Persons, Disabled Persons and the Family (*Ministère délégué à la Sécurité Sociale, aux Personnes âgées, aux Personnes handicapées et à la Famille*) and, in the case of schemes for agricultural workers, the Ministry of Agriculture (*Ministère de l'Agriculture et de la Pêche*). At the regional level, these are represented by the regional offices for health and social affairs (*directions régionales des affaires sanitaires et sociales [DRASS]* for non-agricultural schemes) and the regional employment and social security offices (agricultural scheme).

3.3 Entitlement to benefits has been historically largely conditional upon contributions, as most benefits are earnings-related. Employers' and employees' contributions provide most of the financing of social security payments. However, in recent decades shortfalls in funds have required additional funds to be made available by the State through tax income, including an income-related social security contribution (*contribution sociale généralisée*).³⁵ Moreover, the basic health insurance (sickness and maternity) benefit has been granted to every legal resident since the adoption of CMU law (*couverture maladie universelle*) in 1999.

3.4 For most residents, the social security system can be divided into the following sectors (*branches*), each of which comprises a number of different schemes (*régimes*) for different population groups:

- Sickness, maternity, invalidity and death, administered at the national level by the National Sickness Insurance Fund for Employees (*Caisse nationale d'assurance maladie des travailleurs salariés, CNAMTS*).
- Employment injuries and occupational diseases, also administered by the CNAMTS.
- Old age, administered at national level by the National Old-age Insurance Fund for Employees (*Caisse nationale d'assurance vieillesse des travailleurs salariés, CNAVTS*).
- Family insurance, administered at national level by the National Family Allowance Agency (*Caisse nationale des allocations familiales, CNAF*). At the regional level, each of the branches is administered by different regional funds.

3.5 Due to the great internal diversity of the *Securité Sociale*, this chapter will concentrate on the problem of fraud and error in benefits allocated by one of the branches, the family branch (*branche famille*). Administering all family benefits, this branch is the most general part of the French General Social Security Scheme.³⁶ This branch also shows developments in the awareness and detection of fraud most clearly, as it is responsible for the administrations of benefits considered most prone to fraud, such as Single Parent's Allowance (*l'allocation de parent isolé*), Guaranteed Minimum Income (*le revenu minimum d'insertion*) and housing subsidies (*l'allocation de logement*), which are conditional on means and personal circumstances.³⁷ The family branch is administered by the national body the CNAF, which heads up 123 regional funds serving almost 10.5 million recipients (2004).³⁸ The supervising ministry is the *Ministère de la Santé et des Solidarités*, which in turn operates a network of regional services (*les Directions Régionales des Affaires Sanitaires et Sociales, DRASS*).

3.6 As the French social security system is largely based on contributions collected from wage earners and employers, fraud can take place both at the point of collection, with contributors evading their obligations, and at the point of benefit receipt (either by final recipients or by other actors, for instance physicians). Both problems are acknowledged, and have been countered with a range of measures. However, in the interest of comparability, this study will discuss the area of fraud within benefit claims only.

The scale of expenditure on social security and pensions

3.7 As shown in **Figure 11**, in 2004, expenditure for the basic compulsory branches of French social security, totalled €351.5 billion (about £240 billion in 2006 prices), with the Family branch consuming €49 billion (about £33.6 billion in 2006 prices). France spent 28.5 per cent of Gross Domestic Product (GDP) on public social expenditure in 2001.³⁹

Extent of fraud and error

3.8 The extent of fraud and error within the social security system as a whole has not been investigated, and no indicators to measure the development of the problem have been agreed.⁴⁰ Hence, there are no such figures available at present. When recently proposing the introduction of a new electronic and biometric identity card as a means of reducing benefit fraud, the French government referred to UK figures on the cost of benefit fraud.⁴¹

3.9 However, the MSS is currently undertaking a national, cross-benefit investigation into the problem of fraud. The results of which are expected to be published in the summer of 2006. This evaluation is focused in particular on fraud linked to inaccurate information about personal circumstances, residency, and means.

3.10 While error has featured much less prominently in public and political debate than error, in the CNAF's 2003 report on accuracy checks found that 12 per cent of incorrect allocations were due to the legislation, and four per cent due to human errors within the administrative organisation.⁴²

Definitions of fraud and error

3.11 The Social Security Code defines fraud as 'actions, which aim to obtain, help to obtain or try to obtain social security benefits which are not due'. The MSS further specifies this definition by distinguishing between fraud from excessive claims (e.g. physicians overcharging for medical treatment) on the one hand, and abuses on the other hand. Abuses are treated separately from fraud in that they contravene the spirit, but not the letter of the law.

11 French expenditure per benefit area 2004	
Benefit area	Expenditure billion euro (billion £)
Health	145.0 (about 100)
Old Age/survivors	147.3 (about 102)
Family	49.0 (about 34)
Work accidents/illnesses	10.2 (about 7)
Total	351.5 (about 240)

Source: Assemblée Nationale (2005), *Projet de loi de financement de la sécurité sociale pour 2006, Le tableau d'équilibre, par branche, de l'ensemble des régimes obligatoires de base de sécurité sociale*

3.12 A CNAF investigation on accuracy checks in benefit allocations in 2001 acknowledged the practical problems inherent in pinpointing cases of fraud by concluding that “within incorrect statements, it is difficult to distinguish those who are deliberate from those that are unintentional, either due to the claimant’s lack of understanding of the legislation, or due to oversight”.⁴³

3.13 In its approach to the new national inquiry, the MSS acknowledges the need for a wide definition of fraud. The national study currently under way will focus on the cases of frauds classified as such by the various social security bodies involved in the study.⁴⁴

Causes of fraud and error

3.14 Fraud is linked in particular to information provided about personal circumstances, residency and means. The MSS distinguishes between fraud linked to establishing the entitlement status of the claimant, fraud linked to the level of payments claimed, and fraud involving benefits claimed by non-residents.

3.15 In order to obtain undue benefits or levels of payment, claimants provide incorrect information on their income, for example stating a lower salary or fewer hours of work to receive a higher level of support, or exaggerating pay levels in order to obtain higher daily compensations. In the case of residency-related fraud, support is claimed by non-nationals or expatriates who are not making social security contributions in France. Other types of fraud behaviour perceived as prominent are undeclared work while receiving Guaranteed Minimum Income, pretending to be a single parent, pretending to support children at home after they have left, and assuming a false identity.

3.16 An often used method of providing incorrect information is the use of false documents. In this case, the claimant either appropriates genuine documents belonging to another person, or produces forged papers, which is believed to be facilitated by measures to simplify benefit administration, such as the acceptance of photocopies.

Trends over last 5-10 years and explanatory factors influencing trends

3.17 Due to a paucity of available data collected, no information is available for trends in fraud and error over the last five to ten years. However, as noted above, there is a perception that fraud may have been facilitated by a relaxing of rules regarding the provision of documents as proof of entitlements.

Examples of actions being taken to combat fraud and error or to reform social security system

3.18 Benefit fraud is illegal and as such carries a penalty of three years imprisonment and a €45,000 (about £30,000) fine as set out in the French Penal Law Code (*Code pénal*). In addition, fraud and the submission of false information is punished under the regulations of the Social Security Code (*Code de la Sécurité Sociale*), which specifies a range of fines for different offences. Actions to assist fraud committed by others are also covered.

3.19 In addition, certain types of fraud carry special optional penalties. For example, the provision of false information in the context of claiming Guaranteed Minimum Income (RMI) can be sanctioned through the withdrawal of civic or residency rights. Finally, the social insurance funds can impose administrative sanctions to recover overpayments from fraudulent claimants. Failure to submit to checks entitles the funds to suspend benefit payments.

3.20 To complement these legal sanctions for convicted fraudsters, a range of steps have been taken in order to tackle the problem of fraud, and, to a lesser extent, the problem of error. In addition, a number of new actions are currently envisaged. These actions are divided into initiatives to prevent and to detect. Furthermore, the following levels of actions can be distinguished:

- initiatives where benefit fraud is one of several aspects targeted;
- overarching initiatives applying to the whole social security system; and
- actions designed specifically for benefits handled in the *branche famille*.

3.21 An example of the first category is the proposed introduction of an electronic and biometric identity card (INES), which, according to its advocates, will make it more difficult to claim undue benefit by giving false identity information.⁴⁵ The second category comprises new initiatives for improved data exchange between benefit offices and between the social security and tax systems.

3.22 Specifically with regard to the *branche famille*, a range of measures have been introduced since the debate about benefit fraud intensified in the 1990s. In 1990, a national file shared by the funds of the family branch and the Mutualité Sociale Agricole (MSA) was created to prevent potential multiple claims by Guaranteed Minimum Income recipients.⁴⁶ Other earlier actions include home visits by welfare inspectors, in particular to verify personal circumstances, such as living together as husband and wife. Since 1996, a government initiative, 'transfer of fiscal data', makes the direct comparison of income statements given to the family funds and the fiscal services possible. The detection of anomalies triggers the re-examination of the entire personal situation of the claimant, including family circumstances and employment.⁴⁷ In 2003, a total of 3.87 million checks were carried out.⁴⁸

3.23 In 1997, an administrative agreement between the government and the CNAF required the regional funds to undertake retrospective checks on 25 per cent of their recipients. Following the implementation of this measure, the CNAF committed to produce, by 2003, a comprehensive strategy for risk and process management. At the same time, the CNAF launched an investigation of the causes of incorrect payments (*les indus*).⁴⁹

3.24 The CNAF now submits an annual risk management plan to the government, which includes indicators and results. This is complemented by a reference framework to identify the most significant risks, as well as a planned national database of benefit recipients. Individual local funds' risk management plans reflect this framework, but also take into account specific local circumstances. Most recently, the 2005-2008 administrative agreement between the government and the CNAF specified the following plans to improve the quality of service provision as well as accuracy:⁵⁰

- Improved data management
 - Use of identifiers, such as the customer's official identity number (*numéro d'inscription au répertoire, NIR*) at all stages, possibly in combination with an internal reference number. The CNAF commits itself to put in place a national identifier for each claimant, which will allow access to their file from any location within the country, while the government will take care of adequate regulations to support this move.
 - Development of a central national database to facilitate service and anti-fraud checks.
 - Inclusion of more comprehensive individual information in the database to facilitate more personalised interaction with the customer.
- Improved control mechanisms
 - Analysis of existing methods used in checking.
 - Adaptation of checks to risks, in particular in the areas of residency [*la condition de résidence*] and means-testing.
 - Prioritisation of information gathering at source and automatic safeguards [*sécurisations automatisées*].
 - Targeting of actions to prevent payments made in error as well as fraud.
 - Analysis and determination of measures in the specific context of local funds.
 - A priori or a posteriori checks of at least 30% of facts captured in the 'Cristal' database.
 - Development of better indicators and tools for comprehensive risk management.
 - Agreement of rates/levels of safeguards after an initial experimental phase.
 - Training of controllers, including advance planning for new staff needs.
- Investigation of the occurrence of fraud
 - A national study, to be undertaken in 2006 to analyse fraud with the aim of fighting and preventing the problem, as well as identifying risks.
 - Creation of a dedicated anti-fraud team by CNAF by March 2006.⁵¹

3.25 In September 2005, Prime Minister Dominique de Villepin announced stricter sanctions for recipients of the Guaranteed Minimum Income (RMI) who engage in undeclared work. Any such fraud will lead to the immediate suspension of the claimant's right to benefit payments, and withdrawal of any employment support provided to the employer of the claimant.⁵² In addition, the state intends to enter into talks with each Département to ensure that each recipient of the Guaranteed Minimum Income is provided with personalised support.⁵³

Steps being taken to measure fraud and error

3.26 Since 1995, the regional funds have been required to report all detected cases of fraud to the CNAF with details on the area and mechanism of fraud. However, this exercise has revealed a low number of deliberately inaccurate statements, which the directors of the regional funds estimate to amount to 2,000 to 3,000 cases per year. The CNAF highlights the problem of pinpointing cases of fraud amongst incorrect statements, stating that it is "difficult to distinguish those who are deliberate from those that are unintentional, either due to the claimant's lack of understanding of the legislation, or due to oversight". In 2002, the number of cases of suspected benefit fraud, which resulted in convictions, amounted to only 300 out of 700.⁵⁴

3.27 From 2001, the CNAF investigated the causes of incorrect allocation, estimating that official error, due to shortcomings in administration or legislation, amounted to around 16 per cent of cases, four per cent of which were caused by human error.

3.28 In the course of 2006, a first nationwide study of fraud will be undertaken under the auspices of the MSS through its regional services (DRASS).

Details of how benefits/pensions are accounted for in national accounts

3.29 Insurance contributions and payments are kept in the accounts of the various social insurance funds.

Effect of fraud and error on external audit's opinion on national accounts

3.30 Over the past ten years, France's national audit body, the Cour des Comptes, has repeatedly recommended that the CNAF take steps to improve risk assessment to enable more effective controls. Until very recently, rates of fraud and error in the social security system have not been captured systematically, precluding a global assessment of the situation. However, a pioneering audit of the accounts of the social security bodies, to be carried out in 2006-2007, will scrutinise fraud control and prevention measures in place. The result of this examination will influence the auditors' decision on the accounts.

CHAPTER FOUR

Country Study: Ireland

Description of social security system

4.1 The Department of Social and Family Affairs is the main administrator of social security in Ireland. The Department has a regional and local network of offices. Five executive agencies, Comhairl, the Combat Poverty Agency, the Family Support Agency, the Office of the Pensions Ombudsman, and the Pensions Board come under the aegis of the Department. The system itself has undergone substantial change. Ireland has 12 income maintenance schemes. Four major schemes were introduced in the past 10 years and significant changes have been made to existing schemes.

4.2 The Department of Social and Family Affairs provides a range of payments that can be classified as follows:

- social insurance payments;
- means-tested payments; and
- universal payments.

4.3 Social insurance payments are given to people who satisfy specific social insurance contribution conditions (Pay-Related Social Insurance [PRSI] conditions). These conditions vary depending on the payment applied for. Examples on payments based on social insurance contributions include Unemployment Benefit, Disability Benefit, Maternity Benefit, Invalidity Benefit, Carer's Benefit, and Old-Age Contributory Pension. A total of €5.08 billion (about £3.4 billion) was paid out in 2004 by the Irish government on social insurance payment schemes.

4.4 Means-tested payments are primarily designed for people who have insufficient PRSI contributions to qualify for the equivalent social insurance-based

payments. For instance, the means-tested equivalent of the Unemployment Benefit is Unemployment Assistance. These means-tested payments are financed out of the general tax revenue. The method of means-testing varies from payment to payment. The rules that determine how much income you can have are referred to as 'income disregards'. The Irish government paid out €5.82 billion (about £3.8 billion) in assistance in 2004.

4.5 Universal payments are paid out regardless of a person's income or social insurance record. They are dependent on a claimant satisfying particular personal circumstances (e.g. number of children). An example would be the Child Benefit payments. Universal payments are financed from general taxation.

Scale of expenditure on social security and pensions

4.6 Social welfare expenditure in 2004 was around €11.291 billion (equivalent to about £7.5 billion) (**Figure 12 overleaf**). The state accounted for 53.3 per cent of total spending, with the Social Insurance Fund accounting for 46.7% of expenditures. Welfare spending in 2004 was about 7.7 per cent of Gross Domestic Product (GDP) and 28.5 per cent of total government expenditure.⁵⁵ The total rate of expenditure means that for every three euro of taxpayer's money the state spends about one euro on direct welfare payments. The rise in social expenditure from 2003 to 2004 was about 7.6 per cent. Total social expenditure was about 14 per cent of GDP in 2001.⁵⁶ In 2005, total expenditure was €12.17 billion (about £8 billion).

Extent of fraud and error

4.7 The Republic of Ireland does not have measures of the total amount of fraud and error within the system. The Irish government measures fraud and error in three ways:

- the total overpayments recorded for recovery in the system;
- recorded fraud and error rates per programme; and
- the amount of savings made within the system.

4.8 In 2004, the total amount of overpayments recorded for recovery was €56.27 million (about £38 million), of which €18.65 million (about 33 per cent [£13 million]) was attributed to fraud or suspected fraud. Customer error accounted for 52 per cent, estate cases for 12 per cent and departmental error for 3 per cent of total recorded overpayments.⁵⁷ This compared with €29.13 million (£20 million) of total overpayments recorded in 2002, of which €11.79 million (about £8 million) was attributed to fraud or suspected fraud (about 40 per cent).⁵⁸

4.9 In 2003, the Departments of Social and Family Affairs introduced the 'Fraud and Error Survey Programme' to determine the fraud and error in particular benefit schemes. The Irish government has undertaken several surveys in particular types of benefits to more accurately measure fraud and error. One such survey in 2003 indicated that 29 per cent of payments in one-parent family payments could be reduced or terminated. The two main reasons were undeclared cohabitation and earnings.⁵⁹ 16 per cent of cases reviewed in Unemployment Assistance required changes. Two per cent of cases reviewed in Unemployment Benefits showed inaccuracies. The Department also measures fraud and error rates for specific benefit schemes. Figures for 2004 are shown in **Figure 13**.

4.10 Estimates of fraud and error also focus on the amount of savings the Irish government has made through its control efforts or the amount of overpayments recorded and recovered by the Department of Social and Family Affairs.

4.11 The Irish government has identified the measurement of total fraud and error as desirable in addressing risks and the deployment of anti-fraud resources. The Irish Comptroller and Auditor-General, citing the examples of Australia and the United Kingdom, identifies the overall measurement of fraud and error as an important part of a successful control policy. The introduction of a rolling measurement to determine the total amount of fraud and error, similar to the one used in the United Kingdom, was being considered by the Irish government.

Definitions of fraud and error

4.12 Overpayments arise in the course of administration of social welfare schemes due to:

- errors in processing and incorrect data supplied by the claimants; and
- fraud and abuse of the system.⁶¹

12 Major Irish expenditure in 2004

	2004 €000	2004 £000 at 2005 prices
Old Age	2,728,768	1,828,275
Child Related Payments	1,903,324	1,275,227
Widows, Widowers, and One Parent Families	1,827,707	1,224,564
Illness, Disability and Caring	1,827,362	1,224,333
Unemployment Supports	1,069,361	716,472
Miscellaneous Payments and Grants	659,971	442,181
Supplementary Welfare Allowance	601,582	403,060
Administration	434,879	291,369
Employment Supports	238,111	159,534
Total	11,291,065	7,565,014

Source: Department of Social and Family Affairs 2004a)

13 Measurement of fraud and error in specific benefits

Measurement 2004	Fraud as % of expenditure value	Error as % of expenditure value
Child Benefit	1.66	minimal
Family Income Supplement	0.8	2.7
Disability Allowance	2.3	4.7

Source: Department of Social and Family Affairs

4.13 The Department uses four categories to describe overpayments:⁶²

- fraud cases – Overpayments categorised as fraud arise when there is dishonest obtaining of a benefit by deception or withholding of information;
- estate cases – Overpayments may also come to light relating to the means of a deceased claimant, which would have affected the validity of the claim;
- client error cases – Non-fraud overpayments may be due to client error; and
- departmental error – The residual category comprises overpayments arising from errors made by the Department in the administration of welfare claims.

Causes of fraud and error⁶³

4.14 Fraud is defined as:

- providing false or misleading information or withholding information where there is an obligation to provide it;
- impersonation;
- using false or forged documents to procure a benefit or assistance payment; and
- failing to report material changes in means or circumstances where a claim is in payment.

4.15 In estate cases, overpayments mainly arise from the administration of estates of non-contributory old age pensioners. In client error cases, overpayments can occur where clients unknowingly submit erroneous information or fail to inform the Department of changes in their circumstances without a deliberate intent to defraud. In departmental error cases, error is mostly attributed to the complexity of the administration of a particular benefit, the complexity of the administration of various benefits, and IT systems.

4.16 In 2004, the main reasons for overpayments were concurrent working and claiming and concurrent claiming and failure to notify a change in marital status. The ‘Fraud and Error Surveys’, mentioned above, show that the main causes of fraud and error were means-related, mainly due to increases in the earnings of the people concerned. Another factor was the finding that some cases had not been recently reviewed.

4.17 The Irish government breaks down overpayments into categories. These categories are fraud, customer error, estate cases, and departmental error. This data for 2004 was given in the section on ‘the extent of fraud and error’.

4.18 There also exists some data for the period of 1998-2002. In this period about half of the cases of overpayment (48 per cent) were a result of deliberate fraud. Twenty-two per cent of overpayments were estate cases, where the assets of a deceased claimant show that the Department had been overpaying non-contributory pensions. About 25 per cent of overpayments are classified as client errors and five per cent are due to errors by Department staff. Five per cent of fraudulent overpayments were as a result of the claimant being absent from the state. In terms of specific benefits, it emerged that overpayments were made in 38 per cent of one parent family payments and in 16 per cent of unemployment assistance cases. In the overall statistics, overpayments in unemployment cases account for about 73 per cent of total overpayment cases and 41 per cent of the total value of overpayments. The old age pension benefits account for only three per cent of the total cases of overpayments, but 24 per cent of the total value. All other benefits have a relatively minor share of the total cases and total value of overpayments.

4.19 The use of false Personal Public Service numbers was estimated in 2005 to have cost the state in the region of €50 million (about £35 million) a year, though the Department’s accounting officer highlights that this number is speculative. 12 per cent of individuals who committed fraud later re-offended.⁶⁴

Trends over the last 5-10 years and explanatory factors affecting trends

4.20 There is no accurate data on trends and explanatory factors, partly because the ‘Fraud and Error Survey Programme’ is relatively new. The absence of data on the overall extent of fraud and error and the extent of fraud and error per benefit (before 2003) make establishing trends difficult. There is some information available on savings and the breakdown of fraud and error per benefit based on the cases investigated. Some of this data is given in the sections above. In terms of overall benefit savings, there has been a positive trend in the total amount of savings. In 2003, the Department of Social and Family

Affairs realised €306 million (about £200 million) in savings (93 per cent of the target set by the Department).⁶⁵ In 2004, this amount was €386 million (107 per cent of target, about £265 million) and in 2005 this amount was €406 million (101 per cent of target, about £280 million) (Figure 14). There are some reasons for this increase. First, the Department has stepped up its control strategy (e.g. surveys and risk management) and the resources allocated to this control strategy. Secondly, the amount of welfare support is nearly double what it was four years ago. This increase also means that there is a greater scope for making savings through anti-fraud measures as the total extent of fraud will likely have risen as well. The amount of overpayments attributed to fraud and suspected fraud rose from €13.73 million (about £9 million) in 2003 to €18.65 million (about £12 million) in 2004.⁶⁶

Examples of actions being taken to combat fraud and error or to reform social security systems

4.21 The Department has a four-pronged approach to combat fraud and error (Strategy of 2003)⁶⁷:

- **Prevention** – Having systems and procedures in place that prevent and minimise the risks of fraud, abuse and error;
- **Detection** – Detecting fraud, abuse and error at the earliest possible stage;

- **Deterrence** – Developing an anti-fraud culture among staff and the public by promoting public awareness of the risk and penalties involved in defrauding the Social Welfare system and dealing decisively with cases of fraud and abuse detected; and
- **Debt Recovery** – Actively pursuing the recovery of all debts.

4.22 The Department launched a new control strategy, the 'Central Overpayments and Debt Management System' in May of 2004.⁶⁸ This strategy focuses on risk assessment and identifies those schemes where there is a high risk of fraud. The absence of a risk assessment scheme was one of the criticisms in a report by the Comptroller and the Auditor-General of the Irish Republic. The risk analysis commenced at the end of 2003 when nine schemes with the highest levels of benefit expenditure undertook formal risk assessments. This process will ensure that control activity in the future will be more effectively focused on areas of high risk. An important component of targeting areas of higher risk is the 'Fraud and Error Survey Programme', mentioned earlier, which establishes baseline fraud and error levels for welfare schemes. Such risk assessment will also form the basis for the introduction of new performance indicators (on the reduction of levels of abuse and error in particular benefit areas). Current performance indicators are based on total savings and the number of reviews undertaken. Currently, the Department spends about €18 million (about £12 million) a year on control measures.

14 Savings made per benefit over the first six months of 2005

Scheme	Amount Saved € million	Amount Saved £ million (in 2005 prices)	Number of Reviewed Cases
Unemployment	65.67	44.00	45,257
Illness	35.62	23.87	70,258
Old Age Pensions	7.55	5.06	4,339
One Parent Family Payment	52.21	34.98	13,521
Free Schemes	4.68	3.14	4,863
Child Benefit	9.89	6.63	8,183
Employer Inspection	5.75	3.85	2,781
Others	24.72	16.56	9,621
Total	206.09	138.08	158,823

Source: Department of Social and Family Affairs (2005b)

4.23 There exist a number of data-matching initiatives within the Department (mostly using the computer database of the Department), which have resulted in significant savings. These include:

- Student Data-matching Project; and
This project involves matching details of full-time registered third level students against the Department schemes. In 2002 and 2003 this project yielded savings of respectively €650,000 (about £400,000) and €1.3 million (about £800,000).
- Revenue Data-matching Project.
The exercise involves matching data from Irish Revenue on people who have commenced employment against the Unemployment and One Parent Family Payment schemes. In 2002 and 2003 reported savings were €16.4 million (about £11.5 million) and €18.19 million (about £12.5 million) respectively.

4.24 Since 1987, the IT system of the Department for recording overpayments and recovery details has been a stand-alone system that does not interface with the Department's other computer systems. The Department is responding to current system deficiencies through the development of an integrated IT system for its long-term schemes, which will facilitate a more integrated approach to control activity (e.g. more systematic data-matching). This process is called Service Delivery Modernisation (SDM). It aims to design more integrated IT systems, manage organisational change, and introduce new consumer-centric approaches in the social security administration.

4.25 Specific control measures include⁶⁹:

- countering identity fraud by strengthening procedures at registration to detect 'bogus' identities;
- matching data from revenue on people who have commenced employment against the unemployment and One Parent Family Payment schemes;
- matching data from the newly automated General Register Office against the Department's payments systems to identify 'live' one parent family payment or widow's/widower's claims; and
- using information on deaths from the General Register Office to enable savings with regard to pension claims where the department has not been notified of the death by the deceased person's next of kin.

4.26 There is also a renewed commitment towards the prosecution of fraud cases. Both internal (Internal Audit of Department) and external (Comptroller and Auditor-General) audits had criticised the system for recording and recovering overpayments, The Department issued revised prosecution guidelines to staff in February 2003. The Department's policy is to consider all cases of fraud and abuse for prosecution. The focus of prosecution is on the more serious cases, in particular on those cases where there has been previous abuse of the system.

4.27 This renewed commitment to prosecution filters through to the recovery of overpayments. Pending the provision of a centralised overpayments and debt management system, proactive recovery measures were identified by the Department to be necessary at the local level. Debt management projects have been initiated in a number of local offices with a view to securing repayment of recorded overpayments. The claimants are reminded by letter of their obligation to repay any outstanding debts. In addition, the central Inspectorate of the Department is involved in visiting claimants in cases where no response to the written notification is received. Claimants can enter into repayment agreements with local offices. A small number of cases are referred to the Central Prosecution Section. Recovery rates of detected overpayments in the period of 1998-2002 were: 18 per cent for fraud; 68 per cent in estate cases, 32 per cent in client error cases; and 16 per cent in cases of departmental error.⁷⁰

4.28 In terms of overall resources, 600 staff at local, regional, and national levels are engaged on a full or part-time basis on work related to the control of fraud and abuse in the social welfare system.

Steps being taken to measure fraud and error

4.29 The Department has no reliable estimate of the total level of fraud and error occurring, but has started to use surveys. The Review by the Comptroller and Auditor-General led to a fraud and error survey undertaken in specific benefit schemes, specifically the unemployment and lone parent's schemes. The results indicated a significant proportion (up to 28 per cent for One Parent Family and 16 per cent of Unemployment Assistance cases) of cases where people were paid incorrect amounts. It is estimated that five per cent of cases surveyed show errors.

4.30 The Department, as indicated earlier, will include surveys of the levels of fraud and error as an integral part of the control strategy. The outcomes of these surveys will feed into the development of the Department's control activity in the future and can be used to identify the types of claims, which should be prioritised for future reviews.

4.31 The introduction of a rolling measurement to determine the total amount of fraud and error, similar to the system used in the UK, was being considered by the Irish government.

4.32 Another aspect of the overall measurement of fraud and error is the measurement of savings that the Department makes. The Department measures the amount of savings or recorded recoveries off overpayments that its control measures make. Estimated savings are calculated on the basis of the weekly amount overpaid multiplied by a specific factor for every scheme. This amount is published annually. The multiplier is controversial as it calculates the total savings based on the amount of overpayment and the length that the overpayment would have been made if it had not been detected. This has raised questions in Ireland whether the multiplier is an effective tool and whether it gives an accurate depiction of total savings.

Details of how benefits/pensions are accounted for in national accounts

4.33 Expenditure on benefits, including pensions is recorded in the annual resource accounts of the Department of Family and Social Affairs.

Effect on fraud and error on external audit's opinion on national accounts

4.34 The Comptroller and Auditor-General of Ireland in 2005 signed off the Appropriation Account for 2004. The Comptroller and Auditor-General of Ireland wrote that proper books of account have been kept by the Department of Social and Family Affairs.⁷¹

CHAPTER FIVE

Country Study: The Netherlands

Description of social security system

5.1 The Ministry of Social Affairs and Employment (*Ministerie van Sociale Zaken en Werkgelegenheid*) is the overarching administrative body for social security. From the Ministry payments are distributed to implementation agencies, which deal with the claimants and the processing of claims. Before 2002, the implementation and supervision of benefit payments were quite fragmented. In 2002, several agencies were consolidated and the supervisory and inspection functions re-organised. At present, the Social Insurance Bank (*Sociale Verzekeringsbank [SVB]*) is responsible for the administration of the old age pension law (*Algemene Ouderdomswet [AOW]*), child benefit law (*Algemene Kinderwet [AKW]*), and survivor's benefit law (*Algemene Nabestaandenwet [ANW]*). The Centre for Work and Income (*Centrum voor Werk en Inkomen*) is the first contact point for the unemployed. It runs active labour market programmes to help the short-term unemployed return to work. The Implementation Institute for Employment Insurance (*Uitvoeringsinstituut Werknemersverzekeringen [UWV]*) is responsible for administering unemployment (*Werkloosheidswet [WW]*) and disability benefits (*Wet Arbeidsongeschiktheid [WAO]*). The UWV is also responsible for organising and buying in re-integration services from private providers for the longer-term unemployed. Municipalities play a role in the evaluation of claims and in the process of reintegration of people on long-term benefits into society (e.g. unemployed, partially disabled, or those on social assistance under the *Wet Werk en Bijstand* [act on employment and assistance]). The detection of fraud is performed in the Ministry of Social Affairs and

Employment as well as the implementation agencies, inland revenue (*Belastingdienst*) and municipalities. From 2002, the Ministry contains a special unit the Social Investigations Service (*Sociale Inlichtingendienst [SIOD]*) that investigates complex and large-scale fraud in social security. The Inspection Employment and Income (*Inspectie Werk en Inkomen*), an executive agency under the supervision of the Minister of Social Affairs and Employment, has a supervisory role over the implementation and design of employment and income-related programmes and policy.

5.2 There are three types of benefits:

- social insurance;
- means-tested and supplementary benefits; and
- universal benefits (among others social assistance).

5.3 Social insurance benefits such as the AOW (act on old age pensions) and WAO (act on disability) pay out benefits based on the mandatory contribution of the claimant to the social insurance fund. These funds are financed by insurance premiums. The Dutch government tops up the funds through a direct payment. The funds mostly have minimum levels below which payments will not fall. They also have minimum thresholds that claimants have to meet to be eligible for benefits (e.g. duration of employment). The WAO (disability) will be reformed in 2006 to only support fully disabled employees. Partially disabled employees will receive a supplement to the wage they still earn. This reform is aimed at encouraging people to take up employment.

5.4 Means-tested and supplementary benefits extend payments to people not covered under the first type of benefits. These benefits are mostly measured against the income or means of the person involved. An example is the Supplementary Benefits Act. Also, these benefits often include payment supplements for specific conditions such as in the Assistance for Handicapped Young Persons scheme.

5.5 Universal payments cover all individuals regardless of means and contributions based on a particular qualification (e.g. number of children; employment status of children; whether claimants are school-going; whether as students claimants receive student loans under the Dutch Student Financing Act). Family benefits are an example. The government finances the total cost of these benefits.

Scale of expenditure on social security and pensions

5.6 Social expenditure is currently around €62 billion (£42 billion) a year in 2004 (**Figure 15**). Of this €62 billion, about €39 billion (£26 billion) comes from contributory social insurance funds.⁷² In 2001, total social expenditure in the Netherlands was 21.8 per cent of Gross Domestic Product.⁷³

Extent of fraud and error

5.7 The Netherlands has no overall measure of fraud and error, but is currently developing a methodology to measure the total extent of fraud and error. This measurement will probably entail using different techniques and methodologies to measure fraud and error in different benefits and aggregating the total fraud and error occurring within the system from there. Given the fragmentation in the social security administration, most measures of fraud or control activity occurring in social security entail a bottom-up or agency-based calculation, which is then aggregated. This approach also allows for a performance measure of the specific administrative unit or benefit.

5.8 At the moment, the Netherlands has two ways of measuring fraud and error in specific benefit types. The first approach measures the fraud and error occurring based on the rates of detection and prosecution, the basic measures ('kengetallen') of control activity. This is a management tool to see how successful control activities have been. These measures focus mostly on fraud rather than error. The investigation is also based on cases where fraud is suspected (through risk assessment or

the flagging up of cases by officials in the social security administration). So, these numbers do not give an accurate depiction of the total percentage of fraud occurring within the system. The rates of detection for the AOW (old age pensions) and WAO (disability) are given in **Figure 16**.⁷⁴ Out of 1772 people investigated in old age pensions cases, 361 were found to be fraudulent in 2004.

5.9 In all disability benefits (WAO, and disability benefits for self-employed and young people), the number of observed fraud cases fell from 2003 to 2004 (**Figure 17**). There exists a correlation between this development and the control activity in the social security administration. It is important to note that the Social Insurance Bank (SVB), which administers the AOW, and the Implementation Institute for Employment Insurance (UWV), which administers the WAO, have very different definitions of fraud. The most important difference is that the SVB only counts cases of deliberate fraud, while the UWV counts all cases where claimants/clients have given wrong information, be it deliberate or accidental. This difference in emphasis, for instance, explains why the UWV shows many more cases of fraud than the SVB and why the settlement percentages are so different between benefits.

15 Dutch social expenditure per benefit type

	2004 € million	2004 £ million at 2005 prices
Old Age (AOW)	22,999	15,409
Disability (WAO)	10,378	6,953
Unemployment (WW)	5,137	3,442
Sickness Benefits (ZW)	1,860	1,246
Survivor (ANW)	1,470	985
Minimum Income Guarantee	5,820	3,899
Government Payment to Social Funds	4,090	2,740
Child Benefit	3,318	2,223
Government Payment to AOW	2,632	1,763
Income Guarantee for Young Disabled	1,679	1,125
Total	61,926	41,490

Source: Centraal Bureau voor de Statistiek (CBS) 2005; Jaarverslag van Ministerie van Sociale Zaken en Werkgelegenheid 2005, p.159

5.10 To achieve total levels of fraud or total determination of the chances of fraud occurring these detection rates can be multiplied with risk measures (of fraud occurring in total number of cases) for each benefit taking into account differences in the measurement approach and definitions of fraud and error between agencies.

5.11 Another method is the survey method. There have been three major random response surveys among benefit recipients in the Netherlands in 2000, 2002 and 2004, the so called 'Periodiek Onderzoek Regeloovertreding Sociale Onderzoek' (POROSZ) I, II, and III.⁷⁵ These surveys tried to determine the percentage of recipients fraudulently claiming unemployment and disability benefits. The survey would link these percentages to the nature of fraudulent behaviour. This method does not facilitate the easy aggregation of how much fraud is occurring (recipients could exhibit more than one pattern of fraudulent behaviour), but gives policy makers a tool

to see how fraudulent behaviour changes and what kinds of fraudulent behaviour are most prevalent. Based on POROSZ I, II and III one could say that between 10 and 20 per cent of disability benefit claimants (WAO) submit fraudulent claims.⁷⁶ This outcome is a crude measure of fraud occurring in the system. The most common type of fraudulent behaviour in unemployment and disability benefit systems was performing odd jobs in the black economy while on benefits (between 14 and 22 per cent of respondents depending on the type of benefit). The more severe categories of fraudulent behaviour show lower percentages (see table below). The surveys also attempt to calculate which factors are most important in the choice between fraudulent and lawful behaviour. The factors form the 'Table of Eleven' and comprise of knowledge of the system, experience of the control dimension, and the experience, the probability, and fear of sanctions among others.⁷⁷

16 Measures of control activity for old age pensions (AOW)

	2002	2003	2004
Number of observed fraud cases	140	291	361
Total amount of fraud (x 1 euro)	1,425,377	3,410,652	3,982,197
Average amount of fraud (x 1 euro)	10,181	11,720	11,031
% of judicial settlement	89	71.8	73.41
% administrative settlement	11	28.2	26.59

Source: Ministerie van Sociale Zaken en Werkgelegenheid (2005)

17 Measures of control activity across all disability benefits

	2002	2003	2004
Number of observed fraud cases	5,365	7,451	5,582
Total amount of fraud (x million euro)	9	11	10
Average amount of fraud (x 1 euro)	1,762	1,522	1,880
% of judicial settlement	4	4	4
% administrative settlement	89	90	90

Source: Ministerie van Sociale Zaken en Werkgelegenheid (2005)

Definitions of fraud and error

5.12 The Dutch government mostly classifies benefit fraud. However, it does not give an explicit definition. This definition is not given on purpose as different implementation agencies use different definitions. Attempts to come to a common definition have been unsuccessful. The Dutch government does not seem to have a distinct category for overpayment through official error or customer error. The UWV does draw a distinction between official error and customer error in its figures. However, this distinction does not appear in national statistics or aggregate figures. There are four main categories of fraud:

- identity fraud: a person uses a false identity or social security number to claim benefits;
- income fraud: a person does not report his/her income correctly while claiming;
- estate fraud: a person does not report the assets/savings he/she has; and
- living situation fraud: a person does not inform benefit authorities about his true living and social situation.

Causes of fraud and error

5.13 The above classification shows some of the underlying causes of fraud and error. The Dutch government does not calculate how much each type of fraudulent behaviour costs overall.

5.14 However, in POROSZ I, II and III, the Ministry of Social Affairs and Employment gives a breakdown of the percentage of fraud per type of behaviour among respondents in a 'random response' survey.

5.15 POROSZ, through the so called 'Table of Eleven', also gives insights into the specific motivations of individuals to commit fraud.⁷⁸ Factors that have a positive effect on whether the rules are followed are: the knowledge of the rules (unemployment benefits); the realisation that following the rules entails few costs (disability benefits); the high probability of a sanction, so estimated by the claimant (unemployment benefits); the consequences that one expects from a sanction (disability benefits).

Trends over last 5-10 years and explanatory factors affecting trends

5.16 Trends in total fraud occurring are not evident, given that figures for total benefit fraud or figures on total fraud per benefit are not produced.

5.17 However, there are some trends in the detection of and motivation for fraudulent activity. Changes in the number of detections are mostly associated with changes in control activities. A drop in the number of fraudulent cases detected in the disability benefit scheme (AOW) between 2001 and 2004 was associated with new control measures that more effectively prevented fraudulent behaviour (mostly through information campaigns) and a new investigations approach that focused on larger and more complex fraud cases.

5.18 Trends in the types of fraudulent behaviour and the motivation of people show some changes from 2000 to 2002, from 2002 to 2004, and from 2000 to 2004 (see **Figure 18**). For instance, between 2000 and 2002 there is a greater propensity for claimants to work on the black market (the Dutch administration classifies this as a severe type of fraudulent behaviour). However, a POROSZ survey through a 'Table of Eleven' analysis also shows the motivations behind the behaviour. In this case, motivations do not appear to have shifted. The main reason behind these unchanged motivations seems to be the unchanged risk of detection of fraud in the benefit schemes. In particular, the probability of sanctions and investigation seems to have remained the same during those two years for both benefit schemes.⁷⁹

18 Results of fraud survey (POROSZ) in 2000, 2002 and 2004

Type of behaviour	Disability (WAO)			Unemployment (WW)		
	2000 (per cent)	2002 (per cent)	2004 (per cent)	2000 (per cent)	2002 (per cent)	2004 (per cent)
Doing small odd jobs without notifying the benefit authorities	14	16	18	15	17	22
Doing work on the black market	6	8	6	7	11	11
Not notifying authorities of a job or intermediary work	3	0	0	3	1	0
Not notifying an improvement in health	16	13	12		1	
Doing unpaid work without notifying the benefit authorities			1	18	26	22
Not applying for jobs on purpose			1	26	21	25
Declining a suitable job or ensuring that one is declined			1	16	11	12

Source: Report by TNS-NIPO (2003); van der Heijden et al (2005)

NOTE

1 This area was not investigated or deemed not applicable.

Examples of actions being taken to combat fraud and error or to reform social security systems⁸⁰

5.19 The control strategy of the Ministry of social Affairs consists of six components:

- a clear prevention strategy;
- intensive control policy;
- intensive investigation policy;
- adequate sanction policy;
- adequate steering and supervision; and
- continuous improvement of the overall strategy.

5.20 Prevention strategy in the Netherlands has two main components. First, rules and regulations need to be clear. Second, information campaigns relate to the public what the rules and regulations are, as well as the sanctions that follow from breaking the rules. The underlying reasoning is that a well-informed public is less likely to break the rules.

5.21 Intensive control policy consists of:

- information exchange and cooperation between departments and agencies (e.g. the closer involvement of municipalities in fraud investigations and the introduction of Programme Managers, a new post introduced by the Dutch government to facilitate working across levels of government and to coordinate data exchange and the exchange of good practice);
- data-matching between benefits and departments (e.g. the sharing of information between the inland revenue and the municipalities and the introduction of a central intelligence bureau [*inlichtingendienst*]);
- regular controls (verification of data) and sampling of specific cases (more money was made available and the overall number of case reviews was higher in 2004 than before); and
- risk analyses to identify in which sectors, groups, and areas there is a higher risk of fraud (the trend is that the direction of control policy is based on risk analysis).

5.22 More specific measures include:

- training of staff to spot patterns and instances of fraud (see e.g. the Social Insurance Bank);
- raising the quality of control procedures in municipalities and agencies;
- the introduction of flexible multi-agency intervention teams (they are expected to investigate 3,500 cases in 2006);
- investment in IT equipment;
- identity card technology (social services and controls in 2005 will be based on an electronic card system; The Netherlands have a unique fiscal number for each person, which is used for most interactions with government and allows comprehensive data exchange between agencies);
- the introduction of a contract at the end of benefit forms outlining the rights and responsibilities of claimants (e.g. obligation to declare changes in circumstances);
- monitoring cross-border fraud. Initiatives focus on:
 - controls on assets kept abroad;
 - specific immigrant groups claiming in more than one country;⁸¹
 - evaluation of current efforts and international benchmarking to see how large the problem is; and
 - investigation on how to recoup benefits paid out incorrectly.

5.23 The intensification (allocation of more money and implementation of policy) of many of these measures (specifically improving procedures, improving information exchange, and increasing capacity) is part of a new '*Slimmer, Breder and Meer Handhaven*' strategy ('Smarter, Wider, and More Control').

5.24 Sanction policy consists of a framework in which most agencies involved in social security administration set targets on how many cases they will investigate and how many cases they will bring to public prosecutors (*Openbaar Ministerie*). Overall, the detection of cases of fraud is on the increase. There exists a guideline to prosecute cases where fraud exceeds €6,000 (about £4,000). Below this level, agencies can set administrative penalties and fines, which can include measures such as deductions from future benefits. The SIOD, founded in 2002, should contribute to a greater capacity for the investigation and settlement of fraud.⁸²

5.25 Steering and supervision refer to the ability of the Ministry of Social Affairs and employment to coordinate and monitor implementation. New administrative arrangements should strengthen this role.

5.26 Additionally, the Dutch government sets out a cost-benefit analysis to see what savings investments in anti-fraud measures bring. The estimated savings and costs of the new 'Slimmer, Breder and Meer Handhaven' control strategy are shown in **Figure 19**.

Steps being taken to measure fraud and error

5.27 A study commissioned by a steering group ('*Stuurgroep Fraude en Financieel-Economische Criminaliteit*') of the Dutch government investigated if and how the total amount of fraud could be determined.⁸³ The conclusion of the report was that it is possible to measure the total amount of fraud. However, no single method can capture all kinds of fraud or can comprehensively determine how much fraud occurs. The study makes it likely that different methods might be used to capture fraud in specific benefit schemes. This leaves the measurement of fraud quite disaggregated. For instance, the POROSZ survey is specific to unemployment and disability benefits. Methods identified in the study are divided into two groups, person-based research and research using data registered in the social security administration. Methods involved in person-based research are: telephone and computer surveys; randomised response surveys; network scale-up methods (to reach groups that are otherwise hard to measure); and aselect controls. Methods for research focusing on registered data include: detection and redetection methods; multiplier methods; and Detection Controlled Estimation.

19 Cost-benefit calculation of 'Slimmer, Breder, Meer Handhaven' strategy

€ million	2003	2004	2005	2006
Savings/Revenue	21.4	50	70.8	77
Costs	27.3	37.7	41.3	40.3

Source: *Ministerie van Sociale Zaken en Werkgelegenheid (2002), p.7*

Details of how benefits/pensions are accounted for in national accounts

5.28 Social insurance funds such as the Social Insurance Bank keep social insurance payments and receipts on their accounts. The Ministry of Social Affairs and Employment keeps 'other' payments and government spending on its accounts.

Effect on fraud and error on external audit's opinion on national accounts

5.29 The accounts of the Department and those of its predecessor departments have been approved in 2004. The Dutch Audit Office [*Algemene Rekenkamer*] gives an opinion upon which the two Houses of Parliament (*Staten-Generaal*) in the Netherlands give the Minister of Social Affairs and Employment 'décharge'. However, this 'décharge' applies only to the annual report of the Ministry of Social Affairs and Employment and not to the strategy of the Ministry in the area of fraud and error. The Dutch Audit Office was quite critical of this strategy in 2004.⁸⁴

CHAPTER SIX

Country Study: New Zealand

Description of social security system

6.1 The Ministry of Social Development (MSD) and Work and Income New Zealand (WINZ) are the principal Government agencies responsible for social security. The provision of the “Social Security Act 1964” broadly set out structure of the benefit system. Benefit types, eligibility criteria, and rates are set by (one or more of) legislative acts, Ministerial Policy, and the exercise of discretion by the Ministry’s Chief Executive. The Ministry can only grant benefits to people who make a ‘claim’ for a benefit.

6.2 Benefit types are structured in three tiers.

- **First-tier benefits** comprise the core entitlement based on the beneficiary’s reason for the benefit application: Domestic Purposes Benefit; Independent Youth Benefit; Invalidity Benefit; New Zealand Superannuation; Orphan’s Benefit; Sickness Benefit; Unemployment Benefit; Unsupported Child’s Benefit; and Widow’s Benefit.
- **Second-tier benefits** – known as supplementary benefits – are an entitlement where the beneficiary has a particular set of circumstances that incur extra costs. These include: Accommodation Supplement; Disability Allowance; Child Disability Allowance; and Training Incentive Allowance.
- **Third-tier benefits** provide assistance for people who have a temporary need, and are an acknowledgement that the core and supplementary benefits will not always enable the beneficiary to meet costs that result from an emergency or unexpected situation. Payment of third-tier benefits is discretionary and is not an entitlement until such time as the decision to exercise the discretion has been taken. These include: Special Needs Grants; Advances; and Special Benefit.

6.3 The New Zealand (NZ) social security system is almost entirely composed of income-tested support programmes. With only a small number of exceptions, New Zealand’s income support programmes have the following characteristics.

- They are funded out of general taxation revenues and do not involve employer or employee levies;
- eligibility is primarily dependent on meeting categorical criteria and does not depend on a history of contributions;
- payments are flat-rate and not related to prior earnings;
- assistance is targeted to those in greatest need by means of an income test;
- financing is pay-as-you-go; and
- the system is delivered by central government, with no involvement of local or municipal government or separately administered funds.

6.4 There are some important exceptions to this general pattern. Accident compensation is delivered via a social insurance-type programme, which is funded out of a mix of tax and levies on employers and some of the proceeds of motor vehicle registrations. Payments are related to prior earnings. Coverage encompasses all accidents, rather than being restricted to work-related injuries. The public pension, known as New Zealand Superannuation (NZS), is not subject to an income test, but payable to all New Zealanders aged 65 or over. Payment is also subject to residency criteria.⁸⁵

6.5 Work and Income is a service of the Ministry of Social Development. Work and Income has 11 regional offices and service centres nationwide. The National Office is in Wellington. Work and Income helps job seekers and pays income support on behalf of the Government. This includes superannuation payments to retired people along with the administration of war pensions, residential care and support subsidies. Work and Income also administers the Community Services Card, International Services, and the Enterprising Communities grants programme.

Scale of expenditure on social security and pensions

6.6 Over the year to 30 June 2005, the Ministry had a budget of almost NZ\$762 million (£304 million⁸⁶) and administered approximately NZ\$13.7 billion (£5.5 billion) in payments to New Zealanders, including New Zealand Superannuation (NZ\$6.1 billion [£2.4 billion]), social security benefits (NZ\$5.9 billion [£2.4 billion]) and Student Loans, Student Allowances and related payments (\$1.3 billion [£0.5 billion])⁸⁷ (Figure 20). Social security benefits (NZ\$5.9 billion) as a percentage of Gross Domestic Product (GDP) stand at approximately 18.9 per cent.⁸⁸

20 Expenditure in terms of the major benefits for the year ended 30 June 2005

	NZ\$000	£000
New Zealand Superannuation	6,083,189	2,427,801
Domestic Purposes Benefit (income-tested)	1,547,087	617,442
Invalid's benefit (income-tested)	1,025,617	409,324
Unemployment benefit (income-tested)	831,136	331,706
Accommodation Supplement	749,652	299,186
Sickness benefit (income-tested)	509,644	203,399
Student Allowances	359,176	143,347
Special Benefit	175,177	69,913
Veteran's Pension	118,697	47,372
War Disability Pensions	106,571	42,532
Widow's Benefit (income-tested)	88,478	35,312
Total	11,594,424	4,627,334

Source: Ministry of Social Development 2005-2006

6.7 Benefit Control aims to identify overpayment (including fraud) early to maximise prospective saving. Total expenditure was estimated at NZ\$38.3 million (£15.3 million) in 2003-04. The cost-benefit target for benefit control is NZ\$2.50 saved for every NZ\$1 spent (or approximately £1 saved for every £0.40 spent).

Extent of fraud and error

6.8 The MSD has systems to measure payment accuracy, which are audited and reported on annually. The MSD's approach to ensure accuracy is limited to control measures after the application has been received. Control, in this way, pertains to the accuracy of the processing of applications and reviews of benefit entitlement. The performance measure for the accuracy of benefits granted to working age beneficiaries is that "the percentage of entitlement assessments completed accurately will be no less than 88%-90%" (92 per cent for people receiving New Zealand Superannuation). The MSD (via the Accuracy Reporting Programme) does not seek to estimate the total cost of payment errors, whether in terms of the amounts of benefits overpaid or in terms of the cost of "fixing" the errors. The risk of large errors in the system appears low.

6.9 In December 2001, the MSD's internal auditors completed a study on the processing of benefit applications. The study found that 2.7 per cent of cases sampled had errors that resulted in benefits being paid inaccurately. The study did not examine whether payment errors were continuous or occurred only once.

6.10 The Ministry's "Annual Report" (2005) and "Statement of Intent" (2005) have a series of service result measures to protect the integrity of the benefit system, including quality, quantity, timeliness and other general measures, as shown in Figure 21.

Definitions of fraud and error used

6.11 Fraud refers to a violation of civil or criminal statutes and involves intentional misrepresentation of facts for the purpose of obtaining unauthorised benefits from a programme. This misrepresentation may involve either the deliberate provision of incorrect facts or the deliberate failure to provide correct facts.⁹⁰

6.12 There were only limited references to 'error' in social security reports.⁹¹ Instead, reports discuss accuracy. The Ministry's obligation is to pay benefits correctly on the basis of the information available to it. The MSD measures accuracy in terms of this obligation. The MSD also uses the terms fraud and abuse.

21 Achievement of result measures by 30 June 2005

Result Measures	Actual 30 June 2005	Standard 30 June 2005
Clients are aware of the consequences of committing benefit fraud	Standard met (70%)	Results from the 2004-05 year will be used to establish an appropriate benchmark for future years
The change of circumstances notification and benefit cancellation rate for clients contacted through the early intervention strategy will exceed 15%	New measure in 2005-06	
The average duration of fraudulent overpayments will not exceed 45 working days	New measure in 2005-06	
Of the cases that we prosecute, the proportion of successful prosecutions concluded will exceed 85%	New measure in 2005-06	
Quantity		
The number of cases completed by Area Benefit Control units will be:		
Investigations	36,994 ¹	25,000
Early Intervention	18,638 ²	15,000
The number of cases reviewed will be:		
Data-match cases	62,133	35,000
Client Review Process	9,471	5,000
The number of cases investigated to determine correct entitlement will be:	127,236	80,000
Timeliness		
The percentage of benefit Control cases completed within 90 working days of assignment will be no less than	87.3%	80%
Quality		
The percentage of prosecutions concluded in 2004-05, where decisions are in the MSD's favour	Standard met (85%)	Results from 2004-05 are used to establish an appropriate benchmark for future years
The percentage of cases where decisions that are open to review remain unchanged will be no less than	99.7%	98%
Investigation cases will be audited for quality of investigation and adherence to investigation standards:		
For cases involving potential fraud greater or equal to \$5000	100%	100%
For cases involving potential fraud less than \$5,000	16.2%	10%
For every dollar spent (net of tax & GST exclusive), the return in relation to prospective savings due to intervention will be no less than	NZ\$2.55 (£1.02)	NZ\$2.00 (£0.80)
In relation to data-match cases will be no less than	NZ\$3.02 (£1.21)	NZ\$2.50 (£1.00)
The total dollar rate of return in relation to data match and intervention will be no less than	NZ\$5.57 (£2.22)	NZ\$4.50 (£1.80)

Source: Ministry of Social Development (2005)

NOTES

- 1 Due to the volume of cases on hand at the start of the period, a large number of less complex investigations were undertaken which resulted in a higher number of cases being cleared than forecast.
- 2 Greater emphasis has been placed on intervention work leading to the trend of higher case numbers.

Causes of fraud and error

6.13 A number of cases of fraud and error were highlighted in the Report on accuracy in social security payments of the Comptroller and Auditor-General (2003). According to the report, there are five main circumstances that can cause a benefit to be paid inaccurately:

- An applicant or beneficiary unwittingly provides inaccurate information or unwittingly fails to provide complete information about their circumstances.
- An applicant or beneficiary provides false information to the Ministry, thereby obtaining a benefit payment to which they are not entitled. In such circumstances, the applicant may be guilty of fraud.
- A member of the Ministry's staff (usually a case manager) makes an incorrect decision about one or more of the following: the persons eligibility; their entitlement; and the amount of benefit that is payable.
- A member of the Ministry's staff makes a clerical error.
- The failure of the Ministry's payment system causes an error, for example SWIFTT (Social Welfare Information for Tomorrow Today) has some constraints that limit its use to identify accuracy. These limits include inadequate provision of the following control measures: automatic checks; alerts to case managers; compulsory fields to provide explanations of decision; and the production of management information.

6.14 There are four activities, which have the greatest effect on case manager accuracy: case managers' caseloads; checks on case managers' performance; training of case managers; and case managers performance assessments. Any of these circumstances – including fraud – can lead to the Ministry making an underpayment or an overpayment, or a payment that should not be paid at all.

6.15 The Comptroller and Auditor-General concluded that the average complexity of benefits influences a region's accuracy rate.⁹² However, complexity does not uniquely determine this rate. In addition the Ministry's structure adds to the complexity. For example, the Service Delivery (Work and Income) and Specialist Services (e.g. Benefit Control and Debt Management) operate in relative isolation.

Trends over last 5-10 years and explanatory factors influencing trends

6.16 Trends over the last 5-10 years:

- Implications of the introduction of single core benefit;
- Accuracy Reporting Programme – results are only reported annually to the national level, and there is limited sharing of information between regions;
- incentives for staff – case managers' pay and promotion are linked to the achievement of individual targets that are in turn linked to those set at regional level; and
- the Ministry monitors case managers' individual performance on accuracy through key performance indicators (5+5 checks). These checks help identify training needs, are continuous, and raise awareness of processing issues among case managers and team coaches. They provide valuable information on accuracy in service centres, and are an effective means of achieving and maintaining accuracy.

Examples of actions being taken to combat fraud and error

6.17 In February 2005, the government agreed in principle to introduce a single core benefit from 2007-08. The single core benefit will involve one set of rates and one set of eligibility criteria and add-ons for people with high housing, childcare or disability costs.⁹³

6.18 Actions to combat fraud and error include the following:

- 1 **Benefit fraud field offices:**
Offices contact and visit clients to ensure they are receiving their correct entitlements or identify instances where fraud has occurred. In 2004-2005, the Ministry conducted over 127,236 investigations.
- 2 **Financial control:**
The MSD has centralised group finance and internal audit functions. The MSD has strong budgeting and financial control procedures.
- 3 **Dedicated Output Class: services to protect the integrity of the benefit system:**
The MSD promotes voluntary compliance and ensures that there is an effective response to deliberate fraud. Benefit control provides assurance that the integrity of the benefit system provided by the Ministry is protected by preventing, detecting, deterring and

sanctioning benefit fraud. Benefit control minimises fraud or abuse through investigations, data-matching, and early intervention reviews.

4 Investigations and prosecutions:

This involves the investigation of irregularities in client information and of allegations received from external sources. Such investigations aim to detect and assess the overpayment of entitlements and to deter clients from re-offending. The MSD also may randomly select clients to check entitlement forms or carry out lower level investigations on selected client cases that appear different from the information held by the Ministry.

5 Data-matching:

Data matching can detect clients who are receiving or have been receiving entitlements to which they are not eligible. Data-matching also provides information to support investigations and prosecutions. The Ministry matches data with five other Government departments or agencies.

6 Early intervention programmes:

These programmes are designed to prevent, detect, and deter fraud sooner than is the case with investigations or regular reviews. The programmes focus on risk management; detecting overpayments; early investigations into suspected irregularities to determine whether people are or have been receiving benefits illegally; activities to deter benefit abuse; and detecting and preventing fraud early. These programmes also involve a brokering role to ensure clients can access entitlements and to remind them of their obligations, and assist with additional services where required.

7 Risk Management:

The MSD has extensive programmes of audits and evaluations, and a zero-tolerance policy to internal fraud.

8 Standard reviews:

After 26 weeks or 52 weeks, depending on benefit type, the beneficiary has to re-declare their core eligibility.

Steps being taken to measure fraud and error

6.19 The Report of the Controller and Auditor-General (2003) discusses measuring and reporting accuracy versus error. The Ministry has an Accuracy Reporting Programme (ARP). The ARP measures and reports accuracy on the

basis of the Ministry's statutory obligations and Purchase Agreements. It does not provide a wider measure of benefits paid accurately. Some of the cases selected as part of the ARP sample cannot be assessed as correct or incorrect, because files or parts of files are found to be missing. At present, the Ministry excludes these cases known as 'unverifiable' from the sample. These omissions have implications for the estimate of the overall level of accuracy.

6.20 The ARP estimates the level of accuracy of the 'total population' of benefits on the basis of the accuracy of a relatively small random sample of those benefits. The ARP provides a measure of the proportion of cases found to be accurate, rather than any measure of the size of incorrect payments or fraud. It cannot therefore be used to estimate the total amount of overpayments or fraud that potentially exists in the system. The Benefit Control Unit reports only the overpayments (including cases of fraud) that it identifies and seeks to recover. It does not estimate the total value of overpayments (including fraudulent overpayments) that may actually exist.

6.21 In 2004-2005, the MSD:

- recovered NZ\$72.904 million (£29.1 million) in overpayments, recoverable advances and debt from former clients;
- recovered NZ\$4.858 million (£1.939 million) of debt and fraudulently received Student Loans;
- collected NZ\$192.4 million (£76.8 million) in debt from current beneficiaries; and
- reviewed over 62,000 data-match cases.

Details of how benefits/pensions are accounted for in national accounts

6.22 Expenditure on benefits, including pensions is recorded in the annual reports of the Ministry of Social Development.

Effect of fraud and error on external audit's opinion on national accounts

6.23 The accounts of the Ministry of Social Development were approved in 2004. Of all departments audited, only the Ministry of Environment had its accounts qualified in 2004. The Office of the Auditor-General rates the accounts of all departments on the basis of various financial reporting criteria.⁹⁴

CHAPTER SEVEN

Country Study: Sweden

Description of social security system

7.1 There are two ministries which are responsible for the administration of social security in Sweden: The Ministry of Health and Social Affairs (*Socialdepartement*) is responsible for most of the social security system including the pension scheme, while the Ministry of Industry, Employment and Communications (*Näringsdepartement*) is responsible for unemployment benefits and labour market related programmes.

7.2 Administration and the implementation of the programmes are delegated to central agencies, which have seen some major institutional reshuffles within the last years. From January 2005, social insurance is administered by the Swedish Social Insurance Agency (*Försäkringskassan*), which was created by merging the 21 regional social insurance offices (*Allmänna Försäkringskassorna*) and the National Social Insurance Board (*Riksförsäkringsverket [RFV]*).

7.3 Institutional responsibilities in the area of unemployment benefits are more fragmented. Unemployment benefits are distributed by 37 Unemployment Insurance Funds (*A-Kassorna*), which have close ties to specific labour unions and are organised along occupational groups. These funds are not public authorities, but agencies under private law. The Swedish National Labour Market Administration (*Arbetsmarknadsverket*) is responsible for most of the active labour market policies and for the transfers of state funds to the Unemployment Funds. The Swedish Unemployment Insurance Board (*Inspektionen för*

Arbetslöshetsförsäkringen) supervises the Unemployment Insurance Funds, as well as the National Labour Market Agency, in matters concerning unemployment insurance to ensure proper payment of benefits and the proper application of the law.

7.4 The different agencies are linked to the national budget through the Ministries' budgets. A key governance instrument is a system of 'management by results'. Annual appropriations, central policy objectives and reporting requirements are included in the annual appropriations directives (*regleringsbrev*). The results are then communicated in the annual report. The reduction of fraud and error is, for instance, one of the objectives included in the directive for the Swedish Social Insurance Agency.

7.5 Old-age, disability, survivors and unemployment benefits consist of employment related (social insurance), universal as well as means-tested benefit types. The old-age pensions consist of a minimum guarantee pension for every resident, a life-time employment related pension as a 'pay as you go' scheme and a premium pension based on capital savings. This is the unified social insurance and individual notional and mandatory accounts system, which was introduced in 1999. It was an important reform of the social security system. Further social insurance benefits include benefits for the sick and disabled, housing support, parental insurance etc. Unemployment benefits consist of an income-related insurance scheme for those who fulfill certain eligibility requirements (e.g. duration of work) and a basic cash benefit scheme for those not eligible for the income-related payments, but able to work.

Scale of expenditure on social security and pensions

7.6 In 2004 a total of about 445 billion SEK (£32 billion at 2005 current prices) was spent on social welfare, and an additional 32 billion SEK (£2.2 billion at 2005 prices) on unemployment benefits (**Figure 22**). In 2001, total social expenditure in Sweden was about 29 per cent of Gross Domestic Product (GDP).⁹⁵

Extent of fraud and error

7.7 Data on the extent of fraud and error is not produced systematically. While there exists some data in the realm of social insurance, there exists virtually no data on unemployment benefits. Recent data on the overall scale of fraud and error is not available. Estimates by the Swedish National Audit Office (Riksrevisionsverket) from 1995 are in the range of annual losses from 5.3 billion SEK (£380 million at 2005 current prices) to 7.4 billion SEK (£533 million at 2005 current prices).⁹⁶

7.8 In its annual report, the Social Insurance Agency publishes data on the number of cases of fraud reported to the police. The increase in the number of cases reported to the police from 2000 to 2004 cannot be taken as an indication of an overall increase of fraud (**Figure 23 overleaf**). The increase in the number of cases is closely linked to new organisational policies to report every instance of fraud to the police and the result of specific control activities.

7.9 Furthermore, there have been specific reviews of certain programmes conducted by the National Social Insurance Board. The degree of fraud uncovered during these reviews varies greatly between the different benefit schemes and within the schemes, depending on the method applied (**Figure 24 overleaf**). Again, these figures have to be treated carefully, as there are some programmes (e.g. temporary parental cash benefit), which are much easier to control than, for instance, sickness insurance. Thus, controls and police reports are more likely in areas which are easy to control and where evidence for fraud is easy to obtain. The following table reviews some of the results of specific control activities.

7.10 As mentioned above, there is only sparse data on fraud in unemployment insurance, but in the mid 1990s a series of inquiries was made into the number of people who had unlawfully received double payment of unemployment insurance and other benefits. The results are given in **Figure 25 overleaf**.

22 Scale of expenditure on social security and pensions

2004, at current prices	million SEK	£ million
Old Age Pension	186,557	14,204
Sickness/Inactivity compensation	64,201	4,888
Sickness insurance (sickness cash benefit, rehabilitation compensation, allowance for care of close relatives)	44,106	3,358
Unemployment benefits ¹	32,613	2,483
Parental insurance	23,469	1,787
Child allowance	20,873	1,589
Survivor's pension	15,927	1,213
Assistance allowance	12,748	971

Source: Försäkringskassan (2005b)

NOTE

1 Source: Swedish Unemployment Insurance Board.

23 Number of reports to the police 2000-2004

Benefit scheme	2000	2001	2002	2003	2004
Child allowance	53	44	43	43	52
Sickness/Activity compensation	8	5	14	15	40
Sickness Insurance	34	44	86	101	192
Housing allowance for child families and young people	52	20	49	44	102
Parental cash benefit	20	7	25	38	69
Temporary parental cash benefit	65	52	65	101	241
Housing supplement for pensioners	17	20	19	7	115
Other payments	21	20	97	61	119
Total	270	212	398	410	930

Source: Riksförsäkringsverket (2005), p. 106

24 Results of special control activities (in £ at 2005 current prices)

Benefit scheme	Cases reviewed	% of total cases involving fraud	Amount of fraud in observed cases	Estimated total amount of fraud
Temporary parental cash benefit	940	39	£75,735	n.a.
Sickness insurance, 3 methods				
1. Home visits	651	1	n.a. of total cases	0.02%-3.46%
2. Comparison with income tax register for cases which received benefits for a whole year	420	0	None	None
3. Inquiry in suspected fraud cases as a result of internal, external and anonymous reports	453	20	n.a.	n.a.
Activity compensation (2004)	1260	7.68	£10,959	£3.9 to £8.7 million
Dental Care, dentist's bills in October (2004)	992	1.5	n.a.	n.a.

Source: Riksförsäkringsverket (2004a; 2004b); Försäkringskassan (2005a)

25 Double payment in unemployment insurance

	% of cases of people illegally receiving unemployment benefits and other payments	Estimated total amount of fraud
1994	0.35	80 million SEK (£6.5 million)
1996	0.2	65 million SEK (£4.7 million)

Source: Riksrevisionsverket (1999)

Definitions of fraud and error

7.11 The Swedish National Audit Office makes several distinctions between fraud and error:

- Errors;
 - Errors made during application procedures, i.e. missing documents, mostly customer error.
 - Errors made during the processing of the case, i.e. official error.
 - System error: If the error is the result of underlying laws and procedures, it is considered a system error.
- Fraud: deliberate attempt to unlawfully obtain benefits;
 - White fraud: Fraud, which can be detected during regular or extraordinary revisions of registers and files, for instance, by comparing existing data in customer files.
 - Black fraud: Fraud, which can only be detected by extraordinary control activities, for instance clandestine employment.
- Fraud committed by employees (*oegentligheter*); and
- 'Overexploitation' (*överutnyttjande*): Sometimes, the term 'overexploitation' is used to denote cases, in which overpayment occurs due to cross-payments from different benefit schemes or due to changed circumstances. In these cases the customer, aware or unaware of the mistake, can be held liable, but instead the legislation or the administration is responsible for the problem.

Causes of fraud and error

7.12 Causes of fraud and error are not systematically collected. Among the causes given in public reports are:

Social insurance:

- Claiming multiple benefits from different programmes: e.g. claiming unemployment benefits and sickness insurance at the same time.
- Claiming benefits by providing false or misleading information: e.g. claiming sickness insurance without being sick, claiming activity allowance without taking part in active labour market policies etc.
- Undeclared income from various other sources.

Unemployment benefits:

- Receiving benefits and working illegally at the same time ('black fraud').
- Combining unemployment benefits with regular work or other benefits ('white fraud').
- Claiming unemployment benefits by providing false or misleading information.

Trends over last 5/10 years and explanatory factors affecting trends

7.13 There is no reliable quantitative data on the development of fraud and error over the last 5 to 10 years. However, the Swedish National Audit Office has published several reports on fraud and error (Riksrevisionsverket 1995; 1999; 2002), providing a qualitative assessment on the development of fraud and error in social insurance and unemployment insurance (**Figure 26**). According to the Swedish National Audit Office, the number of errors in social insurance has not decreased from 1995 to 2002. No assessment can be made for unemployment insurance so far.

7.14 Since the introduction of a new quality management tool (QBen II), the Swedish Social Insurance Agency reports annually on errors in the processed cases, as shown in **Figure 27 overleaf**. The increased number of errors in 2004 is explained by the Agency as the result of a more specific definition of error and thus not comparable to the previous year's results.

26 Change of fraud and error

1995-1999-2002	Social insurance	Unemployment insurance
Did knowledge about errors increase?	Yes	No
Did the amount of errors decrease?	No	Unknown
Did knowledge about fraud increase?	No	No
Did the amount of fraud decrease?	Unknown	Unknown

Source: Riksrevisionsverket (2002), p.220

27 Average share of correct processed cases

	2002 (per cent)	2003 (per cent)	2004 (per cent)
Share of correct decisions	98.8	98.5	98.2
Share of correct payments	99.1	99.2	99.2
Share of correct basic data for decision-making	94.4	93.4	89.8

Source: Riksförsäkringsverket (2005), p. 157

Examples of actions being taken to combat fraud and error or to reform social security systems

7.15 Since 2004 a new control strategy is being implemented by the Swedish Social Insurance Agency. The strategy primarily aims at preventive measures with the slogan, 'right from the beginning'. The strategy is divided in four areas of control:

- controls during processing of the cases;
- control of quality during processing;
- control of suspected fraud; and
- control of fraud committed by employees.

7.16 Activities in the different areas comprise among other things:

- risk assessment for the most important benefits to identify high-risk areas and to better target control efforts;
- data-matching with other agencies, e.g. unemployment insurance;
- implementation of IT-tools to identify high risk cases;
- training of staff;
- the publication of a new handbook on fraud for the employees of the agency in 2004;
- special controls for certain high risk areas; and
- regular random sampling in specific areas.

7.17 Special measures have been introduced in the last years to improve coordination and data matching between unemployment insurance, the social insurance agency, the tax office and the agency for student loans. A new IT system has been implemented, which allows for real time cross-checking of data between the agencies. The results of this initiative seem to be promising. A comparison of a week in 2003 and 2004 shows a reduction of cases of overpayment by 27 per cent and a reduction in the amount of overpayment by 25 per cent, although cases of overpayment in the parental allowance scheme increased by 29 per cent.

7.18 These measures required legislative action, because the unemployment insurance funds are not public authorities. These authorities are subject to private law and had to be included in the public sectors privacy legislation.

7.19 In the 2006 Budget, the government proposes a range of matters to counter cheating on benefits and allowances. These include:

- more resources for control activities;
- better regulation: taking into account the risk of fraud and error in designing new regulation;
- strengthening of incentives for the agencies to discover fraud;
- increased information exchange, and review of the existing measures;
- reforming criminal law for better prosecution of fraud; and
- review of regulations for demanding repayment of benefits and allowances.

7.20 As a first step towards implementing these goals, the Government set up a number of commissions in May 2005 to coordinate the activities to counter fraud and error and to investigate possibilities for further action.

- The “delegation for measures against incorrect payments from the social security system”⁹⁷ consists of representatives from the different social security agencies and aims to develop a set of common definitions and methods to measure and counter fraud and error.
- Special inquirers have been commissioned to investigate:
 - The tightening of criminal law in connection with social fraud.
 - Possibilities of increased IT-based information exchange.
- The Swedish Agency for Public Management (Statskontoret) has been commissioned to evaluate the measures taken so far to improve information exchange and to produce suggestions for improvement.

Steps being taken to measure fraud and error

7.21 In 2005 the Social Insurance Agency was commissioned by the Ministry of Health and Social Affairs to develop an indicator to measure the extent of fraud and error within the administration of social insurance. It plans to integrate measures of fraud for the different benefit schemes into the quality reporting system (Qben II). For the most important benefits, a random sample of cases will be selected to check, for instance, whether the information provided by the customers is accurate. These measures might already be used in the next annual report. Reporting on errors has already been integrated into the quality reporting system, as noted above.

7.22 Furthermore, the Social Insurance Agency has since 2004 been working on a measure to quantify savings made from the detection of fraud. However, the development of this measure seems to be problematic and there is no satisfying result yet. There seems to be no systematic attempt to measure fraud and error within unemployment insurance so far.

Details of how benefits/pensions are accounted for in national accounts

7.23 Benefits and Pensions accounting:

General Benefits:

With the exception of old-age-pensions, social insurance contributions are not transferred to specific funds, but go instead into the national budget. Funds are accounted for in the national budget and transferred to the Swedish Social Security Agency in the annual appropriations directive.

Unemployment Insurance:

Unemployment insurance combines insurance contributions by the employees, which are administered independently from the state budget by Unemployment Insurance Funds.

7.24 The state’s contributions to unemployment insurance are transferred to the Unemployment Insurance Funds from the annual appropriations of the National Labour Market Agency’s.

Effect on fraud and error on external audit’s opinion on national accounts

7.25 In 2003, 2004 and 2005 there were no references to the level of fraud and error in the regular annual audit of the accounts of the Swedish Social Security Agency by the Swedish National Audit Office. But the activities of the Swedish National Audit Office also include occasional in-depth evaluations. Three such evaluations, which report on fraud and error within the social security system, have been conducted so far (1995, 1999 and 2002). These resulted in a number of proposals to improve measures of fraud and error control and to adapt the regulatory framework.

CHAPTER EIGHT

Country Study: USA

Description of social security system

8.1 The United States has a federal system of government under which powers and responsibilities are shared between the central (federal) government, state government, and local government. Most of the social security system is funded at the federal and state level, although some benefits may be distributed locally. The social security system can be broken down into a number of main areas:

Social Insurance: The federal government funds the bulk of the social security systems. The Social Security Act (SSA) provides protection from wage loss resulting from retirement, long-term disability, death, unemployment, and medical care during old age or disability. The federal programme provides monthly benefits to retired or disabled workers or their survivors. These benefits are funded by a payroll tax on earnings of all workers and their employers (including self-employed).

Unemployment insurance is managed by the US Employment and Training Agency and by state employment agencies. State agencies also manage unemployment compensation for eligible federal employees on behalf of the Department of Labor. Under state law, benefits are paid to unemployed eligible workers. The length and amount of these benefits varies by state. The programme is funded by a federal unemployment tax levied on employer payroll taxes. About 97 per cent of wage and salary workers are covered by this programme.

Workers' compensation: States are responsible for providing income protection against work-connected injuries and death while federal laws provide this for government employees. In most states, benefits are linked to the workers' salaries and may or not be automatically adjusted to present wage levels.

Income support: Income support programmes are intended for those individuals with limited income and resources. The two major federal programmes, providing monthly income support payment, are the Supplemental Security Income (SSI) programme and the Temporary Assistance to Needy Families (TANF). The SSI programme provides income support to the elderly (65 years or older) as well as blind and disabled adults and children. Eligibility requirements are the same across the country and states are able to supplement payments. The TANF programme is a series of block grants. It essentially provides funds for families with dependent children, job seekers, and those requiring emergency assistance. The grants are contingent on work requirements and child-support enforcement, and try to encourage families to move from welfare to work.

Federal food stamp programme: This is a federally administered programme, which provides individuals and families meeting income and asset eligibility requirements with vouchers redeemable for food items at most retail stores. The amount of benefit is determined by household size and income. The maximum benefit is that which provides a nutritiously adequate diet for the household size, and the benefit is adjusted according to food costs.

Health and welfare services: These services are largely provided by state governments through federal grants. They cover child welfare services, vocational rehabilitation, activities for the aged, maternity/infant care programmes, and comprehensive health services. Additionally, there are two categories of social security benefit, which do not apply to the United Kingdom.

Medical payments: Because the United States does not have a national health service, the federal government offers medical benefits to individuals and families falling under income thresholds. Additionally the government funds public assistance medical programmes to provide services for those who are not insured or able to afford private medical cover.

Veterans' pension and disability: The federal government has a pension and disability programme for those former soldiers, who leave service with medical conditions incurred or worsened through their federal service. This programme is administered by the Veteran's Administration and is distributed by a monthly payment determined by the extent of disability. The United Kingdom does not have such a system, as it tends to provide lump-sum payments to its veterans.

8.2 In addition to the social security and benefit scheme, the United States also offers tax credits in lieu of benefit payments for health care, child support, and low income. In the 2006 budget, these items accounted for approximately US\$47 billion (£28 billion) in tax credits.

Scale of expenditure on social security and pensions

8.3 Currently around US\$1,221 billion (£718 billion using £1: US\$1.70) a year in 2002 (**Figure 28**). Public social expenditure in the USA was 14.8% of Gross Domestic Product (GDP) in 2001.⁹⁸

Extent of fraud and error

8.4 The *Improper Payments Information Act* (IPIA) of 2002 requires federal agencies to review their programmes and activities to identify those, which may be susceptible to improper payments (such as fraud and error). Agencies must then report the causes and corrective measures taken of improper payments, which exceed a certain

threshold (currently US\$10 million [about £6 million] per agency). The Office of Management and Budget (OMB) has estimated improper payment levels of US\$55 billion (about £30 billion) across the federal government.⁹⁹

8.5 It is not possible to provide estimates of the full extent of fraud and error in US social security programmes because the system is so disaggregated and falls under multiple federal departments (which may not differentiate between social security and other programmes). However, using data from departmental performance and accountability reports, it is possible to compare the relative extent of fraud and error within specific federal programmes.

8.6 In 2003, the Department of Housing and Urban Development (HUD) estimated total improper payments of US\$1.9 billion (£1.12 billion), or 3.6 per cent of HUD's total payments.¹⁰⁰

8.7 In 2004, the Social Security Administration estimated total improper overpayments of US\$2.58 billion (£1.52 billion), or 0.53 per cent of payments for the Old Age Survivors and Disability Insurance (OASDI) programme. Additionally, the SSA estimated improper overpayments of US\$2.41 billion (£1.42 billion) for their SSI programme.¹⁰¹

8.8 In the same year, the Department of Labour estimated total improper payments of US\$1.9 billion (£1.12 billion), or 5.07 per cent of payments for their Unemployment Insurance programme.¹⁰²

28 Major US benefits in terms of expenditure

Scheme Expenditure	2002 \$ billion	2002 in £ billion (2005 prices)
Retirement and Disability Benefit	472	278
Medical Payments	526	310
Income Maintenance Benefits	122	72
Unemployment Insurance	54	32
Veterans' Benefits	30	17
Federal Education/ Training Assistance	13	8
Other payments	2.5	1.5
Total	1,219.5	718.5

Source: Social Security Administration

8.9 The Department of Veterans' Affairs (VA) estimated total improper overpayments of US\$168.5 million (£99.1 million), or 0.64 per cent of payments for their compensation programme in 2004. Additionally, the VA estimated improper overpayments of US\$265.4 million (£156.1 million), or 7.82 per cent of payments for their pension programme.¹⁰³

Definitions of fraud and error

8.10 US terminology tends to refer to 'fraud, waste, and abuse' rather than fraud and error. More specifically, the US refers to 'improper payments' to cover specific incidences of government over- or under-payment of benefits or pensions.

8.11 In the US Government Accounting Standards (GAO Publication GAO-03-067G), the Yellow Book, fraud and abuse are defined as follows:

- Fraud (Paragraph 6.16, Footnote 70): Fraud is a type of illegal act involving the obtaining of something of value through wilful misrepresentation.
- Abuse (Paragraph 6.19): Abuse is distinct from fraud, illegal acts, or violations of provisions of contracts or grant agreements. When abuse occurs, no law, regulation, or provision of a contract or grant agreement is violated. Rather, abuse involves behaviour that is deficient or improper when compared with behaviour that a prudent person would consider reasonable and necessary business practice given the facts and circumstances.

Causes of fraud and error

8.12 There are many causes of fraud and error in social security (and other) programmes. However, some appear more prevalent than others, to include:

- Lack of internal control – a 2001 GAO study found that "the basic or root causes of improper payments can typically be traced to a lack of or breakdown of internal control."¹⁰⁴
- Programme administrator error – failure of administrators to apply proper rules to benefit payment.
- Income reporting error – failure of the beneficiary to disclose all income.
- Employment reporting error – failure of the beneficiary to disclose correct employment status.
- Billing error – errors in the calculation and payment of benefits between third parties and the government.

8.13 Additionally, risks of fraud and error typically increase in programmes with complex criteria for payment computation, a high volume of transactions, and emphasis on expediting payments.¹⁰⁵

Trends over last 5-10 years and explanatory factors affecting trends

8.14 Since the introduction of the Improper Payments Initiative in 2002, government departments have more systematically examined improper payment issues. This has resulted in increased efforts to reduce improper payments—both in absolute and relative terms. As an example of this, the Department of Housing and Urban Development reduced its net improper overpayments resulting from programme administrator and income reporting errors from US\$1.97 billion (about £1.1 billion) in 2000 to US\$0.641 billion (about £0.4 billion) in FY2004. Key actions to reduce these overpayments included improved income verification efforts, increased beneficiary voluntary compliance, improved computer matching processes, and improved methodology for reviewing discrepancies identified.¹⁰⁶

Examples of actions being taken to combat fraud and error or to reform social security systems

8.15 The historical focus of the US government has been to focus on management control to prevent fraud and abuse instead of detecting it. Perceived benefits of this approach are both to reduce expenditure – stopping unauthorized governmental expenditure – and remove temptation to commit fraud – especially since many fraudsters are not hardened criminals, rather, because of their situation, they are pressured to falsify their benefit applications, etc. By preventing fraud, these individuals are spared the turmoil caused should the potential fraud be detected.

8.16 However, the US government recognizes that both prevention and detection of improper payments is essential in an effective control regime. Thus, the GAO recommends five important components of internal control. These are:¹⁰⁷

- Control environment: Creating a culture of accountability by establishing a positive and supportive attitude toward improvement and the achievement of established programme outcomes.

- Risk Assessment: Performing comprehensive reviews and analyses of programme operations to determine if risks exist and the nature and extent of risks identified.
- Control Activities: Taking actions to address identified risk areas and help ensure that management's decisions and plans are carried out and programme objectives are met.
- Information and Communications: Using and sharing relevant, reliable, and timely financial and non-financial information in managing improper payment related activities.
- Monitoring: Tracking improvement initiatives, over time, and identifying additional actions needed to further improve program[me] efficiency and effectiveness.

8.17 Within its control activities, the GAO recommends six specific types of control to detect improper payments¹⁰⁸:

- Data Sharing: Allowing entities that make payments to compare information from different sources to ensure that payments are appropriate.
- Data Mining: A tool to review and analyze diverse data. Data mining analyzes data for relationships that have not previously been discovered.
- Neural Networking: A technique for extracting and analyzing data. The system analyzes associations and patterns among data elements, which allows it to find relationships that can result in new queries.
- Recovery Auditing: The practice of identifying and recovering overpayments that examines payment file information to identify possible duplicate or erroneous payments.
- Contract Audits: Post-award audits that verify that payments are being made in accordance with contract terms and applicable regulations. They can detect improper payments that have been made, help avoid future payments of the same kind, and provide oversight of companies conducting business with the government.

- Prepayment Investigations: In order to prevent improper payments, government agencies can refer cases that contain suspicious or conflicting information to investigative departments for action before payments can begin.

Specific examples control activities

8.18 In 2004, the US Department of Agriculture (USDA) utilised a pilot recovery programme that identified US\$333,000 (about £180,000) of improper payments, of which US\$189,000 were recovered. Based on this, the USDA is expanding the use of recovery auditors across the entire Department.¹⁰⁹

8.19 Statistical sampling at the Department of Housing and Urban Development showed a decrease in improper payments in the Single Family Acquired Asset Management System from 6.8 per cent in 2003 to 0.6 per cent in 2004, saving an estimated US\$2.2 million (about £1.2 million).¹¹⁰

8.20 The Veterans Administration Education System is developing a rules-based automated claims processing system that aims to automatically process 90 per cent of all enrolments. This is primarily aimed at reducing processing time, but will also reduce erroneous payments.¹¹¹

8.21 The Veterans' Administration is also developing a new information system, which will allow the administration to make more timely assessments of payment to stop overpayments before they occur.¹¹²

8.22 The Social Security Administration conducts medical continuous disability reviews to determine whether beneficiaries will continue to be entitled to benefits based on their medical conditions. By using statistical scoring model screening and large-scale sampling, this programme has been cost-effective, returning US\$10 for every US\$1 spent on the programme.¹¹³

8.23 The Social Security Administration is also taking advantage of electronic death registration in order to stop social security payments in a more timely and accurate manner.¹¹⁴

Steps being taken to measure fraud and error

8.24 There are a number of steps taken in the United States to measure fraud and error, many of them following from the internal control environment recommendations from the GAO. These include:

Risk Assessments: Conducting risk assessments allows departments to understand both the extent of their improper payments and to allow departments to selectively target areas which require the most attention. Examples of risk assessment include¹¹⁵:

- Department of Health and Human Services has conducted risk assessments since 1996. In 2000, these assessments projected improper Medicare Fee-for-Service payments of US\$11.9 billion (seven per cent of total benefits, £6 billion).
- The state of Texas performed a risk assessment of their health care payments in December 1998 and January 2001. Using client telephone interviews, data analysis, and medical record review, Texas was able to target its improper payment detection at medical supplies, durable medical equipment, and providers who bill high-cost health procedures.

Statistical Sampling: Using OMB guidelines, federal governments use statistical sampling to estimate the level of fraud and error in specific programmes. For example, in 2003, improper payments in HUD's Public Housing Capital Fund were estimated at 5.1 per cent of the US\$2.6 billion (about £1.5 billion) in total payments.¹¹⁶

Continuous Reviews: By conducting ongoing reviews of monthly claimants, government departments are able to better assess changes in status and identify and prevent opportunities for improper payments. In particular, the Social Security Administration conducts extensive entitlement reviews and continuous disability reviews in order to better manage its payments.¹¹⁷

Details of how benefits/pensions are accounted for in national accounts

8.25 Social security benefits and pension are accounted in US national accounts through individual federal and state departmental accounts. Because the United States operates under a federal system, benefit and pension expenditure are included in multiple departmental accounts as referenced in the first part of this paper.

Effect of fraud and error on external audit's opinion on national accounts

8.26 In the course of this research, we have not been able to find any examples where the US Government Accountability Office has qualified departmental accounts because of fraud and error issues.

APPENDIX A

The United Kingdom

Description of social security system

1 The main social security benefits are administered by the Department for Work and Pensions (the Department) through Jobcentre Plus, the Pension Service and the Disability and Carers Service, including Housing Benefit, which is delivered on behalf of the Department by local authorities.

2 These may be categorised as follows:

- Benefits for those out of work or seeking work, for example Income Support and Jobseeker's Allowance. These benefits are not dependent on the claimant having a national insurance contribution record (so-called non-contributory benefits).
- Benefits for sickness and disability. The main one is Incapacity Benefit, which requires the claimant to have a national insurance contributions record thus known as a contributory benefit. Others are Attendance Allowance and Disability Living Allowance, which are non-contributory.
- Payments to the elderly, such as State Retirement Pension (contributory) and Pension Credit (non-contributory).

Scale of expenditure on social security and pensions

3 Expenditure was around £110.9 billion a year in 2004-2005 (Figure 29). Expenditure in 2003-2004 was £105.8 billion. Public social expenditure as a percentage of Gross Domestic Product (GDP) in 2001 was 21.8 per cent.¹¹⁸

Extent of fraud and error

4 Figures published in the Department's resource accounts for 2004-2005 estimate that £2.6 billion was overpaid through fraud and error. This represents around 2.3 per cent of benefit payments. The figure for 2003-04 calculated on the same basis was £2.6 billion, representing around 2.4 per cent of benefit payments for that year (Figure 30 overleaf).

29 UK expenditures on main benefit schemes

Scheme	Expenditure in 2004-2005 in £ billions
Retirement Pension	48.8
Housing Benefit	13.1
Income Support	10
Disability Living Allowance	8.1
Incapacity Benefit	6.7
Pension Credit	6.1
Jobseeker's Allowance	2.2
Carer's Allowance	1.1
Total	96.1

Source: DWP Consolidated Resource Accounts 2004-2005, Note 44

Definitions of fraud and error

5 The Department has three categories of fraud and error:

- official error – where a mistake by the Department (or other administering agency such as a local authority) results in payment of benefit to someone who is not entitled or where a payment occurs at a wrong rate;
- customer error – where a customer inadvertently provides incorrect information about his/her status or accidentally fails to notify the Department of a material change in his/her circumstances and as a result benefit is paid at the wrong rate or to someone who is ineligible; and
- fraud – where the claimant has deliberately misinformed the Department about his/her identity/circumstances or wilfully failed to notify the Department of a change of circumstances in order to obtain benefits to which they are not entitled.

30 The total amount of fraud and error

Scheme	Total fraud and error in £ millions	Fraud and error as per cent of total payments	Fraud per cent	Error per cent
Retirement Pension	60	0.15	0.07	0.07
Housing Benefit	640	4.9	1.6	3.3
Income Support	560	5.6	2.5	3.1
Disability Living Allowance	150	1.9	0.5	1.3
Incapacity Benefit	80	1.2	0.1	1
Pension Credit	290	4.9	1	3.9
Jobseeker's Allowance	180	8.2	3	5.2
Carer's Allowance	60	5.5	3.9	1.6

Source: DWP Consolidated Resource Accounts 2004-2005, Note 44

Causes of fraud and error

6 Most people who commit benefit fraud misinform the Department about their living and work circumstances. Most fraud arises in Income Support and Jobseeker's Allowance from undeclared earnings or from couples concealing the fact that they live together and should be claiming the married rate but claim individually as single people, which overall makes them better off financially.

7 Some claims are made using false identities and the annual losses from this are estimated conservatively to be around £20 to £50 million a year. Some fraud has involved the theft or forgery of cheques and order books by which some benefit is paid. This costs an estimated £40 million in 2004-2005, down from £70 million in 2003-2004 and expected to reduce further as more claimants are paid by Direct Payment. Losses from internal fraud are not significant. Errors by officials arise mainly because of the sheer complexity of benefit rules and regulations. Poor IT systems and examples of poor training are other causes. Errors by customers (e.g. inadvertently failing to notify changes in circumstances) are mainly due to a lack of understanding of rules and regulations caused by the complexity of the benefit system and some failures by the Department to explain entitlement conditions clearly and accurately.

Trends over last 5-10 years and explanatory factors affecting trends

8 Trends over time cannot be measured across the whole of benefit expenditure with any precision. They can only be assessed in those benefits, which are continuously measured: Income Support; Jobseekers Allowance; Pension Credit and Housing Benefit. These are the benefits that are the most susceptible to fraud and error and so more resources are used to monitor them. Other benefits are measured less frequently or not at all and changes over time cannot be assessed accurately.

9 The Department first produced an estimate of overall fraud and error loss in 2001-02, an annual figure of approximately £2 billion fraud and losses from error estimated at £1 billion. Previous fraud and error estimates were made by the predecessor organisation, the Department of Social Security.

10 The overall £3 billion figure remained the same for 2002-2003 and 2003-2004. These figures were not sensitive enough to pick up the reductions in estimates in Income Support, Jobseeker's Allowance and Housing Benefit in this time. This was mainly due to the fact that the overall figures were rounded to £500 million. From 2004-2005 fraud and error is estimated to the nearest £100 million.

11 At the Public Accounts Committee hearing in March 2005, the Department announced that the 2003-04 estimate for fraud had reduced to £1.5 billion and the estimate for error had risen to £1.5 billion. This increase was partially attributed to the recent restructuring to create Jobcentre Plus and The Pension Service, which led to churn in the organisation, and the disruption caused by the introduction of new techniques and improved IT systems. The rounding applied to the estimates exaggerated the changes.

12 The Departments 2004-05 Resource Account published an estimate that around £2.6 billion was overpaid in the benefit system through fraud and error (around 2.3% of benefit expenditure). This was produced using a new methodology not comparable with earlier published estimates. The Account also included an estimate for 2003-04 using the same methodology of £2.6 billion (2.4% of 2003-04 benefit expenditure).

Examples of actions being taken to combat fraud and error or to reform social security systems

13 The Department has:

- invested in professional training for fraud investigators;
- introduced national anti-benefit fraud advertising campaign;
- increased the capacity of the National Benefit Fraud Hotline to receive information from the public about benefit fraudsters;
- expanded data-matching with other Government departments; and
- introduced risk profiling to identify the types of people whose claims are more likely to be fraudulent.

Steps being taken to measure fraud and error

14 The Department's estimates of fraud and error are based on a mixture of:

- in-depth continuous rolling programmes that review a large sample of benefit award each year, for the high risk benefits such as Income Support and Jobseeker's Allowance, Pension Credit and Housing Benefit; and
- "Snapshots" of fraud and error on other benefits, known as national benefit reviews, again involving the review of samples of awards in particular benefits.

15 Overall estimates of fraud and error are broad out of necessity. This is because there are margins of error, due to estimates being calculated from a sample of cases, and because information on benefits is not measured continuously, becomes dated and is based on extrapolation in benefits where there is no measurement.

16 Continuous measurement of Income Support and Jobseekers Allowance started in 1997. This means that the Department cannot compare levels of fraud and error with levels of fraud and error before then. The Department measure annual losses in cash terms and loss as a percentage of benefit expenditure. Given that benefit expenditures may rise or fall, the key indicator for policy purposes is the percentage rather than the cash loss. The continuous measurement operation costs some £15 million annually and each "snapshot" review costs around £500,000.

Details of how benefits/pensions are accounted for in national accounts

17 Expenditure on benefits, including state retirement pensions is recorded in the annual resource accounts of the Department for Work and Pensions.

Effect on fraud and error on external audit's opinion on national accounts

18 The accounts of the Department and those of its predecessor departments have been qualified for the last 16 years because of the scale of fraud and error in benefits.

APPENDIX B

Methodology

1 RAND Europe was asked by the National Audit Office (NAO) to undertake an international benchmark of the total amount of fraud and error occurring in international social security systems. The purpose was to determine how the UK performed compared to other countries and if potential lessons could be identified for the Department of Work and Pensions in the UK. The NAO wanted us to focus on the following countries, which are similar to the UK in terms of wealth per capita, population structure and large amounts of public expenditure on social benefits:

- Australia;
- Canada;
- France;
- Ireland;
- The Netherlands;
- New Zealand;
- Sweden; and
- USA.

2 As a first step in defining the approach to be taken in the study, the research team, whose members were selected because they were either nationals or had direct personal experience of the listed countries, agreed a set of core questions in co-operation with the National Audit Office (see Figure 31). These core questions, which appear in the results matrix of the executive summary, served to guide research on each country, and make findings as comparable as possible while focusing on the specific needs of a benchmark tailored to the Department for Work and Pensions. As can be seen from the matrix, the focus of the questions ranged from the establishment of the total amount of fraud and error in social security systems to definitions used and safeguards against inaccurate payments. The NAO was interested not only in the overall amount of fraud and error occurring in the social security systems, but also how fraud and error was defined, measured, and dealt with in these countries. In this sense, the scope of the study expanded from the original benchmark of the total amount of fraud and error to a wider and more qualitative comparison.

3 The research team then undertook initial desk-based research to gather available information on the research questions. This desk research consisted of reviewing documents, which were identified through requesting information from government sources, ‘googling’ relevant primary and secondary sources on the specific social security systems, identifying secondary sources through the JSTOR database, and using the documents found to identify additional documents (‘snowballing’). After drawing up preliminary case study reports, the results were presented and discussed in a joint NAO-RAND workshop. In particular, the participants identified emerging themes for overarching analysis, compared their understanding of the questions and determined the structure of the project outputs.

31 Template for collecting international benchmarking data on fraud and error in social security systems

- Description of social security system (taking account of accepted international classifications)
- Scale of expenditure on social security and pensions (broken down by type)
- Extent of fraud and error (where possible distinguishing between different benefits)
- Definitions of fraud and error used
- Causes of fraud and error
- Trends over last 5/10 years and explanatory factors influencing trends
- Examples of actions being taken to combat fraud and error or to reform social security system
- Steps being taken to measure fraud and error (with details of methodology where available)
- Details of how benefits/pensions are accounted for in national accounts
- Effect of fraud and error on external audit’s opinion on national accounts

4 In the second phase of the project, team members refined their investigation through personal contact with informants in the countries studied, who had been identified with the help of the NAO's links with other national audit bodies. A list of contacts is given in Appendix C. The interaction with the contacts ranged from phone interviews based on the template to sending e-mails with the draft country studies attached. In case of the latter, the contacts would generally make or track changes in the document where they felt the draft reports were incomplete or inaccurate. On many occasions, the contacts also provided us with additional documents. On this basis, the issue of fraud and error was discussed in depth for each country. Following the completion of the country-specific research, a comparative analysis of the findings was undertaken, and the key findings were formulated in the executive summary.

APPENDIX C

List of contacts

The following individuals and institutions were approached to provide information for the benchmark:

Country	Institution	Contact person
Australia	Australian National Audit Office Centrelink	
Canada	Service Canada Office of the Auditor-General Canada	Lu Fernandes
France	Cour des Comptes Ministère de la Santé et des Solidarités	Laurent Rabaté
Ireland	Department of Social and Family Affairs	Fiona Ward Eoin O'Broin
The Netherlands	Algemene Rekenkamer	Anneke van der Giezen
New Zealand	Office of the Auditor-General Ministry of Social Development	
Sweden	Riksrevisionsverket Försäkringskassan (Swedish Social Insurance Agency)	Tony Angleryd Frédéric Klinghoffer
USA	Government Accountability Office	Barbara Bovbjerg Carla Lewis

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