



National Audit Office

# International benchmark of fraud and error in social security systems

LONDON: The Stationery Office  
£13.25

Ordered by the  
House of Commons  
to be printed on 17 July 2006

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.

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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.<sup>1</sup> 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.<sup>2</sup> 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.<sup>3</sup> 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.<sup>4</sup>

**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.<sup>5</sup> 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.<sup>6</sup>

**4** The benchmark undertaken considered eight countries similar to the UK in terms of wealth and diversity of population.<sup>7</sup> 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 per centages 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.<sup>8</sup> 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.

<b>1 Expenditure on Social Security in Countries Studied<sup>1</sup></b>		
	<b>Total Expenditure on social security in £ billion (most recent year available)</b>	<b>Social Expenditure as % of GDP in 2001</b>
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 studied<sup>1</sup>

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% <sup>2</sup>	–	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 behaviour<sup>9</sup>;
- 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 Department<sup>1</sup>

**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

<sup>1</sup> 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)

		<b>Australia</b>	<b>Canada</b>
<b>Description of social security systems (benefit +administrative organisation)</b>	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.
<b>Fraud and error</b>	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)

	<b>Australia</b>	<b>Canada</b>
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)*

		<b>Australia</b>	<b>Canada</b>
	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.
<b>Accounting</b>	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)

		<b>New Zealand</b>	<b>Sweden</b>
<b>Description of social security systems (benefit +administrative organisation)</b>	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.
<b>Fraud and error</b>	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)

	<b>New Zealand</b>	<b>Sweden</b>
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
<b>Accounting</b> 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; unverifiables (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.