

Report by the Comptroller and Auditor General

Introduction

Fraud and error in benefit expenditure

1 The resource accounts of the Department for Work and Pensions include net expenditure of £155.2 billion on benefits, employment programmes and their related administration costs, together with the assets and liabilities at the year end.

2 Under the Government Resources and Accounts Act 2000, I am required to give an opinion on whether, in all material respects:

- i) the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2010 and of its net cash requirement, net resource outturn, net operating cost, net operating costs applied to departmental strategic objectives, changes in taxpayers' equity and cash flows for the year then ended;
- ii) the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder; and
- iii) the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them (the "regularity" opinion).

3 In respect of the Department's 2009-10 accounts I have qualified the regularity aspect of my audit opinion due to the material level of fraud and error in benefit expenditure, other than State Pension, which has a low level of error. The Department's accounts, and those of predecessor Departments administering this expenditure, have received similar qualified opinions since 1988-89.

4 Legislation specifies entitlement criteria for each benefit and the method to be used to calculate the amount of benefit to be paid. Where fraud and error result in over or underpayment of benefit to an individual who is either not entitled to that benefit or is paid at a rate which exceeds that specified in the legislation, the transaction is not in conformity with the governing legislation and is irregular.

5 Note 43 to the Department's resource accounts discloses the Department's best estimate of all such activity. As shown in Note 43, overpayments due to fraud and error in 2009-10 are estimated at £3.1 billion (2008-09 – £2.7 billion), which equates to 2.1% of total benefit expenditure of £148.0 billion (2008-09 – 2.0% on expenditure of £135.9 billion), representing an increase in the percentage of benefits being overpaid. Total underpayments in 2009-10 are estimated at £1.3 billion (2008-09 – £1.2 billion), which equates to 0.9% of total benefit expenditure (2008-09 – 0.9%). Within those figures, the Department estimates that in 2009-10 fraud and error within State Pension resulted in overpayments of £0.1 billion (2008-09 £0.1 billion), 0.1% of related expenditure (2008-09 0.2%) and underpayments of £0.1 billion (2008-09 £0.2 billion), 0.2% of related expenditure (2008-09 0.3%).

6 I have therefore qualified my opinion on the regularity of benefit expenditure, other than State Pension, because of the level of overpayments attributable to fraud and error which do not conform to Parliament's intention; and because the level of under and overpayments in such benefit expenditure which are not in conformity with the relevant authorities. This report provides further explanation of the reasons and context for my qualified audit opinion, by commenting on the causes of fraud and error in the benefit system, together with the challenges faced by the Department and their actions to reduce it.

7 The report again demonstrates that overall the Department faces significant challenges in administering a complex benefits system in a cost effective way. Some benefits, mainly those with means tested entitlement, are more inherently prone to error due to their complexity and to the difficulties in obtaining reliable information to support the claim. In addition, in the current year the Department has faced a significant increase in demand in the work related benefits as a result of the economic downturn, which has adversely impacted its performance in fraud and error in work related benefits.

Where do the errors occur?

Overview

8 Total expenditure on benefits in 2009-10 was some £148.0 billion, of which £123.3 billion was in respect of benefits paid directly by the Department and £24.7 billion in respect of benefits paid on the Department's behalf by Local Authorities, mainly Housing Benefit and Council Tax Benefit. Note 43 to the Department's resource accounts sets out expenditure by benefit type and the extent of fraud and error as estimated by the Department. The note also explains the extent of statistical uncertainty inherent in these estimates and the difficulty in identifying certain types of complex error or well concealed frauds, and that therefore some caution must be maintained when examining the estimates for trends. The estimate of fraud and error disclosed in the accounts is nevertheless the best measure currently available.

9 The estimates separate the reported incorrect payments into three categories; official error, customer error and fraud, defined as follows:

- Official error arises where a benefit is paid incorrectly due to inaction, delay or a mistaken assessment by the Department, a Local Authority or Her Majesty's Revenue and Customs.
- Customer error arises when the customer has provided inaccurate or incomplete information, or failed to report a relevant change in circumstances, but there is no fraudulent intent on the customer's part.
- Fraud arises when incomplete or inaccurate information has been provided intentionally by the claimant in order to receive benefit.

10 The following paragraphs of this report provide further analysis of the types of fraud and error which commonly arise within the Department's three main error categories of customer error, official error and fraud. For the purposes of this report, we have primarily focussed on the benefits administered directly by the Department and have discussed Housing Benefit and Council Tax Benefit, which are administered by Local Authorities, separately in paragraphs 23 to 27.

Official error

11 The Department's 2009-10 estimate of official error (defined in paragraph 9 above) is broken down in Figure 1 below.

Figure 1: Estimated official error

Benefits	2009-10 Total expenditure £ million *	2009-10 Official error overpayments £ million* (% of related expenditure)	2009-10 Official error underpayments £ million* (% of related expenditure)	2008-09 Official error overpayments £ million* (% of related expenditure)	2008-09 Official error underpayments £ million* (% of related expenditure)
Benefits administered directly by the Department	123,300	800 (0.6)	400 (0.3)	700 (0.6)	400 (0.3)
Housing related benefits administered by Local Authorities	24,700	300 (1.2)	100 (0.4)	200 (0.9)	100 (0.3)
All DWP benefits	148,000	1,100 (0.7)	500 (0.3)	900 (0.7)	500 (0.4)

Source: Department for Work and Pensions Resource Accounts, *Fraud and Error in the Benefit System October 2008 to September 2009* (for the 2009-10 estimates), *Fraud and Error in the Benefit System October 2007 to September 2008* (for the 2008-09 estimates).

* Rounded to the nearest £100 million

12 In the Department's administered benefits, the benefits with the highest rates of official error are those that are to some extent means-tested, such as State Pension Credit, Income Support and Jobseekers' Allowance. Here, the claimant's entitlement is partially dependent upon their declared income, their personal

capital, their household living arrangements, or a combination of those factors. In general, the greater the data requirements to establish entitlement to a benefit, the more complex it is to administer and therefore the higher the inherent risk of an official error being made. These factors can also be subject to frequent change over the course of a claim, which requires the claimant to update his / her details and officials to process those changes. The greater the volume of transactions, the higher the level of official input and the greater the inherent risk of official error entering the system.

13 The most common types of official error relate to recording the level of a claimant's income, complex additional premiums being wrongly applied, or by establishing the claimant's status incorrectly (such as their fitness for work, single status etc). Errors of this type by the Department will occur for a number of reasons, from simple transcription errors in recording data from a claim, to individual instances of non-compliance with procedures, through to the incorrect interpretation or calculation of complex entitlements. Such errors may occur at least partially due to the level of manual input where there are no, or only inadequate, interfaces between benefit systems which contain information on one benefit claim and which may be directly relevant to the entitlement to another. This will tend to increase the extent of judgement and manual input, consequently increasing the requirement for adequate training and resource to ensure the correct processing of the more complex claims.

14 Therefore, reducing official error may depend on providing better staff training, enforcing adherence to internal procedures and correcting inadequate system interfaces. Yet whilst central estimates of fraud and error give a broad indication of where the majority of errors are occurring, they do not currently provide sufficient root cause analysis of specific official mistakes to be able to suggest how they might be addressed. My planned Value for Money study on Minimising the Cost of Administrative Errors in the Benefit System, expected to be published in Autumn 2010, will comment further on the challenges faced by the Department with regard to Official Error, by examining the quality of information that it has on which to base its decisions and the success or otherwise of its interventions.

Customer error

15 The Department's estimate of customer error, as defined in paragraph 9, is shown in Figure 2 below.

Figure 2: Estimated customer error

Benefit	2009-10 Total expenditure £ million *	2009-10 Customer error overpayments £ million * (% of related expenditure)	2009-10 Customer error underpayments £ million * (% of related expenditure)	2008-09 Customer error overpayments £ million * (% of related expenditure)	2008-09 Customer error underpayments £ million * (% of related expenditure)
Benefits administered directly by the Department	123,300	600 (0.5)	500 (0.4)	400 (0.3)	500 (0.4)
Housing related benefits administered by Local Authorities	24,700	500 (2.0)	300 (1.2)	500 (2.3)	200 (0.9)
Total	148,000	1,100 (0.7)	800 (0.5)	900 (0.7)	700 (0.5)

Source: Department for Work and Pensions Resource Accounts, *Fraud and Error in the Benefit System October 2008 to September 2009* (for the 2009-10 estimates), *Fraud and Error in the Benefit System October 2007 to September 2008* (for the 2008-09 estimates).

* Rounded to the nearest £100 million.

16 As with official error, the Department's administered benefits with the highest claimant error over and underpayment rates are means tested benefits such as state pension credit and income support, which have entitlement conditions that relate to, among other things, the claimant's income, their personal capital, their household living arrangements, or a combination of such factors. Mistakes will arise here as a result of the claimant failing to provide full or accurate details to the Department, but where there is no fraudulent intent in doing so.

17 Typically, the Department is reliant on receiving accurate information from the claimant in these circumstances as it does not have routine access to third party sources of information (or such sources may not exist) with which it would be able to verify the completeness or accuracy of the information provided. For example, where the claimant fails to accurately or fully disclose relevant non-earnings related income this can affect benefit entitlement and lead to over or underpayments. The claimant may, for example, not realise that certain types of income or capital are relevant to the assessment, or may not be able to provide an accurate figure due to frequently changing circumstances, such as periods of self employment. Current verification procedures require some third party corroboration, such as requiring claimants to provide bank statements to verify capital over certain thresholds. However, these procedures will not always be able to ensure full and complete disclosure; for example, where a claimant does not realise that certain asset types count as capital, or where bank accounts may be overlooked and information not provided and therefore fails to provide relevant information, errors in the benefit calculations will arise.

18 Nevertheless, a major source of error relates to the disclosure of other benefit information, which the Department might be expected to be able to check more easily if the different benefit systems were better integrated. Because not all of the Department's benefit systems interface directly on a real-time basis, if a claimant has not accurately declared other benefits which they receive to the correct Departmental official, it will affect the subsequent calculation of relevant income and therefore the amount of means tested benefit to which they are entitled.

19 In situations where such information is not fully disclosed, the Department has to distinguish between those making a fraudulent misrepresentation of key facts supporting a claim and a genuine claimant who may be unable to understand the detailed requirements for making an accurate claim. This is important since, apart from the need to prosecute benefit fraudsters, the remedies used to prevent and detect genuine errors will differ from those used for fraud. Genuine claimant error may arise from a misunderstanding of the rules or how they are applied and one method of addressing customer error is therefore to simplify benefits and the claim procedure wherever possible, such as through the Department's Benefit Simplification Unit. Additionally, the Department has also tried to rationalise the literature provided to claimants to explain whether they are eligible for specific benefits and the evidence they will be required to provide. I reported on the Department's progress on communications in my May 2009 Value for Money report "*DWP: Communicating with customers*". The Department considers that there are likely to be practical limits on the ability of their existing preventative and detective controls to identify such errors, whilst also enabling timely payments to be made to genuine claimants and to minimise unnecessary intrusion into genuine claimants' lives. I will return to the subject of customer error in a future Value for Money Study planned for Autumn 2010.

Fraud

20 The Department's estimate of fraud, as defined in paragraph 9, is shown in Figure 3 below.

Figure 3: Estimated fraud

Benefits	2009-10 Total expenditure £ million *	2009-10 Fraud overpayments £ million * (% of related expenditure)	2008-09 Fraud overpayments £ million * (% of related expenditure)
Benefits administered directly by the Department	123,300	700 (0.6)	600 (0.5)
Housing related benefits administered by Local Authorities	24,700	300 (1.2)	300 (1.4)
Total	148,000	1,000 (0.7)	900 (0.7)

Source: Department for Work and Pensions Resource Accounts, *Fraud and Error in the Benefit System October 2008 to September 2009 (for the 2009-10 estimates)*, *Fraud and Error in the Benefit System October 2007 to September 2008 (for the 2008-09 estimates)*.

* Rounded to the nearest £100m

21 Of the benefits administered directly by the Department, it is the means tested benefits, such as State Pension Credit, Jobseekers' Allowance and Income Support which again tend to have the highest rates of fraud, as they require the claimant to supply complete and accurate information in order to establish entitlement to benefit. Most commonly, fraudulent statements include details of the claimant's living arrangements, where the customer has a partner, but is claiming and therefore receiving benefit as a single person, or falsely stating the level of their earnings, whether those are legitimate earnings or from the grey economy. There are also instances where the claimant cannot be contacted at their registered address or may have provided a false address in order to claim benefit. Common features of these frauds are that it would be difficult and labour intensive to identify fraudsters at the point of making a claim, since information is being deliberately concealed and as the Department does not have a readily available source of information against which to verify the facts of the claim.

22 In my report¹ on progress in tackling benefit fraud we drew attention to Departmental initiatives to combat fraud including advertising campaigns, fraud investigation procedures, customer compliance, data-matching and fraud prosecutions. The Department therefore attempts to reduce fraud levels through a range of initiatives, one of the most important of which is raising awareness amongst the general public through initiatives and publicity such as the National Benefit Fraud Hotline and website www.targetingfraud.co.uk - as the Department cannot prevent all fraud before it occurs, it is always likely to be to some extent reliant on reporting from the public.

Housing Benefit and Council Tax Benefit

23 As noted in paragraph 10, Housing Benefit and Council Tax Benefit are administered by the claimant's relevant Local Authority rather than directly by the Department. Entitlement to these benefits can, however, be established by the claimant already being in receipt of an income related benefit, such as Jobseeker's Allowance or Income Support. Therefore, fraud and error in one claim can be passported into the Local Authority administered benefit. As Housing Benefit and Council Tax Benefit are also means tested, with the same limitations around evidence that can be gathered, a number of fraud and error types that are common to the Department's administered means tested benefits also arise here.

24 The Department has a key role in monitoring the level of programme spend and setting the framework in which the Local Authorities must operate. Common official errors arise from poor or non-timely interfaces between the Department and the Local Authority with regard to whether the claimant is in receipt, or entitled to, a qualifying benefit. In practice, given the non-integrated nature of the Department's systems with that of all Local Authorities, many such errors will be difficult to eliminate; changes in customer circumstances will directly affect benefit entitlement and any delays in passing on information can lead to errors in payments.

25 Housing Benefit and Council Tax Benefit also contribute a combined £500 million of the estimated £1,100 million of total claimant overpayment errors, and £300 million of the £1,000 million total fraudulent overpayment errors. As noted above, fraud and error can be passported into both of these benefits as a result of communication failures between the Department and Local Authorities, but there is also a linked risk in that a claimant whose circumstances change and who is required to inform the Department of these changes is also required to notify the relevant Local Authority of the change. This requirement to inform both the Department and the Local Authority will naturally increase the risk of delay or mistake as it increases the number of contacts with the Department or its benefit administering agents.

26 There are additional fraud and error risks which are more specific to Housing Benefit and Council Tax Benefit, as the benefit is paid on a specific property. Claimant changes of address, or in the status of other contributing members of the household, will have an impact on the benefit receivable. A change in address affects benefit entitlement, as well as the amount of benefit received because of changing rental and housing costs. Where the claimant moves between districts, this will also mean that they may need to communicate effectively with more than one Local Authority, which, again increases the risk of errors being made or changes in circumstance not being communicated effectively or being concealed.

27 For Housing Benefit, the funding arrangement between the Department and Local Authorities contains a formula intended to encourage accurate payments by the Authority by affecting the amounts refunded to them based on accuracy targets. The Department has also established a performance management regime to encourage Local Authorities to adopt best practice in the administration of Housing Benefit, including an output

¹ Department for Work and Pensions – Progress in tackling benefit fraud (HC 102 2007-08)

based performance measure which sets each Local Authority a target for identifying reductions in benefits overpaid and to prevent overpayments due to customer error entering the system.

The benefit framework

28 The Department has put significant work into reducing fraud and error within the benefit system in recent years. Yet, in spite of these efforts, the gross value overpayments and underpayments have increased over the past 12 months. The Department believe that, in large part, this has been due to increased benefit expenditure and pressures on staff and processes caused by the increased volumes of benefit claims brought by the current economic downturn. However, it must also be the case that the benefit system has not been able to be sufficiently flexible to enable it to meet these demand pressures without at least some adverse impact on fraud and error.

29 I recognise that there are inherent difficulties in administering any system of payments to individuals where means tested information is required, as the increased complexity of data required naturally increases the possibility of fraud and error. Those difficulties are compounded where the information required is not held already or is not easily accessible by the Department, and where external verification is not always possible. Indeed, by adding additional verification procedures, the risk increases that genuine claimants will be deterred from making a claim and thereby conflict with the Department's other priorities, such as with meeting the stated aims of reducing pensioner poverty and supporting the vulnerable. There is a linked risk to the public purse that processes become too cumbersome and bureaucratic to allow payments to be made in a sufficiently timely or cost effective manner. The challenge for the Department is in trying to judge what this balanced best performance looks like, which must be based on a sound evidence-based understanding of the root causes of fraud and error, of interventions to tackle those causes, and the outcome of those interventions. The Department's future plans in this area are discussed below.

Future plans

30 In 2008-09 the Department introduced new formal governance arrangements through the establishment of a Fraud and Error Council, which includes the operational Directors responsible for fraud and error across their businesses, and also members drawn from across the Department whose responsibilities include helping to deliver the fraud and error agenda, for example in relation to information technology. It reports directly to the Permanent Secretary and intends to initiate a cross Departmental approach to fraud and error reduction, culminating in a refreshed fraud and error strategy for 2011-2013.

31 Planned work includes a systematic review of each of the Department's current fraud and error reduction initiatives to ensure that they are focussed on the root causes of fraud and error and ensure that resources are directed to maximum effect. The Department intends to trial this approach with a full review of State Pension Credit systems, to design and test a framework for measuring and evaluating the robustness and cost effectiveness of its fraud and error controls, starting with a root cause analysis of the true, underlying cause of incorrectness in that benefit. The ultimate aim is to construct a common robust analytical framework for all benefits which will allow the Department to assess the extent to which their approach to tackling fraud and error is robust, appropriate and delivers value for money, whilst also meeting policy and legislative objectives for delivering benefits to claimants.

32 I note also that, as described in Note 43 to the accounts, the Department intends to exploit increased opportunities for data sharing with other countries as part of the wider work of the National Fraud Authority and to work more closely with HMRC, Local Authorities and the private sector as recommended in the report from the Smarter Government Fraud Task Force. Other current initiatives include evaluating the trial of Voice Risk Analysis in Housing Benefit to help identify potentially fraudulent claims, and the extension of a pilot exercise undertaken during 2008-09 in a number of Local Authorities to use information held by a credit reference agency to identify risk of potential fraud in Housing Benefit cases. Finding new ways to tackle fraud and error and ensure the accurate payment of benefit will rightly remain a key area of focus for the Department in the future.

Conclusion

33 The Department faces significant challenges in administering a complex benefits system in a cost effective way. Some benefits, mainly those with means tested entitlement, are prone to error due to their complexity and the difficulties in obtaining reliable evidence to support the claim. The estimated amount of fraud and error overpayments in the benefits system in 2009-10 was £3.1 billion, or 2.1% of expenditure, which represents an increase on 2008-09 over both the value and the percentage of benefit overpaid (£2.7 billion and

2.0% respectively). The economic downturn has increased the volume of income related benefit claims, which have historically been the most prone to fraud and error. In response, Jobcentre Plus, which administers such benefits, increased front line staff by reassigning staff within the Agency and the Department from other responsibilities and against this background, the Department has also experienced a worsening of error rates in those benefits. We therefore welcome the Department's increased emphasis on good programme management as described in paragraphs 30 to 32 and the refreshed approach that it intends to take in reducing fraud and error, which it sets out in more detail in Note 43 to the accounts.

34 Over the period in which fraud and error has been measured by the Department, regardless of the overall trends, fraud and error rates have consistently remained highest in the means tested or disability related benefits where entitlement can be based on complex, interlinked or subjective evidence and which the Department is either unsuccessful in verifying, or which it simply gets wrong. These observations have led us to qualify the Department's accounts on the grounds of material amounts of fraud and error in the benefit system since 1988-89.

35 The complexity of the benefits system and the information needed to process claims accurately means that benefits will always be subject to some degree of fraud and error. The Department is required to decide, on the balance of probabilities, whether a claimant is entitled to benefit and therefore it will sometimes make payments which subsequently turn out to be incorrect. However, it should not give the claimant the benefit of the doubt and must continue to seek new ways to drive down the level of fraud and error in the benefit system. No system can be perfect, not least because human error can and does occur even in the best designed systems.

36 Reducing the level of fraud and error is dependent on the Department correctly identifying the causes of error and using the emerging lessons to enhance processes to prevent reoccurrence. The Department recognises the importance of establishing effective programme management to improve understanding of the underlying root causes of fraud and error. It is currently improving its measurement programme to supply more detail about causes and will continue to review this requirement as the benefits landscape changes. An evidence based framework of this kind will enable the Department to demonstrate that its systems are suitably optimised having regard to the cost effectiveness of interventions and the success of actions in reducing inaccurate payments. My staff continue to monitor the Department's progress in this area.

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