

# SOCIAL FUND WHITE PAPER ACCOUNT 2010-11

## Report by the Comptroller and Auditor General

1. The Department for Work and Pensions (the Department) is responsible for controlling and managing the Social Fund (the Fund) under the Social Security Administration Act 1992. This work is undertaken on behalf of the Department by Jobcentre Plus (JCP). The Social Fund White Paper Account records the payments made to customers for Budgeting Loans, Crisis Loans, Community Care Grants, Sure Start Maternity Grants and Funeral Expenses Payments in accordance with Directions issued by the Secretary of State for Work and Pensions under the Social Security Contributions and Benefits Act 1992. The same Act also provides for customers to receive Cold Weather Payments and Winter Fuel Payments in prescribed conditions. In 2010-11 payments made to customers totalled £4.19 billion. The Account also includes receipts of £4.22 billion, including £548 million from the repayment of Social Fund Loans.
2. The Welfare Reform Bill currently before Parliament proposes a number of changes to the Social Fund. These include proposals to abolish the discretionary part of the Social Fund, introduce payments on account to replace Crisis Loan alignment payments and replace Community Care Grants and Crisis Loans with new local services. While these are potentially significant changes to the future shape of the Social Fund, in the interim JCP needs to address the issues set out in this report.
3. The audit opinion on the Social Fund White Paper Account has been qualified since 2003-04 because of material levels of error in Budgeting Loans, Crisis Loans and Community Care Grants, which are collectively known as discretionary awards. For the previous two years, Funeral Expenses Payments have been subject to a qualification, and in 2009-10 I also qualified my audit opinion in respect of Sure Start Maternity Grants.
4. On the 2009-10 accounts, for the first time, I also limited the scope of my audit opinion on the debt notes within the account, due to the inadequacy of evidence to properly support these balances.

### Audit Opinion

5. In 2010-11 I have again found it necessary to qualify my audit opinion due to material irregularities in discretionary awards and Funeral Expenses Payments (the **regularity qualification**). In addition, I have also qualified my opinion on Cold Weather Payments for the first time this year due to the material level of error I have identified in these payments. I have, however, removed the qualification on Sure Start Maternity Grants due to the considerable reduction in the level of error that we identified in the 2010-11 payments.
6. I recognise that JCP has made progress in tackling a number of the long standing systemic issues I referred to in my report on the 2009-10 Social Fund White Paper Account, but JCP still faces challenges with the debt balance. As a result, I have again limited the scope of my audit opinion on the debt note within the accounts (the **debt qualification**).

## Regularity Qualification

7. The Social Fund administers five main loan and grant types in addition to Cold Weather and Winter Fuel Payments. These loans and grants are split into two distinct categories:
  - a) Discretionary Awards – Payments are made from a cash-limited budget and Social Fund staff must have regard to the available budget when deciding whether to make a payment and how much to award. These comprise Budgeting Loans, Crisis Loans and Community Care Grants.
  - b) Regulated Awards – Payments are made by right, if a person meets the conditions. These comprise Funeral Expenses Payments, Sure Start Maternity Grants, Cold Weather Payments and Winter Fuel Payments.
8. In 2010-11 JCP processed approximately 5.6 million applications for discretionary awards (2009-10: 6 million) along with 420,000 applications for Funeral Expenses Payments and Sure Start Maternity Grants (2009-10: 440,000). This resulted in some 4.0 million payments of discretionary awards (2009-10: 4.2 million) and 295,000 Funeral Expenses Payments and Sure Start Maternity Grant payments (2009-10: 295,000). An additional 17.2 million awards for Cold Weather Payments (2009-10: 11.9 million) and 12.7 million awards for Winter Fuel Payments (2009-10: 12.6 million) were made, for which no formal applications are made.

## Overall Estimated Level of Error within the Social Fund

9. Each year, the NAO test a sample of awards from each payment stream within the Fund to determine whether payments were accurate and made in accordance with the eligibility conditions set by Parliament (i.e. regular). In 2010-11 my testing identified an estimated £114.3m of payments, which had not been applied to the purposes intended by Parliament; some 2.7 per cent of total payments (2009-10: £106.4m, 2.6%).
10. This estimate of the most likely error (MLE) is based on a sample of award payments and as with all such calculations is subject to a degree of statistical uncertainty. This is quantified in the form of confidence intervals and expressed as a percentage expectation that the true value of the estimated most likely error lies within a particular range. I apply a 95 per cent confidence interval and estimate that, whilst the best estimate of overpayments is £114.3m, the true levels of overpayment could lie in the range from £50.2 million to £178.4 million.
11. Within these figures, I have estimated that the error resulting from incorrect Winter Fuel Payments is £16 million, some 0.6 per cent of related expenditure. Whilst this level of error is significant, I have not deemed it sufficiently material to include in my regularity qualification. In addition, in 2010-11 I found no errors in my testing of Sure Start Maternity Grants (2009-10: £11.7 million, some 8.5 per cent of related benefit expenditure) and I have therefore removed this from my regularity qualification for 2010-11.
12. My testing has also identified an estimated £21.5 million of error (some 5.0 per cent of related expenditure) in Cold Weather Payments in 2010-11 (2009-10: nil). I consider

this level of error identified to be material, and as a result I have found it necessary to include Cold Weather Payments within my regularity qualification for the first time this year.

### Error Categorisation

13. As in previous years, I have analysed the most likely error into four main categories, as set out in table 1 below, in order to provide an understanding of the main causes of error within the Fund.

Most likely error evaluation by award type and error category	Missing case papers (£m)	Missing or incomplete loan agreements (and other key documents) (£m)	Non-compliance with Secretary of State Directions (£m)	Suspected non-compliance due to inadequate documentation (£m)	Overall most likely error (£m)	MLE as a percentage of expenditure (%)	Total expenditure (£m)
Budgeting Loans	12.90	12.50	6.62	-	32.01	7.11	450.16
Crisis Loans	6.59	17.65	1.36	12.06	37.66	16.41	229.51
Community Care Grants	3.10	2.48	-	0.15	5.73	4.06	141.17
Sure Start Maternity Grants	-	-	-	-	-	-	130.90
Funeral Payments	0.23	-	1.11	-	1.35	3.00	44.94
Cold Weather Payments	n/a	n/a	21.54	n/a	21.54	4.95	435.41
<b>MLE of qualified awards</b>	<b>22.83</b>	<b>32.62</b>	<b>30.63</b>	<b>12.21</b>	<b>98.29</b>	<b>6.86</b>	<b>1,432.09</b>
Winter Fuel Payments (unqualified)	n/a	n/a	16.03	n/a	16.03	0.58	2,756.24
<b>Overall most likely error</b>	<b>22.83</b>	<b>32.62</b>	<b>46.66</b>	<b>12.21</b>	<b>114.32</b>	<b>2.73</b>	<b>4,188.32</b>

Table 1: Extrapolation of 2010-11 error results

### Documentation Management

14. Two of the four error categories used by the NAO:

- Missing case papers; and
- Missing or incomplete loan agreements (and other key documents)

arise due to JCP's inability to provide the NAO with the prime records, such as an application form or a decision sheet, to demonstrate that the award was made in accordance with the Secretary of State Directions or Regulations.

15. Overall, the most likely error arising from missing documentation was £55.45 million (2009-10: £50.09 million). JCP believes the continued high instance of error is due to ongoing reorganisation of its process centre network, with the result that large amounts of paperwork was moved between JCP offices during the year. This has added complexity to the tracking of documents, and led to problems in locating the specific documents that we requested.
16. In an attempt to address problems with tracking, storing and managing this data, JCP instigated a scanning project in 2010-11, with the aim of electronically capturing and holding all case documentation instead of relying on traditional bulk storage facilities, which are both prone to error and expensive to administer. While this did not result in a significant improvement in the instances of missing case papers or missing or incomplete loan agreements and other documents, JCP attributes this to being the first year of introduction, and expects to see improvements in 2011-12.
17. During the year JCP has completed the centralisation of Sure Start Maternity Grant payments, which has led to the consolidation of expertise in this area and improved the consistency of awards. The success of this approach can be seen in that we did not identify any errors in this payment stream for 2010-11, compared to a most likely error of £11.7 million in 2009-10.

### **Compliance with Secretary of State Directions and Regulations**

18. The Social Fund is governed by Secretary of State Directions and Regulations, which set out eligibility requirements and circumstances in which JCP's Decision Makers may exercise discretion over payments from the Fund.
19. Discretionary awards are based on a series of 47 Secretary of State Directions, established under s168(5) of the Social Security Administration Act 1992 and s140(2) of the Social Security Contributions and Benefits Act 1992.
20. Regulated awards are governed by The Social Fund Maternity and Funeral Expenses (General) Regulations 2005, The Social Fund Winter Fuel Payment Regulations 1998 and Social Fund Cold Weather Payments (General) Regulations 1988, and any subsequent amendments.
21. The remaining two of the four error categories used by the NAO:
  - Non-compliance with Secretary of State Directions; and
  - Suspected non-compliance due to inadequate documentation

arise when JCP has either failed to comply with, or where the quality of the documentation supporting the decision was insufficient to demonstrate compliance with, the Directions or Regulations.

22. Our assessment is that the most likely error arising from actual or suspected non-compliance with Secretary of State Directions and Regulations in 2010-11 was £58.87 million (2009-10; £56.37 million). With the exception of the errors found for the first

time in Winter Fuel and Cold Weather Payments (£37.57m), there has been an improvement in the quality of decisions and documentation around the other award types, which JCP believes is due to the implementation of the Quality Assurance Framework (QAF).

23. As I have reported previously, JCP has implemented the QAF as a way of improving the quality and accuracy of decisions made. The QAF has been in place nationally for over two years now and the results from both JCP's own management checks and my testing show an improving trend in most discretionary and regulated award types.
24. Winter Fuel and Cold Weather Payments are mostly system generated and automated payments. The errors we identified in these payment streams arose predominantly as a result of exceptions within the automated payment route which required some manual input. These expenditure streams fall outside of the QAF process.

### **Actions to Improve the Regularity Issues**

25. During 2010-11 JCP has continued to work to address the concerns I have previously raised on the regularity of expenditure, and has put in place a detailed action plan to address the document control issues at processing sites. The embedding and refinement of the QAF is still ongoing and JCP is looking to strengthen the manual exception process around Winter Fuel and Cold Weather Payments to reduce the errors in these awards. I recognise that JCP has been implementing these changes at a time of record award volumes as a result of the impacts of the economic slowdown and the extremely cold winter in 2010-11.

### **Regularity Conclusion**

26. I acknowledge that the Social Fund exists to provide financial assistance to some of the most vulnerable in society and the judgements associated with making discretionary awards are to some degree subjective. Nevertheless, the material levels of error within the payments tested by my staff means that I have qualified my audit opinion on the regularity of payments. For Budgeting Loans, Crisis Loans, Community Care Grants, Funeral Expense Payments and Cold Weather Payments an estimated £98.3 million of payments have not been applied to the purposes intended by Parliament and do not conform to the authorities which govern them.

### **Debt Qualification**

27. There are four main and numerous sub IT systems which JCP uses to process and record Social Fund awards and payments. The four main systems are:
  - Winter Fuel Payment System (WFPS) – This is used to process Winter Fuel Payments;
  - Social Fund Computer System (SFCS) – This is used to process and record Social Fund loans and grants. SFCS contains customer level data on outstanding debt;
  - Social Fund Accounting System (SFAS) – All discretionary cases should be recorded on SFCS as part of the decision making process. However, due to IT constraints this is not always possible and a supporting system, SFAS (which is a

simple database), is used to record cases which cannot be immediately entered onto SFCS; and

- Programme Accounting Computer System (PACS) – This is the accounting system used to record all Social Fund financial information.
28. JCP uses PACS to derive the figures which appear in the SFWPA. However, due to IT limitations, PACS is only able to provide a gross total for the outstanding debt balance. It is unable to provide a customer level breakdown and JCP relies on two of the other systems, SFCS and the supporting SFAS, to break down the debt into individual customer balances.
29. In 2009-10 I reported the problems that JCP was experiencing in reconciling the debt balance recorded on PACS to the individual customer debt balances recorded on SFCS and SFAS. In an attempt to resolve these issues, JCP set up the Social Fund Task Force (the Task Force) to try to address my concerns. An update on progress made during 2010-11 is given below.

### **Debt Reconciliation**

30. In 2009-10, my audit work concluded there was an unexplained estimated difference between PACS and SFCS plus SFAS of some £36 million. Of this, an estimated £11m was due to some 130,000 'clerical cases', which remained unprocessed on either SFCS or SFAS at the year end, but were still correctly accounted for within PACS.
31. During the year the Task Force put in place processes to remove the debt differences, as well as taking action to clear the backlog of unprocessed 'clerical cases' and strengthening controls to ensure such backlogs do not recur.
32. By 31 March 2011, JCP had successfully cleared the backlog of clerical cases, and work had been done to review the root causes of the creation of such clerical debt. This concluded with a year end exercise to record and quantify all remaining clerical cases at the year-end. As such we consider that JCP has carried out the work necessary in 2010-11 to substantially resolve the clerical debt problem.
33. Nevertheless, at the year end there was still an unexplained difference of some £20.3 million between PACS and SFCS plus SFAS. The Task Force has set up a process for investigating, understanding and resolving the difference. However, as a result of the sheer number of records involved, and the complexities of how data is held in the three systems, this work has not progressed as far as JCP would have hoped, with approximately one million non-matched items still to be resolved at the end of May 2011.
34. As a result, the approximately £20.3 million unexplained difference remains a significant limitation in JCP's ability to provide assurance over the debt balance disclosed in the financial statements.

### **SFCS Scan**

35. In order to accurately report debt balances at the year end, JCP needs to generate reports from SFCS. This is an old computer system designed and implemented in the late 1980's. Its reporting functionality and the ways of extracting information, such as

a breakdown of the year end debt balance, is limited. To extract this information, JCP relies on a series of scans of the IT system to interrogate the data files and report this information in an accessible format.

36. In 2009-10 JCP was unable to prove the completeness and accuracy of the SFCS year end debt balances scan. To rectify this issue, JCP, along with its IT partners, worked on re-specifying the scan parameters to ensure the completeness and accuracy of the debt reports, as well as improving their usability as management information. My team has reviewed the new coding and controls in place to ensure the completeness and accuracy of the scan data and assessed them as effective.

### **Passported Error**

37. Community Care Grants, Sure Start Maternity Grants and Cold Weather Payments are awarded on the basis of the applicant already being in receipt of a qualifying benefit (e.g. Income Support). If the applicant is subsequently found not to have been entitled to the benefit, then they are similarly not entitled to the Social Fund award. Such overpayments are recoverable in line with the relevant legislation.
38. My team has identified that JCP does not yet have fully robust processes for the identification and recovery of overpayments arising from "passported error", which results in an understatement of the Social Fund debt balance. JCP has released internal guidance to raise awareness of the issue in the organisation, and has started to implement processes to identify and account for these cases appropriately.
39. JCP estimates that the level of unrecorded overpayments in 2010-11 as a result of passported error lies between £3 million and £14 million, which I consider to be a significant omission in the completeness of the year end Social Fund debt figure.

### **Debt Conclusion**

40. From the work that my team has conducted over the Social Fund debt balance, I have been unable to obtain sufficient, appropriate audit evidence over the breakdown of this figure to complete my audit on the debt notes 5 – 8 of the account.
41. Auditing Standards require me to make a judgement on the impact this lack of audit evidence has on the accounts and I have concluded that in the absence of sufficient appropriate evidence on the make up of the customer debt balance I am unable to determine whether any adjustments to the amounts disclosed are necessary. Accordingly, I have limited the scope of my audit opinion in this regard.
42. Auditing Standards also require me to report if adequate accounting records have not been kept. For the reasons set out above, I have concluded that I need to bring to your attention that certain accounting records are not adequate to support the transactions comprising the debt balance.

### **Actions to Address the Debt Issues**

43. JCP intends to continue refining the debt reconciliation process that it started developing in 2010-11 and further analysing the data held on SFCS and SFAS. It is implementing processes across the Agency, the wider Department and other

Government Departments to accurately share information to ensure “passport error” cases are correctly identified and accounted for.

### **Summary and conclusions**

44. My audit of the Social Fund White Paper Account has established that JCP has made good progress in a number of areas where I have previously expressed concern, but it still faces a number of challenges. This has been a transitional year for JCP in managing the Social Fund during a period of increasing demand for its services. The plans and processes that management implemented in 2010-11 provide a solid foundation on which JCP should build to fully resolve all my concerns. I will continue to monitor progress and will provide an update in my Report on the 2011-12 Account.

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