



National Audit Office

REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL

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Department for Work and Pensions

Preventing fraud in contracted employment programmes

Key facts

126

Contracted employment fraud investigations 2006–2012

£829m

Contracted Employment Provision 2011-12

£773,000

total estimated loss of the cases investigated since 2006

- 9** number of cases referred to the police
- 1** number of prosecutions
- £529,770** loss to public funds from staff fraud or abuse in 2010-11
- 9** possible cases of fraud identified by provider A4e's Internal Audit in 2009
- 7** possible cases of improper practice identified by A4e's Internal Audit in 2009

Summary

1 Following the Committee of Public Accounts' hearing on the Work Programme in February 2012, the Chair of the Committee expressed concern at the potential level of fraud and improper practice in contracted employment programmes (employment programmes). Allegations from customers and whistleblowers were received by the Chair, which were then passed on to the Department for Work and Pensions (the Department) for investigation.

2 The Department spends around £900 million a year on employment and support programmes that assist unemployed people to find and keep work. Support is delivered on behalf of the Department by a range of providers under contract. Figures 3 and 4 on pages 13 and 14 set out the main programmes in place in the last five years. The largest current programme is the Work Programme which started in June 2011 and over five years will cost £3 billion to £5 billion depending on performance.

Scope

3 This report examines the controls the Department has in place to detect and deal with fraud and improper practices in employment programmes. It has four parts:

- Part One covers the level of reported fraud in employment programmes and the weaknesses in previous schemes that contributed to increased risks.
- Part Two examines measures taken by the Department to improve controls.
- Part Three examines the operation of the current control regime, further improvements that can be made and how the Department has assessed the risk of fraud at A4e – one of the largest private sector providers of employment programmes.
- Part Four examines the Department's approach to improper practices – activities that range from just short of fraud to poor service.

4 We did not:

- examine the controls that other government bodies use to manage contracts placed with the same providers used by the Department; or
- investigate allegations or carry out testing at providers to re-perform the Department's checks.

5 The Department is currently carrying out its own examination of the controls operated by A4e and of the allegations passed to the Department by the Chair of the Committee of Public Accounts. The Department will report the results of this separately to the Committee.

6 We examined the extent to which the Department adopted the controls that we would expect to see in an effective control environment (**Figure 1**). Our methodology is summarised in Appendix One.

Figure 1

Key elements of an effective control environment to prevent fraud where services are contracted out

Control element	Description
Design	
Design of programme/service to be delivered	Outputs or outcomes to be paid for are clearly defined, can be measured and their delivery validated.
Contract	
Assessment of provider before appointment	Provider's controls against fraud and record are assessed before appointment.
Contract Conditions	Anti-fraud conditions included in contracts.
Oversight	
Contract oversight and management	Management understand the strengths and weaknesses of providers' arrangements for preventing fraud. Assessments are reported to senior management. Staff have the appropriate skills to make such an assessment.
Assessment of providers' controls in practice	Regular review of how controls are working in practice. If necessary, inspections made to give assurance that providers' controls are working.
Checking delivery before payment	Checks made that services or outcomes are delivered before payment is made.
Investigation and Assurance	
Investigating fraud cases	The Department should have the capacity to investigate allegations of fraud.
Independent assurance	The Department should obtain independent assurance that the control environment is working from its internal audit function.

Source: National Audit Office criteria developed from HM Treasury/National Audit Office Good Practice Guide – Tackling External Fraud

Key findings

The level of reported fraud

7 Reported fraud in employment programmes is relatively low compared with fraud in the benefits system and the losses from staff fraud and irregularities.

There have been 126 reported cases of potential fraud in employment programmes investigated since 2006. This is a relatively small number and the value of cases accounts for less than 0.01 per cent of spend. The Department found that there was 'false representation' (fraud) in less than a quarter of these. The total estimated loss resulting from false representation over six years is £773,000, an average of £129,000 a year. This compares with a loss to public funds of £530,000 in 2010-11 from fraud or abuse by the Department's staff. The Department also estimates that it overpaid £1.2 billion due to benefit fraud in 2010-11. However, while the Department has made no assessment of the value of unreported fraud, given the weaknesses in schemes like the New Deal (paragraph 8), there is a risk that the level of provider fraud is understated.

8 Over half of reported fraud in employment programmes since 2006 relates to the New Deal programmes that ended in 2011.

New Deal programmes were partially replaced by the Flexible New Deal in 2009 and then by the Work Programme in 2011. The New Deal programmes had design weaknesses and had poor systems for validating outcomes, which increased the risk of fraud. Outcomes that triggered payments were subject to a degree of judgement, which was difficult to verify. Checks relied on a complex paper trail of records held by providers and there were no checks with employers to verify providers' claims that they had placed individuals into work.

9 The Department did not do enough to quantify and address the fraud risks in the design of New Deal and other legacy programmes. The Department knew of the fraud risks in programmes, including New Deal, but did not introduce compensating controls. In particular, there were no checks with employers to verify claims that people had been placed into work. Rather than addressing the fraud risk in existing schemes directly, the Department gave priority to addressing the risk in the design of new schemes. For the Flexible New Deal and the Work Programme there was a clearer definition of outcomes and automated checking that they had been achieved. In deciding not to increase controls earlier the Department did not attempt to quantify the fraud risk, for example, by carrying out sample checks at employers. Without these checks the Department could not determine whether the number of reported fraud cases was a significant understatement of actual fraud.

Measures taken to improve controls

10 The Department has now significantly improved the controls. In particular:

- the Flexible New Deal and the Work Programme that replaced the New Deal, to have measurable and verifiable outcomes;
- the Work Programme controls enable the Department to estimate the value of fraud and error, and to recover overpayments based on those estimates.

- it introduced contractual conditions requiring providers to have specific anti-fraud controls; and
- it centralised management and oversight arrangements. In addition, for the Flexible New Deal and the Work Programme automated prepayment checks on outcomes have been introduced and a sample check with HMRC records is made to test whether individuals are in work. The Department also introduced provider assurance teams in October 2009 to visit providers to examine governance arrangements, service delivery, financial procedures and data security.

11 In our report *Introducing the Work Programme* we indicated that the design of the Work Programme, in particular, the demanding performance assumptions and targets, created a risk that providers would be tempted to game the system or even, in extreme cases, claim for outcomes not achieved. The Department must take this risk into account in the operations of its control regime.

Current operation of the control regime

12 The Department now has the infrastructure for an effective control environment. When assessed against the criteria in Figure 1 the Department has in place the key elements necessary for effective controls. In particular, the Work Programme includes all the design, contractual, oversight and assurance controls set out in Figure 1. A key control improvement for this programme was the introduction of the automated validation of outcomes before payment is made. This has only been operational for the Work Programme since the end of March 2012, is still bedding in and, consequently, we have not yet assessed its effectiveness.

13 Risks still remain because not every control will apply to every programme. Some of the key controls do not apply to some of the smaller programmes. In particular, on the £8 million programme providing mandatory work activity there are no systematic independent checks with the organisations where the claimant has been placed that outcomes have been achieved (claimants have been placed with them) before payment is made. Unless checking with employers is introduced, the Department is dependent on information held by the provider and the risk of fraud remains.

14 The Department could further improve its assessment of controls by a more coordinated and information led approach. Currently the Department does not obtain key information such as providers' internal audit plans or reports and complaints information, all of which are necessary for a complete assessment of the effectiveness of internal controls. The knowledge of the various departmental bodies involved in the control environment is fragmented as it is not brought together in one place.

15 The operation of the provider assurance teams can be improved further. Although provider assurance teams receive basic training they do not receive training in fraud awareness and more advanced assurance techniques such as how to assess the work of providers' internal audit. In addition they currently give providers advance notice of inspection visits and do not undertake unannounced visits with the exception of data security checks.

16 The Department's past assessment of the risk of fraud at A4e missed vital evidence. A4e has contracts with the Department worth around £78 million a year. A4e's controls were examined by the Department's provider assurance team in an inspection that concluded in May 2011 before the Work Programme and Mandatory Work Activity contracts were let. The team did not request relevant internal audit reports including the A4e internal audit paper later passed to the chair of the Committee of Public Accounts, setting out evidence of nine possible cases of fraud and seven of improper practice by A4e's staff. The Department knew that A4e was carrying out an investigation of this type as it was mentioned by A4e in evidence to the Work and Pensions Select Committee in September 2009. The Department told us that it was not offered the internal audit paper by A4e but that it had already been told of some, but not all, of the cases included in the paper. In addition, A4e told us that it made the Department aware of the sample its internal audit had taken and its proposed approach, which the Department agreed, to following up the anomalies found. Nevertheless, the Department identified weaknesses in A4e controls which the provider was required to make good. The Department also assessed the improved controls that A4e had introduced were in place following previous fraud and its internal review. The Department is following up the cases set out in A4e's internal audit paper in tandem with its wider investigation of its contracts with A4e.

17 There is no single whistleblower line through which individuals can report allegations of fraud about providers. Individuals can make allegations through a number of avenues including their contact at Jobcentre Plus. However, without a single publicised line independent of the people handling their case, there is a risk individuals will be reluctant to do so.

18 Work Programme service users cannot judge whether they are getting the level of service the Department intends because standards are not set out in one place. The Department operates a 'black box' approach to procurement where it does not specify how a provider should achieve outcomes. However, once the contract is let, a provider is expected to deliver services in line with the detail of its bid. The Department can use its contracts with providers, which include for the Work Programme the minimum service standards, guidance and wider codes of conduct, to hold providers to the spirit of delivering Employment Programmes. These standards of behaviour cover more than the minimum service standards but they are not clearly set out in a single place. There is a risk that providers are less clear about how to abide by the terms and spirit of delivering a programme and that claimants have less clarity about the level of service they should expect to receive. The Department does not systematically collect claimant feedback and complaints which could improve its awareness of the key areas where claimants consider they are getting a poor service. However, the Department does receive informal feedback from the Independent Case Examiner and Jobcentre Plus staff.

19 There is scope for more transparency with Parliament and the public. Little information is provided to Parliament and the public about employment programme fraud cases. In its response to the Work and Pensions Select Committee in October 2010, the Department agreed to publish information on fraud but has not yet done so. It expects to publish a report in the second half of this year.

Recommendations

20 The Department has significantly improved the controls it has in place, particularly those now relating to the Work Programme, its biggest programme. The operation of the controls should be improved further and the Department needs to ensure that control risks in smaller programmes such as the mandatory work activity scheme are addressed.

- a** The Department does not make the most of the fraud risk knowledge of its staff and needs to share it more effectively. An annual assessment should be made of the fraud risks inherent in each programme and for each provider bringing together the knowledge of Jobcentre Plus staff, programme managers, account managers, compliance managers, the provider assurance teams, Internal Audit and the Investigation Team. As part of its overall assessment, the Department should estimate the losses due to fraud on its programmes.
- b** Fraud risks remain where controls are weak. The Department should put additional checks in place where other controls are weak based on its assessment of risk. In particular, the Department should consider carrying out checks at employers to validate that clients placed under the Mandatory Work Activity scheme received their placement.
- c** The capability of the provider assurance team should be further strengthened. Their expertise should be increased by training in fraud awareness and more advanced assurance techniques such as the assessment of the degree that they can rely on the provider's internal audit and other control function or when substantive testing is required. Teams should vary their inspection regime with some short notice or unannounced inspections.
- d** Service users cannot judge whether they are getting the level of service the Department intends because standards are not set out in one place. The Department should require Work Programme providers to set out clearly in a single place all the standards of behaviour and service users can expect.
- e** The Department cannot assess the quality of service providers are delivering if it does not have visibility of users' complaints. The Department should review a sample of complaints made direct to providers in order to detect any trends in improper practice. The Department should have a publicised whistleblower line for people to report suspicions of fraud and irregularity concerning providers. The Department should also publicise how MPs and others who have concerns about programmes that cannot be resolved by individual providers, for example, where they see trends that cover more than one provider, can be reported and addressed.
- f** There is little published material on fraud cases. The Department should bring forward publication of the proposed Annual Report on Contracted Employment provision so it is available immediately after the summer recess.