
Department for Work and Pensions: 2011-12 Accounts

**Report by the Comptroller and Auditor
General**

Our vision is to help the nation spend wisely.

We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Amyas Morse, is an Officer of the House of Commons and leads the NAO, which employs some 860 staff. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of more than £1 billion in 2011.

Contents

Introduction	4
Where do the errors occur?	7
Conclusion	14

Introduction

Fraud and error in benefit expenditure

- 1** The accounts of the Department for Work and Pensions group (the Department) disclose net expenditure of £167.0 billion on benefits, employment programmes and their related administration costs in 2011-12.
- 2** Under the Government Resources and Accounts Act 2000, I am required to give an opinion on whether, in all material respects:

 - The financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2012 and of its net operating cost for the year then ended; and
 - The financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.
- 3** In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and revenue recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them (my regularity opinion).
- 4** In respect of the Department's 2011-12 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 where the level of fraud and error is lower. The Department's accounts, and those of predecessor Departments administering this expenditure, have received similar qualified audit opinions since 1988-89. Issuing an audit qualification is a serious matter, and the fact that similar qualifications have been in place for such a long period of time does not lessen that seriousness. I consider that the overall value of fraud and error in benefit expenditure remains unacceptably high, and the qualification of my audit opinion reflects that.
- 5** 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 differs from that specified in the legislation, the transaction is not in conformity with the governing legislation and is irregular. In determining whether this should lead to a qualification of my audit opinion, I have chosen to apply a materiality judgement. Consequently, I have decided that low levels of fraud and error will not lead to a qualification, which is why I have excluded State Pension from the qualification.

6 Over the past years both I and my predecessors have repeatedly set out this clear definition of what we consider to be irregular expenditure. The rules governing the regularity of expenditure are rightly rigorous. If the benefits system is so complex that it drives high levels of fraud and error that the Department considers cannot be reduced without disproportionate cost and effort, then in my view the remedy lies in the Department seeking legislative change.

7 Note 37 to the Department's accounts discloses the Department's best estimate of fraud and error within benefit expenditure. As shown in Note 37, the Department estimates total overpayments due to fraud and error in 2011-12 are £3.2 billion (2010-11 – £3.3 billion), which equates to 2.0% of total benefit expenditure of £159.0 billion (2010-11 – 2.1% on expenditure of £153.6 billion). The Department estimates total underpayments in 2011-12 at £1.3 billion (2010-11 – £1.3 billion), which equates to 0.8% of total benefit expenditure (2010-11 – 0.8%).

8 Within those figures, the Department estimates that in 2011-12 fraud and error within State Pension resulted in overpayments of £0.1 billion (2010-11 – £0.1 billion), 0.1% of related expenditure (2010-11 – 0.1%) and underpayments of £0.15 billion (2010-11 – £0.1 billion), 0.2% of related expenditure (2010-11 – 0.1%).

9 I have therefore qualified my audit opinion on the regularity of the Department's 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 levels of under and overpayments in such benefit expenditure are not in conformity with the relevant authorities. This report sets out the reasons and context for my qualified audit opinion by commenting on the key causes of fraud and error in benefit expenditure and the actions the Department is taking to try to reduce it.

10 The report also explains the significant challenge that the Department faces in administering a complex benefits system to a high degree of accuracy in a cost effective way. Some benefits, mainly those with means-tested entitlement, are more inherently susceptible to fraud and error due to their complexity, the difficulties in obtaining reliable information to support the claim and the problem of capturing changes in a customer's circumstances. These more complex to administer benefits, such as Pension Credit, tend to be the ones exhibiting the highest estimated fraud and error rates.

11 On 8 March 2012 the Welfare Reform Act received Royal Assent. One of the main elements of the Act is the introduction of a new Universal Credit from 2013 to replace many of the current working age benefits with a single means-tested payment. The primary aim of Universal Credit is to create a single streamlined working age benefit, with tapered payments that are structured to encourage customers to return to work. The Department intends that this streamlining of benefit will remove or reduce some of the current complexities around benefit entitlement, verification of customer circumstances and administrative requirements that can increase the opportunities for fraud and error. In combination with that restructuring, the Act also includes plans for a

revised approach to reducing fraud and error with the introduction of tougher penalties for the most serious offences in respect of customer fraud.

Where do the errors occur?

Overview

12 The Department's total expenditure on benefits in 2011-12 was some £159.0¹ billion, of which £131.4 billion was in respect of benefits paid directly by the Department and £27.6 billion in respect of benefits paid on the Department's behalf by local authorities, mainly Housing Benefit and Council Tax Benefit. Note 37 to the Department's accounts sets out expenditure by benefit type and the Department's estimate of the extent of fraud and error in each type. The note also explains the extent of statistical uncertainty inherent in these estimates and the difficulty in identifying certain types of complex error and well concealed frauds. Some caution must therefore be exercised when examining the estimates for trends. The estimate of fraud and error disclosed in the accounts is nevertheless the best measure currently available.

13 The estimates separate the reported incorrect payments into three categories, which the Department defines as follows:

- Official error arises when 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 (HMRC);
- Customer error occurs when customers make inadvertent mistakes with no fraudulent intent; and
- Fraud arises when customers deliberately seek to mislead the Department or local authorities which administer benefits on the Department's behalf to claim money to which they are not entitled.

14 The following paragraphs further analyse the types of fraud and error which commonly arise within the Department's three main error categories of official error, customer error and fraud. For the purposes of this report, I have primarily focussed on the benefits administered directly by the Department and have discussed the different characteristics of Housing Benefit and Council Tax Benefit, which are administered by local authorities on the Department's behalf, separately in paragraphs 25 to 29.

15 The tables below report fraud and error rounded to the nearest £100 million, and rows and columns may not sum due to rounding. The percentages are, however, calculated on the basis of unrounded figures. This is a change from my previous report, and has been done to bring our calculations into alignment with those of the

¹ Sourced from Note 37

Department. As a result some of the numbers and percentages I reported in 2010-11 have changed slightly in this report.

Official error

16 The Department's 2011-12 estimate of official error (defined in paragraph 13 above) is broken down in Figure 1 below.

Figure 1

Estimated official error

Benefits	2011-12	2011-12	2011-12	2010-11	2010-11
	Total expenditure	Official error overpayments	Official error underpayments	Official error overpayments	Official error underpayments
	£ million *	£ million *	£ million *	£ million *	£ million *
		(% of related expenditure)	(% of related expenditure)	(% of related expenditure)	(% of related expenditure)
Benefits administered directly by the Department	131,400	700 (0.5)	400 (0.3)	700 (0.5)	400 (0.3)
Housing related benefits administered by local authorities	27,600	100 (0.4)	100 (0.2)	100 (0.5)	100 (0.3)
All DWP benefits	159,000	800 (0.5)	400 (0.3)	800 (0.5)	400 (0.3)

NOTES

Figure Source: Department for Work and Pensions Accounts, Fraud and Error in the Benefit System: Preliminary 2011-12 Estimates Revised Edition (for the 2011-12 estimates), Fraud and Error in the Benefit System: Preliminary 2010-11 Estimates (for the 2010-11 estimates). Percentages have been calculated on the unrounded figures.

* Rounded to the nearest £100 million. Rows and columns may not sum due to rounding.

17 Official errors can cause hardship to customers who are underpaid and unfairly reward others who are overpaid at an additional cost to the taxpayer. Such errors can take time to identify and correct and as a result their cumulative impact on resource and efficiency can be considerable. The overall rate of official error for overpayments and underpayments shown in Figure 1 represents an average across all benefits. In the benefits administered directly by the Department, the costs of official errors are proportionately higher in means-tested or disability related benefits, where entitlement depends on the Department collating and assessing a wide range of information. In general, the greater the data requirements required 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. For example, State Pension has a negligible official error rate in overpayments (2010-11 – overpayments 0.1%) and 0.2% in underpayments (2010-11 – underpayments 0.1%). Whereas Pension Credit, which is more complex to administer due to its means-tested nature², has an official error rate of 2.1% in overpayments and 0.8% in underpayments (2010-11 – overpayments 2.0%; underpayments 1.2%).

Customer error

18 The Department's estimate of customer error, as defined in paragraph 13, is shown in Figure 2 below.

Figure 2

Estimated customer error

Benefits	2011-12	2011-12	2011-12	2010-11	2010-11
	Total expenditure £ million *	Customer error overpayments £ million * (% of related expenditure)	Customer error underpayments £ million * (% of related expenditure)	Customer error overpayments £ million * (% of related expenditure)	Customer error underpayments £ million * (% of related expenditure)
Benefits administered directly by the Department	131,400	600 (0.5)	600 (0.5)	600 (0.4)	600 (0.5)
Housing related benefits administered by local authorities	27,600	700 (2.6)	300 (1.0)	700 (2.5)	300 (1.0)
All DWP benefits	159,000	1,300 (0.8)	900 (0.5)	1,200 (0.8)	900 (0.6)

NOTES

Figure Source: Department for Work and Pensions Accounts, Fraud and Error in the Benefit System: Preliminary 2011-12 Estimates Revised Edition (for the 2011-12 estimates), Fraud and Error in the Benefit System: Preliminary 2010-11 Estimates (for the 2010-11 estimates). Percentages have been calculated on the unrounded figures.

*Rounded to the nearest £100 million. Rows and columns may not sum due to rounding.

19 Customer error accounts for just under half of the total cost of the Department's overpayments and around two thirds of the total cost of underpayments, although

² Minimising the costs of administrative errors in the benefit system, HC 569, 25 November 2010

there are substantial differences in customer error rates between benefits. As with official error, those benefits with the highest customer error rates are means-tested benefits, such as Pension Credit and Income Support, which have entitlement conditions that relate to the level of income and/or savings of customers. Mistakes can arise here as a result of the customer failing to provide accurate or complete information to the Department, or having failed to report a change in their circumstances, which leads to an incorrect assessment being made.

20 My January 2011 Value for Money report into customer error³ found that there were three main issues underpinning customer error. Firstly, the benefits system is complex for customers to navigate. Secondly, customers do not readily recognise that they have to report any changes in their circumstances. A significant proportion of customers (70% of those asked) thought that they did not have to report short-term changes, and (40%) had little or no knowledge of their reporting obligations. Thirdly, many customers incorrectly believe that reporting changes once to a local or central government body will lead to all government bodies updating their records for that individual. My September 2011 Value for Money report into means testing⁴ also found that means testing places a burden on customers. They often find it difficult to understand their obligations and the options they have in claiming benefits, as illustrated by the fact that in 2009-10 Citizens Advice Bureaux dealt with 1.2 million cases relating to means-tested benefits, 17% of their total caseload.

21 Customers have a responsibility, as a condition of receiving benefit, to provide the Department with accurate and complete information and to tell the Department promptly about any changes in their personal circumstances that might affect the amount of benefit to which they are entitled. This relies on customers being pro-active in notifying changes. The Department has adopted this approach because it does not have routine access to verifiable third party sources of information, or the information may not exist that would allow them to track such changes.

³ Reducing losses in the benefits system caused by customers' mistakes, HC 704, 21 January 2011

⁴ Means testing, HC 1464, 14 September 2011

Fraud

22 The Department's estimate of fraud, as defined in paragraph 13, is shown in Figure 3 below.

Figure 3

Estimated fraud

Benefits	2011-12	2011-12	2010-11
	Total expenditure £ million *	Fraud overpayments £ million * (% of related expenditure)	Fraud overpayments £ million * (% of related expenditure)
Benefits administered directly by the Department	131,400	800 (0.6)	900 (0.7)
Housing related benefits administered by local authorities	27,600	400 (1.4)	300 (1.3)
All DWP benefits	159,000	1,100 (0.7)	1,200 (0.8)

NOTES

Figure Source: Department for Work and Pensions Accounts, Fraud and Error in the Benefit System: Preliminary 2011-12 Estimates Revised Edition (for the 2011-12 estimates), Fraud and Error in the Benefit System: Preliminary 2010-11 Estimates (for the 2010-11 estimates). Percentages have been calculated on the unrounded figures.

*Rounded to the nearest £100 million. Rows and columns may not sum due to rounding.

23 Of the benefits administered directly by the Department, it is the means-tested benefits, such as Jobseeker's Allowance, Income Support and Pension Credit, which tend to have the highest rates of fraud as they require the customer to supply complete and accurate information in order to establish entitlement to benefit. Most commonly, fraudulent customer statements relate to the customer's living arrangements where the customer has a partner, but is claiming and 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 customer has provided a false address in order to claim benefit.

24 The Department's research indicates that customer difficulties in reporting changes in their circumstances and concerns about potential changes or disruptions to benefit payments contribute to the problem⁵. The complex administration of benefits also allows potential fraudsters the opportunity to present themselves differently to different administering agencies, which are not always sufficiently integrated to identify those instances. Because the Department does not have a readily available source of

⁵ 'Tackling fraud and error in the benefit and tax credits system', October 2010

external information against which to verify some aspects of claims, such as misrepresentations can result in fraud occurring.

Housing Benefit and Council Tax Benefit

25 As noted in paragraph 12, Housing Benefit and Council Tax Benefit are administered by the customer's relevant local authority on behalf of the Department. Undetected errors in benefits administered directly by the Department, can, however, also lead to errors on Housing Benefit and Council Tax Benefit claims. This is because receipt of income-related benefits such as Jobseeker's Allowance or Income Support can be used by a local authority as evidence that customers are entitled to Housing Benefit and Council Tax Benefit. 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, they are subject to similar limitations around evidence that can be gathered as those means-tested benefits administered by the Department. Consequently, a number of fraud and error types that are common to the means-tested benefits administered by the Department also arise in Housing Benefit and Council Tax Benefit.

26 The Department has a key role in setting the framework within which local authorities must manage benefits. For Housing Benefit, the funding arrangement between the Department and local authorities contains a formula intended to encourage accurate payments by local authorities 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 based performance measure which sets each local authority targets for identifying reductions in benefits overpaid and preventing overpayments due to customer error entering the system.

27 Common errors arise from poor or non-timely exchange of information between the Department and the local authority with regard to whether a customer is in receipt of, or entitled to, a qualifying benefit. In practice, given the lack of direct integration between the Department's systems and those of all local authorities, such errors will be difficult to eliminate.

28 There are additional fraud and error risks, which are specific to Housing Benefit and Council Tax Benefit, where the benefit is paid in respect of a specific property. For example, where the customer moves between local authority areas 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 fraudulently concealed.

29 The Department has continued implementing Automated Transfers to Local Authority Systems (ATLAS), which is an IT development that automatically informs local authorities of new awards or changes in benefits. From February 2012 local authorities have received details of changes in benefits administered by the

Department on a daily basis. The Department hopes that the provision of more timely information on customer changes will lead to a significant reduction in fraud and error within local authority administered benefits.

Future plans

30 The Department fully recognises the problems created by the level of fraud and error in benefit expenditure and has, over the years, made many efforts to reduce it, ranging from introducing data-matching systems, advertising campaigns targeting actual and potential fraudsters and the application of sanctions and prosecutions. Nevertheless, the level of fraud and error within benefit expenditure remains high.

31 Savings are being sought at all levels of Government and as a result there is a strong and renewed imperative across Government to reduce fraud and error. This includes cross government initiatives such as the Cabinet Office's Fraud, Error and Debt Taskforce. In its report *'Tackling Fraud and Error in Government'* published in February 2012, the Task Force set out a focused delivery programme that seeks to reduce levels of fraud and error across Government, which includes work undertaken by the Department.

32 The Department's four year fraud and error strategy, published jointly with HMRC in October 2010, was refreshed in February 2012 as part of *'Tackling Fraud and Error in Government'* and intends to deliver significant reductions in the level of fraud and error across benefits and tax credits. The strategy sets out plans to invest £425 million to reduce the monetary value of fraud and error overpayments by over one quarter, or £1.4 billion per year, by March 2015. The Department's share of this planned reduction is some £600 million per year from existing benefits and £200 million per year from the introduction of Universal Credit.

33 Work undertaken by the Department in 2011-12 has included case cleansing activity to correct the existing stock of incorrect benefit expenditure. This work has so far concentrated on checking and correcting Pension Credit cases, as this is a means-tested benefit with some of the highest rates of fraud and error. Since the start of these initiatives, the Department estimates that it has so far corrected over 32,000 cases and identified some £49 million in overpayments with annual savings of £63 million.

34 The Department is also working with HMRC on proposals to establish a Joint Fraud Investigation Service (the Single Fraud Investigation Service), and has undertaken a number of joint criminal investigations with a view to prosecute customers who have committed both tax credit and benefit fraud. The Department is also committed to further exploit data sharing opportunities, both across Government and with Credit Reference Agencies and other third party data providers, to enhance its fraud prevention and detection capability.

35 The Department plans to start introducing Universal Credit from 2013 to replace a range of existing means-tested working-age benefits and tax credits, which are the benefits that have historically suffered from the highest rates of fraud and error. The Department plans to process and administer Universal Credit using on-line application processes and integrated computer systems and processing teams so as to try to reduce the number of complex interactions between different benefit systems. These plans also involve new procedures to verify identity and to undertake checks before payments are made. This marks an opportunity for the Department to eliminate many of the key contributory factors to the current high level of fraud and error within benefit expenditure.

36 Complementing these reforms, HMRC plans to introduce a real time information system for Pay As You Earn, which would link the tax and benefits systems for the first time. This offers the potential to significantly reduce some of the current problems around verification of entitlement for benefits which have means-tested elements to their eligibility criteria.

Conclusion

37 The estimated value of fraud and error overpayments in benefit expenditure in 2011-12 was £3.2 billion, or 2.0% of expenditure, a similar level to the previous year (2010-11 – £3.3 billion and 2.1% respectively). Over the period in which fraud and error have been measured by the Department, fraud and error rates have consistently remained at a high level. This has been most notable in means-tested 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 me and my predecessors to qualify the Department's accounts on the grounds of material amounts of fraud and error in the benefit expenditure system since 1988-89. I consider that this view is consistent with the views expressed by the Government in the February 2012 Cabinet Office Fraud, Error and Debt Taskforce document '*Tackling Fraud and Error in Government*', that the level of fraud and error in the welfare system is unacceptable.

38 However, I recognise that no system can ever be perfect, not least because it is difficult to administer a benefits system of such complexity in a cost effective way and because human error can and does occur even in the best designed systems. Consequently, where the Department needs to gather information to process a claim correctly, it has to strike a balance between the need to provide sufficient scrutiny over claims and do so in a way that is not overly burdensome, otherwise administration of the benefits system would become impractical. If the benefits system is so complex that it drives high levels of fraud and error that the Department considers cannot be reduced without disproportionate cost and effort, then in my view the remedy lies in the Department seeking legislative change. Nevertheless, the Department should use the development of Universal Credit as an opportunity to enhance its processes so

that it can properly demonstrate what a modern, effective and joined up benefits system will look like.

39 We note the refreshed approach that the Department intends to take in reducing fraud and error, which it sets out in more detail within the Annual Report and in note 37 to the accounts. In its implementation of some radical changes to the benefits system, we recognise the Department is also, in part, attempting to drive down incorrect payments. It needs to continue to enhance its understanding of the underlying root causes of fraud and error in benefit expenditure in order to develop more effective decision making and more accurate benefit decisions. Only by developing such an evidence based framework will the Department be able to demonstrate that its systems are sufficiently optimised to minimise the gap between what it should achieve and what it does achieve.

Amyas C E Morse
Comptroller and Auditor General

10 July 2012

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP