
2011-12 Social Fund White Paper Account

**Report by the Comptroller and Auditor
General**

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Introduction

The Department for Work and Pensions (the Department) is responsible for controlling and managing the Social Fund under the Social Security Administration Act 1992. The Social Fund White Paper Account records payments made to customers in accordance with Directions issued by the Secretary of State for Work and Pensions under the Social Security Contributions and Benefits Act 1992. These payments can be split into two distinct categories:

a) Discretionary Awards

These awards comprise Budgeting Loans, Crisis Loans and Community Care Grants. Payments are made from a cash-limited budget, which Social Fund staff must consider when deciding whether to make a payment and how much to award. Discretionary awards are governed by Directions issued by the Secretary of State.

b) Regulated Awards

These awards comprise Funeral Expenses Payments, Sure Start Maternity Grants, Cold Weather Payments and Winter Fuel Payments. Payments are made if a customer satisfies the criteria set out in the Regulations.

Since the 2003-04 Account, I have qualified my audit opinion on the Social Fund White Paper Account due to the material levels of error in the payment of Discretionary Awards. For the past two years, I have also limited the scope of my opinion in relation to the Social Fund debt balance disclosed due to the Department not being able to provide adequate assurance over the completeness and accuracy of the debt balance.

Welfare Reform

The Welfare Reform Act 2012 introduces a fundamental reform to the welfare system, which will have a significant impact on the nature and operation of the Social Fund going forward. This will include abolition of Discretionary Awards from April 2013 and the creation of new local welfare assistance to replace Community Care Grants and Crisis Loans. These reforms represent a significant challenge to the Department.

Audit Opinion

Regularity Qualification - Due to the material level of irregular payments found in Social Fund awards, I have qualified my regularity opinion on the 2011-12 Social Fund White Paper Account. Issuing an audit qualification is a serious matter, and the fact that similar qualifications have been in place for some time does not lessen that seriousness.

Debt Qualification - I have again limited the scope of my audit opinion on the debt notes disclosed in the Account due to the Department being unable to provide me with adequate assurance over the completeness and accuracy of these balances.

Winter Fuel Payments	-	-	-	-	-	-	2,147.34
Overall most likely error	3.72	11.58	19.80	10.53	45.63	1.47	3,097.77

Table 1: Extrapolation of 2011-12 error results

Information Management

The Department's errors relating to information management include:

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

These errors arise because the Department is unable to provide the information, such as the original application forms, decision sheets or electronic call recordings required to support the payment. Without this information, the Department cannot demonstrate compliance with the Secretary of State Directions or Regulations.

An estimated £15.30m (2010-11: £55.45m) of error resulted from missing or incomplete documentation or information. This is a reduction compared to 2010-11, which the Department believes is primarily due to the embedding of a project begun in 2010-11 to electronically scan all key Social Fund documents, with the aim of better tracking, storing and managing documentation.

One of the positive results of the project is that it has allowed the Department to provide substantially more of the documentation required to support our sample of payments made. However, I still found instances where the Department was unable to provide whole cases or other key information to the NAO. The Department believes this is due to a small number of documents being mislaid before the scanning process. There were also a small number of instances where the Department was unable to obtain call recordings to support telephone applications made, especially in relation to a new process set up in 2011-12, whereby customers can apply for a Funeral Expenses Payment by telephoning the Bereavement Service.

Compliance with Secretary of State Directions and Regulations

The other two error categories relate to compliance with Secretary of State Directions and Regulations:

- Non-compliance with Secretary of State Directions or Regulations; and
- Suspected non-compliance due to inadequate documentation.

These errors arise when the Department has either failed to comply with Secretary of State Directions or Regulations, or where the level of documentation provided is insufficient to demonstrate compliance.

The Secretary of State Directions and Regulations set out the eligibility criteria for each Social Fund award. Departmental staff are required to issue awards in line with the Directions and Regulations, but they may exercise some discretion over the amounts paid.

Our assessment is that the most likely error arising from actual or suspected non-compliance with the Directions and Regulations in 2011-12 was £30.33m, some 0.98 per cent of total expenditure (2010-11; £58.87m, 1.41 per cent of total expenditure). Again, the level of error found has reduced: The Department believes that this reflects improvements in the quality of decisions and documentation as a result of the Quality Assurance Framework (QAF) first introduced in 2010-11.

Actions to Improve the Regularity Issues

The Department has made progress in addressing my on-going concerns over the regularity of Social Fund expenditure, and has ensured the action plan reported last year to address the document control issues at processing sites was implemented.

The results of our testing demonstrate the positive impact of the introduction of both scanning and the QAF, which has contributed to a reduced level of error this year. The Department is looking at further improvements in order to continue to drive down the level of error.

Regularity Conclusion

I estimate that £45.6m of payments relating to Budgeting Loans, Crisis Loans, Community Care Grants, Sure Start Maternity Grants and Funeral Expenses Payments have not been made in accordance with Parliament's intentions or do not conform to the authorities that govern them.

In 2010-11, I removed Sure Start Maternity Grants from my qualification. However, my regularity testing in 2011-12 found a most likely error of £0.9m (2010-11: nil), which is 1.95 per cent of 2011-12 Sure Start Maternity Grant payments. I have, therefore, included Sure Start Maternity Grants within the regularity qualification this year.

No errors were identified in the testing of Cold Weather Payments (2010-11: £21.54m). I have therefore removed Cold Weather Payments from my regularity qualification for 2011-12. No errors were identified in Winter Fuel Payments, and as such this award type remains excluded from the regularity qualification.

Debt Qualification

In prior years, I have reported on the Department's difficulties in reconciling the debt balance recorded on the accounting system to the supporting individual customer debt records. These difficulties remain, and as a result the Department is still unable to provide adequate assurance that the debt balance disclosed in the 2011-12 account is complete.

Debt Reconciliation

At 31 March 2012, there is a net difference of £17.1m (31 March 2011: £21.9m) between the accounting system and the supporting debt administration system. This net figure masks a gross difference of £36.3m (2010-11: £26.7m), which results from opposing movements in the underlying loan types (Budgeting Loans, Crisis Loans and Funeral Expenses Payments).

As I have reported in previous years, the Department is taking steps to address the difference by undertaking a large scale 'matching' process to try to reconcile the balance on the accounting system with that in the customer debt records in order to understand the root causes of the discrepancy. Work is still on going and there are as yet no firm conclusions from this work.

This unexplained difference casts doubt over the accuracy of the debt figure in the accounts and the Department has been unable to provide me with alternative information to support this balance. As a result I have again limited the scope of my audit opinion over the Social Fund debt balances.

Passported Error

Three Social Fund award types (Cold Weather, Sure Start Maternity Grants and Community Care Grants) are made on the basis of the applicant being in receipt of a qualifying primary benefit, for example 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 known as “passported errors”, and are recoverable in line with the relevant legislation.

Last year, I reported my concerns that the Department does not have a robust process for the identification and recovery of these overpayments, which could lead to a material omission from the Social Fund debt balance. During the year, the Department has continued to raise internal awareness of the passported error issue and has issued new guidance as to the actions that should be taken when such cases are identified. However, work carried out by the Department during the year has shown continued weaknesses in this process leading to debt remaining unidentified.

During the year, the Department began constructing a report from its electronic systems, with the aim of producing a statistically robust estimate of the value of missing debt resulting from passported error. This work is still incomplete and the Department has therefore used a set of high level assumptions to produce a likely range of cumulative missing debt, which as at 31 March 2012 it estimates lies between £4m and £22m (2010-11: £3m and £15m).

Overall, I consider the continued uncertainty as regards passported error to cast doubt over the completeness of the Social Fund debt balance. As a result I have again limited the scope of my audit opinion over the Social Fund debt balance.

Debt Conclusion

The debt balance continues to present a significant challenge to the Social Fund. The unexplained differences and the uncertainty over the completeness and accuracy of these balances has lead me to again limit the scope of my opinion over the Social Fund debt balances.

Whilst the Department continues to work towards resolving these debt issues, progress has not been as rapid as I would have expected. I have therefore asked the Department to produce a clear action plan for resolving the debt differences along with assurances from the Departmental Accounting Officer that these issues will be resolved in line with the proposed timetable.

Summary and Conclusions

My audit of the Social Fund White Paper Account has shown that the Department has made improvements in some of the areas where I have previously expressed concerns, especially in the regularity of payments. However, challenges remain. The Department must build on these improvements to resolve fully the regularity and debt issues. I will continue to monitor progress on both regularity and debt issues and will provide an update in my Report on the 2012-13 Social Fund White Paper Account.

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