Department for Work & Pensions 2016-17 Accounts

Report by the Comptroller and Auditor General

Fraud and error in benefit expenditure

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Introduction

1. The Department for Work & Pensions' (the Department's) total expenditure on benefits in 2016-17 was £174.1 billion, of which £150.8 billion was for benefits paid directly by the Department and £23.3 billion was for benefits paid on its behalf by local authorities (Housing Benefit).[1] Benefit expenditure represents 97% of the Department's 2016-17 total net operating costs of £179.1 billion, as recorded in the Department's Annual Report and Accounts.

2. Fraud and error is a significant problem in benefit expenditure; the Department faces a challenge in administering a complex benefits system in a cost effective way. Overpayments arising from fraud and error increase costs for taxpayers and reduce the public resources available for other purposes. Underpayments mean that households are not getting the support they are entitled to. Even where payment errors are later corrected this can lead to additional administrative work and uncertainty for claimants.

3. Benefit payments are susceptible to both deliberate fraud and unintended error by claimants and the Department: entitlement is based on a range of eligibility criteria. The Department relies on claimants providing timely and accurate information, particularly when their circumstances change; and the complexity of benefits can cause confusion and genuine error. Some benefits, mainly those to which entitlement is means-tested, are more susceptible to fraud and error due to their complexity. The benefits showing the highest estimated rates of fraud and error are Housing Benefit, Pension Credit and Jobseeker's Allowance.

4. This report sets out the reasons and context for my qualified audit opinion; the trends and reasons behind fraud and error; and how the Department is adopting a more structured approach to addressing fraud and error based on a more detailed understanding of the causes.

[1] Total expenditure on benefits of £174.1 billion represents the latest available forecast expenditure for 2016-17 at the time the Department produced the fraud and error estimates, as reflected in Note 23 to the accounts.

Qualification of the Comptroller and Auditor General's audit opinion on the regularity of benefit expenditure

5. I have qualified my opinion on the regularity of the 2016-17 financial statements of the Department for Work & Pensions due to the material level of fraud and error in benefit expenditure, other than State Pension where the level of fraud and error is significantly lower.

6. Under the Government Resources and Accounts Act 2000, I am required to obtain sufficient evidence to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

7. Legislation specifies the entitlement criteria for each benefit and the method to be used to calculate the amount of benefit to be paid. Where fraud or error result in an over or underpayment of benefit to an individual who is not entitled to that benefit, or is paid at a rate that differs from the amount specified in legislation, the transaction does not conform with Parliament’s intention and is irregular.

8. In my opinion the overall value of over and underpayments due to fraud and error in benefits other than State Pension remains material by reference to total expenditure on benefits, and the qualification of my audit opinion reflects that. This is the twenty-ninth consecutive year in which I have qualified my opinion on regularity due to material over and underpayments in benefit expenditure.

Estimated level of fraud and error in benefit expenditure

9. In note 23 to the accounts, the Department sets out its estimate of benefit over and underpayments due to fraud and error in 2016-17. **Figure 1** summarises the Department’s results. Total overpayments have increased and underpayments have decreased, as a percentage of expenditure, compared to 2015-16. Within these totals, State Pension overpayments have remained the same and underpayments have decreased.

10. **Figure 2** shows the total estimated value of over and underpayments of benefit expenditure due to fraud and error as a percentage of benefit expenditure since 2006-07. It compares the over and underpayment rates for all benefits excluding State Pension, with the rates for all benefits including State Pension, and the rates for State Pension. Excluding State Pension, overpayments are at the highest levels since 2009-10, while underpayments are at the highest recorded levels.

Figure 1

Over and underpayments in benefit expenditure due to fraud and error, 2016-17 compared to 2015-16

Excluding State Pension, the level of overpayments and underpayments as a percentage of benefit expenditure has increased in 2016-17.

	2016-17 (£bn)	2015-16 (£bn)	2016-17 (%)	2015-16 (%)	Trend
Total overpayments	3.5	3.1	2.0	1.8	↑
Total underpayments	1.6	1.8	0.9	1.0	↓
State Pension overpayments	0.1	0.1	0.1	0.1	↔
State Pension underpayments	0.1	0.3	0.1	0.3	↓
Overpayments excluding State Pension	3.4	3.0	4.1	3.6	↑
Underpayments excluding State Pension	1.5	1.5	1.9	1.8	↑

NOTES

1. Fraud and error figures quoted in this report are central estimates (or 'mid-points') within a 95% confidence interval. The range reported by the Department in *Fraud and error in the benefits system: financial year 2016-17 preliminary estimate*, 18 May 2017 reflects the uncertainty within the Department's fraud and error estimates.

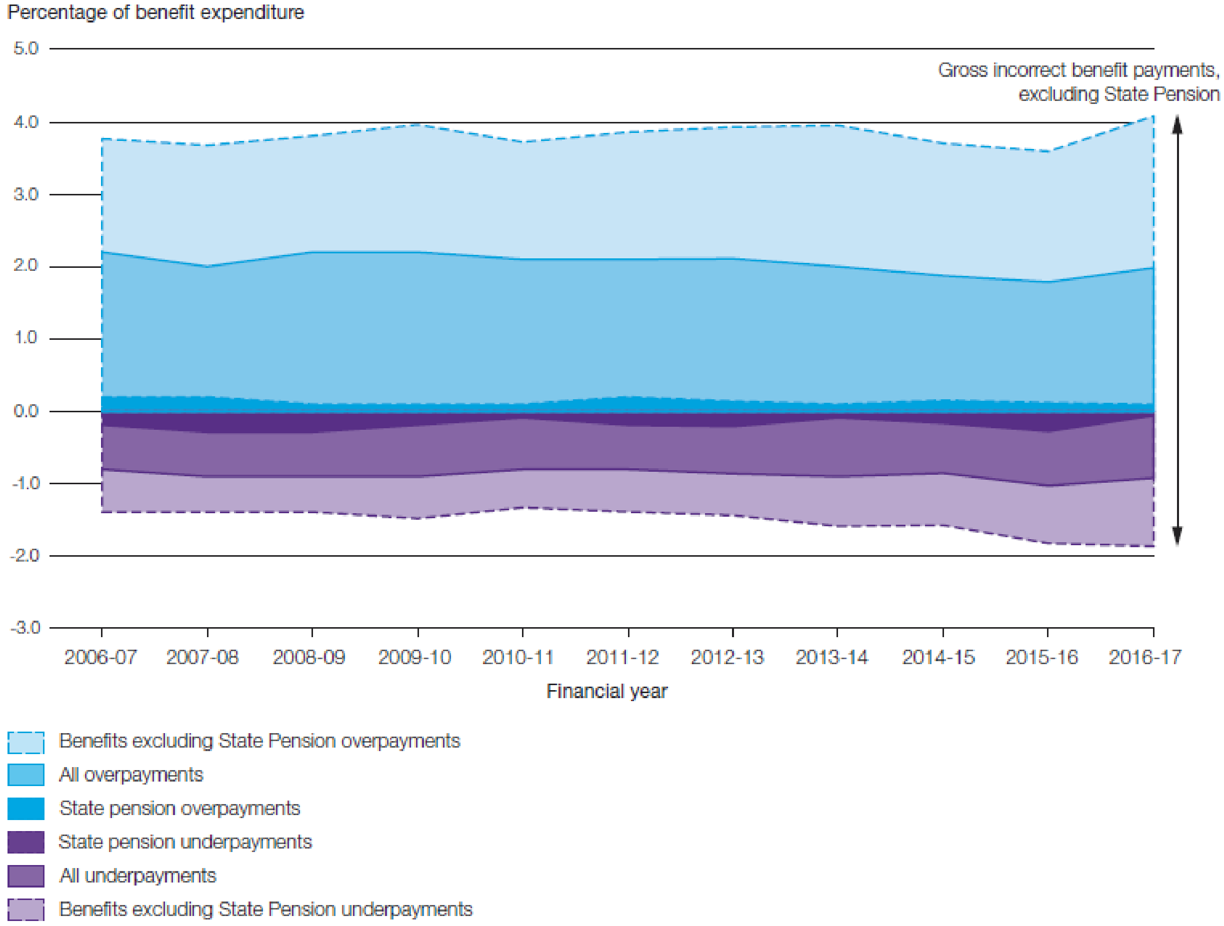
2. The 2015-16 comparatives used here, in the C&AG's certificate and disclosed by the Department in Note 23, are taken from *Fraud and error in the benefits system: financial year 2015-16 preliminary estimate*, 19 May 2016, which were the latest available when the 2015-16 accounts were published. The Department published its final estimates for 2015-16 in December 2016.

Source: Note 23 of the Department for Work & Pensions *Annual Report and Accounts 2016-17,* June 2017.

Figure 2

Over and underpayments in all benefits, excluding State Pension and for State Pension only, 2006-07 to 2016-17

Excluding State Pension, overpayments are at the highest levels since 2009-10, while underpayments are at the highest recorded levels.



NOTES

1. All rates included in the above figure are from the Department for Work & Pensions' fraud and error in the benefit system published statistics. Preliminary results have been used from 2012-13 to 2016-17 as reported in the incorrect payments note of the relevant Department for Work & Pensions' Annual Report and Accounts. Final results have been used for 2006-07 to 2011-12 from the supporting tables accompanying the Department for Work & Pensions' *Fraud and Error in the Benefit System: financial year 2016-17 preliminary estimates*.

Source: National Audit Office analysis of Department for Work & Pensions data included in the *Fraud and error in the benefits system estimates*

11. **Figure 3** shows the over and underpayments in individual benefits reported by the Department for the last three years. The Department considers that overall the level of over and underpayments is not yet showing the benefits of the Department's focused efforts to tackle fraud and error (paragraphs 25 to 39).

12. Amongst benefits measured annually for fraud and error, Employment Support Allowance and Housing Benefit overpayments are at the highest recorded levels, and Jobseeker's Allowance overpayments have returned to the highest levels since 2010-11. Pension Credit and Universal Credit overpayment rates have decreased. The decrease in Pension Credit overpayments aligns to the concentrated efforts the Department has made in tackling fraud and error (paragraphs 25 to 31). However, the decrease in Universal Credit overpayments is predominantly due to changes in measurement approach (paragraphs 41 to 51).

Fraud and error measurement

13. The Department groups over and underpayments into three categories, which it defines as follows:

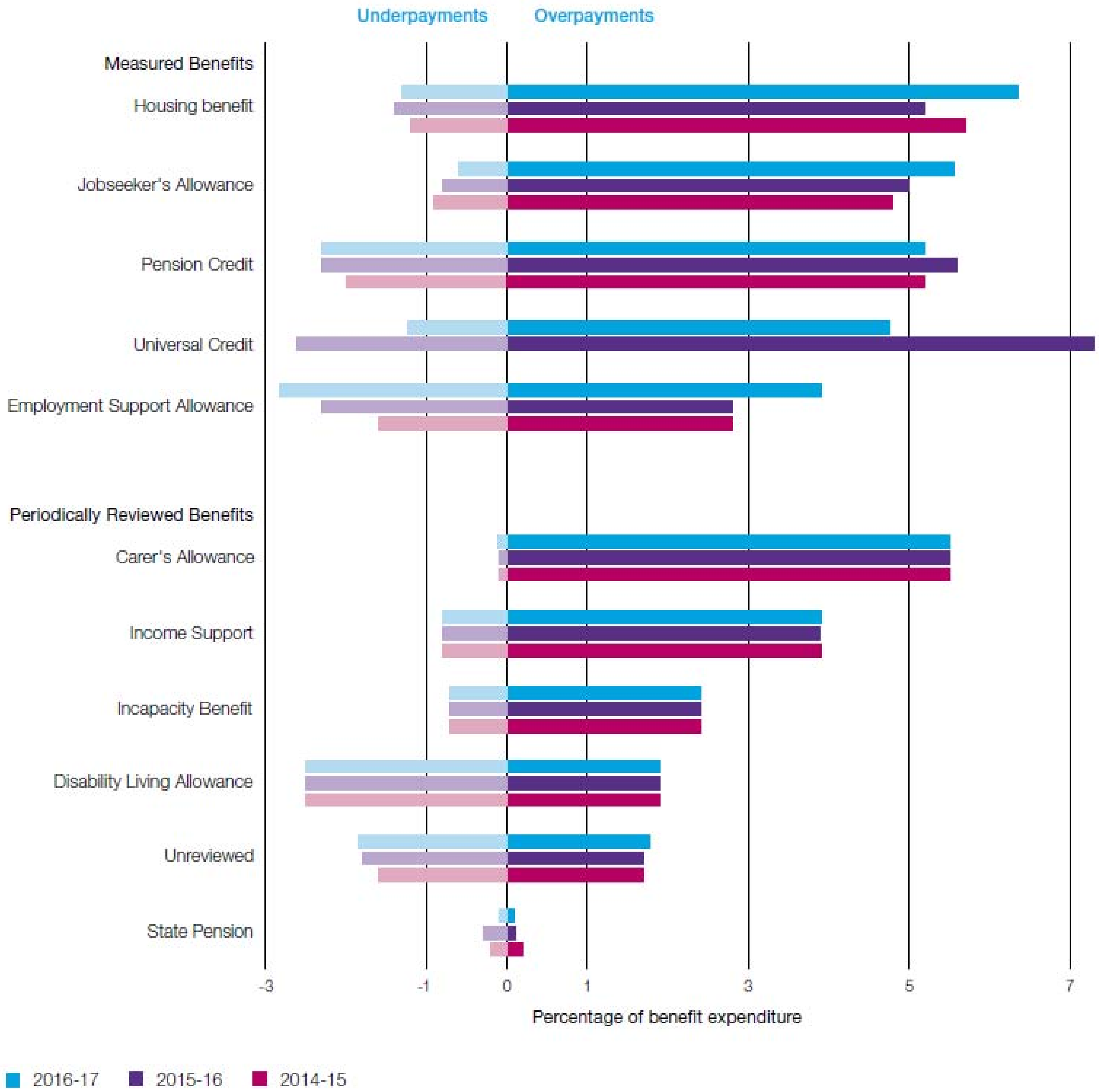
    - **official error,** which arises when a benefit is paid incorrectly due to inaction, delay or a mistaken assessment by the Department, a local authority or HM Revenue & Customs;
    - **claimant error,** which occurs when claimants make mistakes with no fraudulent intent; and
    - **fraud,** which arises when claimants deliberately seek to mislead the Department or local authorities that administer benefits on the Department's behalf to claim money to which they are not entitled.

14. The Department has reported the estimated over and underpayments against each category in Note 23 to the accounts. In 2014-15, the Department changed the way it categorises overpayments, such that there is a higher burden of proof for the claimant to demonstrate error, and failure to provide evidence is now classified as claimant fraud. This change and other uncertainties in the measurement explained in Note 23 mean that caution should be exercised when examining the estimates for trends.

Figure 3

Percentage over and underpayments per benefit 2016-17

Fraud and error overpayments of Employment Support Allowance, Housing Benefit and Jobseekers Allowance increased in 2016-17, while overpayments of Pension Credit and Universal Credit decreased.



NOTES

1. The measurement methodology for Universal Credit "Live Service" changed between 2015-16 and 2016-17, which means that the two years should not be compared (paragraphs 40 to 50).Universal Credit fraud and error was not measured prior to 2015-16.
2. The Department does not measure fraud and error in all benefits annually, see paragraph 15 and **Figure 4**.

Source: NAO analysis of Department for Work & Pensions *Tables: Fraud and error in the benefits system: financial year 2016-17 preliminary estimates,* 18 May 2017.

15. The estimated levels of fraud and error in some benefits are several years old, while fraud and error in some benefits have never been measured. **Figure 4** shows which benefits are measured annually or periodically, and those that are not reviewed, where the fraud and error level is estimated using a proxy. Only 27% of benefit expenditure is annually measured for fraud and error.

16. The absence of up-to-date information on error rates in large benefit streams creates a risk that the Department is not targeting its fraud and error interventions effectively. For example, Disability Living Allowance, which accounted for £11.5 billion of expenditure in 2016-17, has not been measured for fraud and error since 2004-05. However, Disability Living Allowance claimants have changed significantly in that time and will change further over coming years, as around half of claimants have or will migrate to Personal Independent Payments, with only those under 16 years old or over 65 still eligible for Disability Living Allowance. This may mean that historic rates of fraud and error are no longer an appropriate indicator looking ahead.

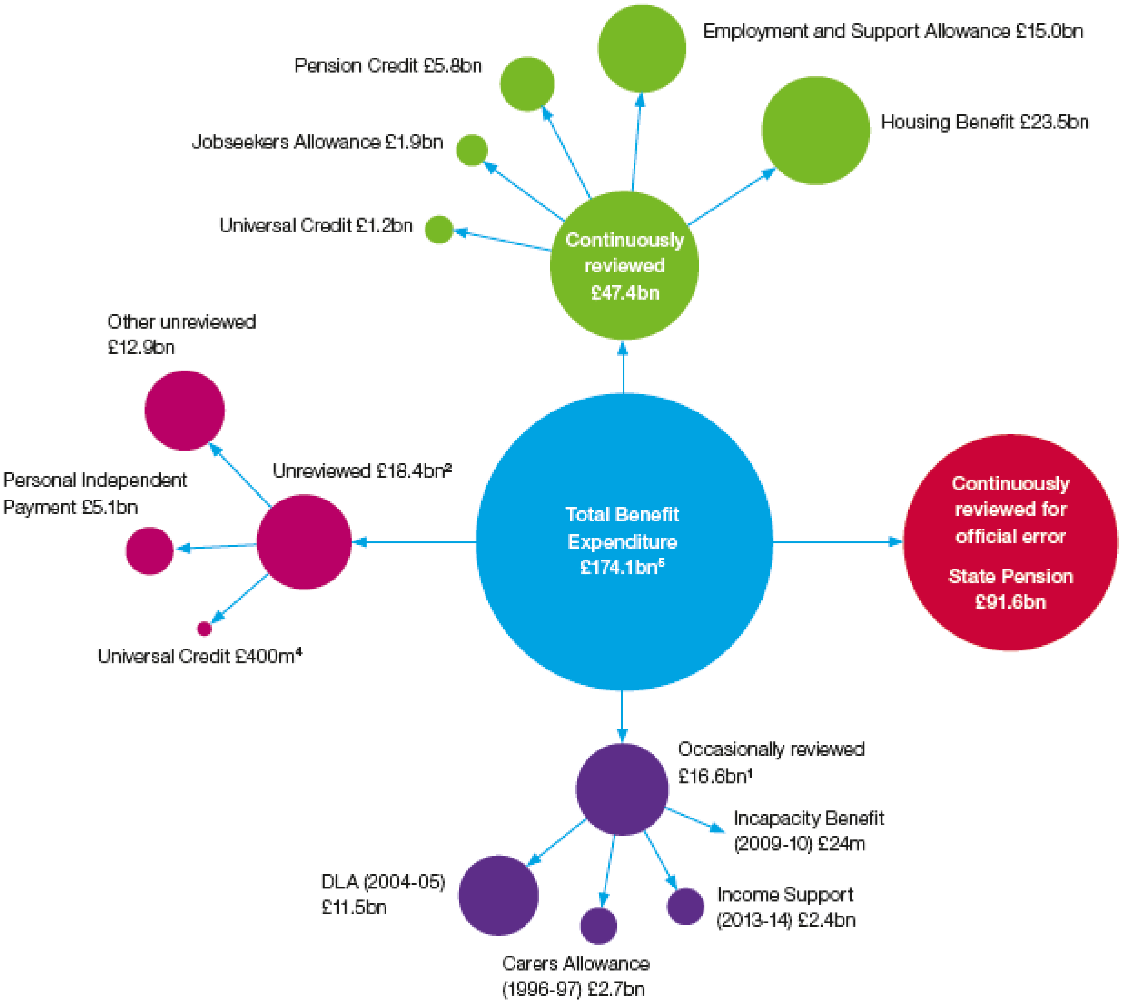
17. Recently introduced benefits, Universal Credit and Personal Independence Payment, differ significantly from legacy benefits and present new challenges for measuring fraud and error, leading to more uncertainty around the interpretation of early estimates. The Department's approach to measuring fraud and error needs to be adapted to new benefits appropriately to ensure that fraud and error are measured accurately. The way the Department estimates fraud and error for new benefits will need to be refined as it gains more experience of the nature of fraud and error in those benefits. Universal Credit measurement is detailed in paragraphs 40 to 50.

18. Although originally planned for this year, the Department has not yet published fraud and error estimates for Personal Independence Payment. It is taking time to learn lessons from the measurement of other benefits before publishing. For example how to evaluate the impact of gradual changes in claimants' conditions that are not reflected in the claimants' awards but would lead to a different benefit assessment if re-performed at a later date. Such gradual changes are inherent in the nature of the Disability Living Allowance and Personal Independence Payment claimant populations. The Department will need to carefully consider how to address this issue when measuring fraud and error in Personal Independence Payment.

Figure 4

Analysis of estimated 2016-17 benefit expenditure by measurement approach

The Department measures fraud and error in 27% of benefit expenditure annually.



NOTES

1. For occasionally reviewed benefits the above diagram includes the date they were last measured.
2. There are several unreviewed benefits, including Attendance Allowance, Bereavement Benefits, Maternity Allowance and others. Fraud and error in these benefits is estimated using proxies, more details on unreviewed benefits can be found at Department for Work & Pensions, *Fraud and Error in the Benefit System: Background Information and Methodology.*
3. Figures may not sum due to rounding.
4. Universal Credit is included twice in this analysis. Fraud and error in Universal Credit live service is measured, but Universal Credit full service is not yet measured. Universal Credit live service expenditure was £1.2 billion in 2016-17, Universal Credit full service expenditure was £400 million. In note 23 the full £1.6bn has been included in the continuously reviewed figures.
5. Benefit expenditure of £174.1 billion represents the latest available forecast expenditure for 2016-17 at the time the Department produced the fraud and error estimates, as reflected in Note 23 to the accounts. The Department refers elsewhere in its Annual Report and Accounts to final outturn benefit expenditure of £173 billion, as reported in the Statement of Parliamentary Supply on page 121.

Source: National Audit Office analysis of Department for Work & Pensions *Tables: Fraud and error in the benefits system: financial year 2016-17 preliminary estimates,* 18 May 2017.

Fraud and error targets

19. The Department has recently introduced new targets for fraud and error in benefit expenditure: a 0.9% underpayments target by 2017-18; and a 1.6% joint (with HMRC - Her Majesty's Revenue and Customs) net loss target by 2017-18.

20. The Department set out its underpayments target in January 2017 in response to a recommendation made by the Committee of Public Accounts following the July 2016 session on *Universal Credit and fraud and error – progress review*[2].The underpayments target is important as underpayments mean the most vulnerable people in society are not receiving what they are entitled to. The Department achieved its underpayments target in 2016-17, but may wish to review it to ensure the target is sufficiently challenging in the future.

21. The joint net loss target is the level of in-year fraud and error overpayments for both the Department's benefits and HMRC Tax Credits, less the Department's in year recoveries. The target is to reduce fraud and error to 1.6% by 2017-18, however this is unlikely to be formally reported on until 2018-19 due to the time taken to finalise Tax Credit awards and estimate fraud and error.

22. In its Annual Report the Department has also reported a Department only net loss for the second time. The 2016-17 net loss has increased compared with 2015-16 - 1.4% and 1.3% respectively. An increase in recoveries from £1.0 billion to £1.1 billion compared with 2015-16 is outweighed by the increase in overpayments due to fraud and error.

23. Both of these net loss measures look at estimated overpayments made in year, less actual and estimated recoveries in year, regardless of whether the recovery related to an overpayment made during that year or to one made in previous years. Overpayments can take many years to recover, and so the net loss target as currently constructed does not indicate the inaccuracy of benefit payments made in year. For example, overpayments of Income Support in 2016-17 were estimated to be £90 million, but delays in recovering overpayments mean that the estimated recoveries were £110 million.

24. As I noted in my 2015-16 report[3], net loss is a relevant indicator of the ultimate loss to the public purse from overpayments of benefits. However it is not a substitute for gross over and underpayments as the clearest indicator of the total level of benefit payments made at an incorrect rate. I will continue to use the gross total over and underpayments to inform my view of the level of fraud and error in benefits, and the regularity of the Department's benefit expenditure.

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[2] HC Committee of Public Accounts, *Universal Credit and fraud and error: progress review*, Twenty-third Report of Session 2016-17, HC 489, November 2016.
[3] Comptroller and Auditor General, Department for Work & Pensions, *Report by the Comptroller and Auditor General, Fraud and error in benefit expenditure,* HC 331, June 2016.

The Department's approach to tackling fraud and error

25. In my 2015-16[2] report I set out the Department's progress in tackling fraud and error, using the Fraud and Error (F&E) Framework identified in my report *Fraud and error stocktake*[4] (HC267, 2015-16). This F&E Framework is drawn from good practice in tackling fraud and error. It recommends strategies based on an understanding of the causes of fraud and error, leading to well-designed, effectively implemented controls, where the outcomes of these interventions are measured and evaluated. It provides a pathway to systematically addressing fraud and error.

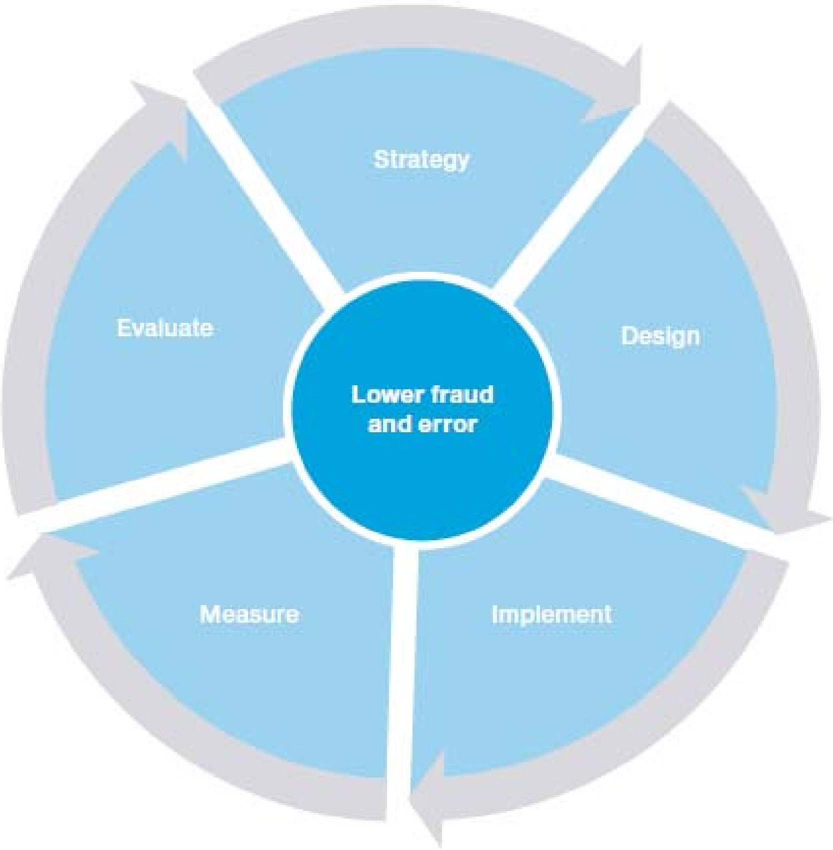
26. Underpinning an overarching 2015-20 Fraud, Error and Debt Strategy, the Department has developed benefit specific strategies based on identification and understanding of the causes of fraud and error. These cover 80% of measured fraud and error. In addition to the individual strategies the Department has also developed strategies aimed to reduce and prevent losses from fraud and error across all benefits, based on an analysis of the causes. The analysis the Department has done in developing the benefit specific strategies and cause specific, cross benefit strategies has identified priority activity areas. These account for around 90% of measured fraud and error.

27. During 2016-17, the National Audit Office supported the Department in applying the F&E Framework to better support its use in practice. As shown in **Figure 5**, the F&E Framework now disaggregates measurement of outputs and evaluation of impact and outcomes. The F&E Framework emphasises continuous measurement, evaluation and refinement to reduce fraud and error.

[4] Comptroller and Auditor General, Fraud and error stocktake, Session 2015-16, HC267, National Audit Office, July 2015

Figure 5

The Fraud and Error Framework



NOTES

1. Our 2015 stocktake showed 4 critical aspects for tackling fraud and error:
   - establishing clear strategies and governance;
   - designing controls into the way Departments work;
   - implementing controls and interventions effectively; and
   - measuring and evaluating performance.

Source: NAO

28. In my 2015-16 report I set out how the Department had taken forward its approach to tackling fraud and error within Pension Credit, evaluating its approach against the F&E Framework[5]. Since 2005-06 trends in the level of fraud and error in Pension Credit show a fall in the level of official error, but an increase in the level of fraud. In 2014-15, the Department changed the way it categorises overpayments and failure to provide evidence is now classified as claimant fraud. This is one driver for the increase in shift between official error and fraud.

29. When I reviewed Pension Credit last year, I reported that the Department had developed a more coherent strategic approach, increasing its focus on the main risk areas and developing a broader response to tackling the causes of fraud and error. During 2016-17, the Department has started to use the F&E Framework to analyse gaps in its Pension Credit fraud and error response, against causes of loss. This analysis has identified that there is more work to do in the implementation, measurement and evaluation aspects of the F&E Framework, to better understand whether interventions are delivering the expected outcomes and effectively tackling causes of fraud and error.

30. The Department is also expanding its use of the F&E Framework to tackling fraud and error in Housing Benefit and to develop detailed fraud and error strategies for Universal Credit, Personal Independence Payment, and some cross benefit strategies. The Department is looking at how it can use the data underpinning the estimates of fraud and error reported in Note 23 to the accounts to help it further understand and address the root causes of fraud and error.

31. The Department's use of the F&E Framework across a range of benefits to implement a systematic approach to developing fraud and error strategies and measures is a positive step towards understanding and tackling the causes of fraud and error. It will take time and iteration to see the outcome of this more systematic approach to tackling fraud and error, in the form of an attributable reduction in fraud and error. As the Department continues to further focus its efforts it is important that it takes steps to understand the increases in fraud and error during 2016-17 and appropriately reflects the reasons in its interventions.

[5] See footnote 2.

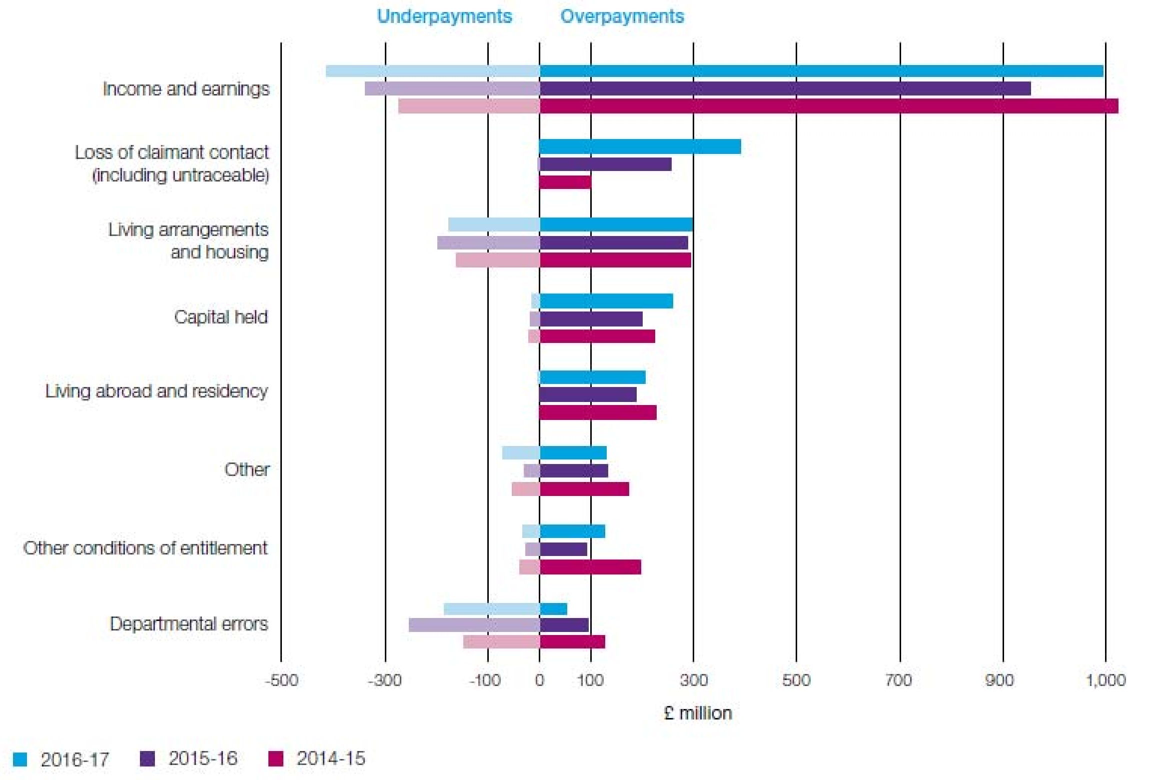
Addressing fraud and error relating to income and earnings

32. **Figure 6** shows over and underpayments by cause of fraud and error. The Department has prioritised its fraud and error interventions to target the largest causes of fraud and error. One of the largest causes of fraud and error is untimely and inaccurate reporting of earnings and income by claimants. It is the claimants' responsibility to report all changes in circumstances that could impact their benefit assessment.

Figure 6

Causes of fraud and error in measured benefits

Untimely and inaccurate reporting of income and earnings is the largest cause of fraud and error by value



NOTES

1. DWP is able to assess the causes of over and underpayments on its continuously measured benefits: Jobseeker's Allowance, Pension Credit, Housing Benefit, Universal Credit and Employment and Support Allowance. It has not undertaken this analysis on the benefits which are not continuously measured.
2. 'Loss of claimant contact' was categorised as a separate cause of loss for the first time in the 2015-16 preliminary statistics. This contains an element of loss of claimant contact for all measured benefits; most significant of which are Housing Benefit, Employment Support Allowance and Universal Credit. Due to its significance for Universal Credit fraud and error this is shown separately as a key loss area. Further detail on this cause of loss is included in paragraph 43 to 50.
3. The Department first published its analysis of attributes of fraud and error for total continuously measured benefits in 2010-11.

Source: National Audit Office analysis of:

Department for Work & Pensions *Tables: Fraud and error in the benefits system: financial year 2016-17 preliminary estimates tables,* 18 May 2017; Department for Work & Pensions *Tables: Fraud and error in the benefits system: financial year 2015-16 preliminary estimates tables,* 19 May 2016; Department for Work & Pensions *Tables: Fraud and error in the benefits system: financial year 2014-15 preliminary estimates tables,* 14 May 2015.

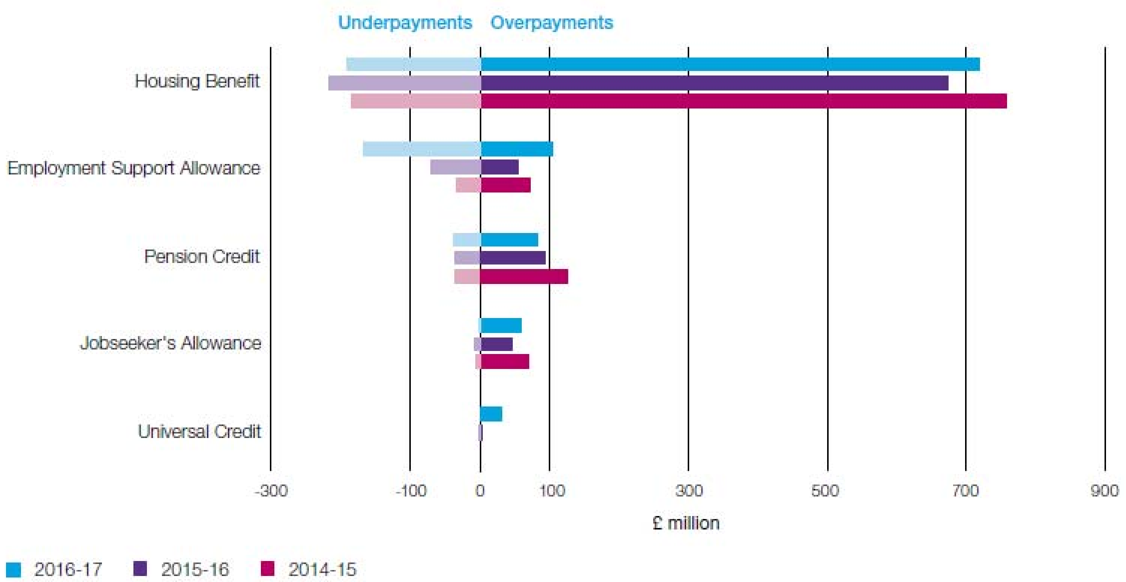
33. A major intervention using Real Time Information (RTI) is tackling the most significant cause, untimely and inaccurate reporting of income and earnings. RTI is data collected by HMRC from employers and pension providers on individuals' monthly income and earnings. This allows the Department to verify income and earnings reported by claimants for means tested benefits. **Figure 7** shows the over and underpayments due to the untimely and inaccurate reporting of income and earnings for each measured benefit.

34. The use of RTI and other relevant interventions aligns to a reduction in the fraud and error due to the untimely and inaccurate reporting of income and earnings for Pension Credit and the Department's focus on this benefit when using RTI to tackle fraud and error. However the overall value of the income and earnings loss has increased (**Figure 6**), showing the Department has more to do to replicate this success across fraud and error in other benefits.

Figure 7

Income and earnings fraud and error in measured benefits

There has been a consistent decrease in fraud and error due to the untimely and inaccurate reporting of income and earnings for Pension Credit, but an increase in this cause of fraud and error overall



Source: NAO analysis of the Department for Work & Pensions *Tables: Fraud and error in the benefits system: financial year 2016-17 preliminary estimates,* 18 May 2017.

35. RTI was initially used as a "detective" control after payment, to identify where there are discrepancies between information provided by a claimant with that from RTI, indicating that the payment may be incorrect. This was first used in 2014-15.

36. RTI is also being used as a "preventative" control for new claims in Universal Credit and Pension

Credit – to verify income and earnings data provided by the claimant before any payment is made. There are pilot exercises in several other benefits: Employment Support Allowance, Carer's Allowance, Jobseeker's Allowance and Housing Benefit. The Department has told us that it is seeing some success with this work. It estimates that around 4% of all new Pension Credit claims are identified as ineligible due to the RTI checks. The use of RTI is also being piloted as a preventative control for changes in circumstances in Pension Credit and Carer's Allowance before any change in payment is made. As part of the "Wider use of RTI" project the Department intends to use RTI data on a preventative basis across Employment Support Allowance, Carer's Allowance, Jobseeker's Allowance and Housing Benefit.

37. The Department prioritises interventions identified by RTI that are likely to involve the highest monetary levels of fraud and error. Currently, although early stages, for Pension Credit change in circumstances alerts, only 37% are investigated further. However the Department expects this to change as it embeds the "Wider use of RTI". For detective data matching, following initial sifting only 13% of those matches suitable for investigation are subsequently investigated. To ensure that resources can be targeted to best effect, the Department will need a clear understanding of the value of implementing one initiative rather than another.

38. The Department is still learning lessons from its use of RTI. It needs to understand the impact of acting on RTI alerts and matches to be able to form an effective fraud and error response. The Department is taking a structured approach in developing this fraud and error response. It has trialled its approach and partially evaluated the effectiveness of the implementation. Measurement and evaluation are an important part of the F&E Framework and that the Department is beginning to make more systematic use of them in its work to prevent and detect fraud and error.

39. Incorrect RTI data can lead to over or underpayments, if it is used to calculate or update awards. RTI data is provided by employers and is only as accurate as the employers' records and payroll systems. HMRC validates the accuracy of employers' submissions sometime after data is provided, and its controls are not designed to ensure the RTI data is accurate in real time. Currently the Department assumes that the RTI data provided by HMRC is accurate and does not have processes in place to detect inaccuracies in RTI data. It relies on claimants producing alternative evidence. The Department has undertaken work focussing on reducing the impact of incorrect, late and missing RTI data, this has included employer outreach. The Department will need to continue this work as the accuracy of RTI data becomes more important to its interventions tackling income and earnings related fraud and error.

Fraud and error in Universal Credit

40. Universal Credit is expected to replace 6 means-tested benefits for working-age households by March 2021. Universal Credit is administered across two systems known as Universal Credit Live Service (UCLS) and Universal Credit Full Service (UCFS). UCLS is currently rolled out nationally for new single claimants, and for couples and families in some areas. UCFS is the Department's new digital solution for administering Universal Credit for all claimants. Pilot work started in 2014 and UCFS is now in 64 job centres with a managed roll out being undertaken by post code. Currently UCFS is expanding at a rate of 5 job centres a month, with plans to increase this to 50 job centres a month from October 2017.

41. The Department has estimated overpayments due to fraud and error in UCLS of 4.8% (7.3% 2015-16 preliminary estimates). Estimated underpayments due to fraud and error are 1.2% (2.6% 2015-16 preliminary estimates). This is the third time Universal Credit fraud and error has been measured.

42. It is likely that there will be volatility in the Universal Credit fraud and error rate as the number of Universal Credit claimants increases, systems continue to develop and roll out, and ways of measuring fraud and error develop in response. For example as the Department deepens its understanding of what fraud and error looks like in Universal Credit it will need to revisit key assumptions within the measurement model. It is important that these measurement changes are transparent, so that it is clear where changes in fraud and error rates are due to changes in measurement rather than changes in the incidence of fraud and error and its root causes.

43. The most significant challenge for estimating fraud and error is an increased incidence of 'loss of contact with claimant' compared with legacy benefits. Loss of contact is where claimants are not responding to the Department's requests for a benefit review. This is higher for the Universal Credit population than for other benefits, with the Department unable to contact around 7% of sampled claimants to be able to complete an effective review.

44. Due to the immaturity of the benefit and the measure, the Department has limited evidence to understand why it cannot contact these individuals, who appear to have dropped out of the benefit system. It is likely that most of these claimants will reappear in either the benefit or the tax system in the future. The Department should seek to understand why these claimants have stopped engaging with Universal Credit, and identify any appropriate refinements to the benefit.

45. The way the Department treats loss of claimant contact for fraud and error measurement purposes is different between Universal Credit and legacy benefits, and so the fraud and error rates are not comparable across these benefits. For legacy benefits if the Department is unable to contact the claimant it suspends and subsequently stops a claimant's benefit payment. If the claimant does not re-engage, the Department classifies the award as wholly fraudulent, and includes it in the fraud and error estimates.

46. For Universal Credit, if the Department is unable to contact the claimant and there is no evidence to indicate why - for example new RTI data indicates that they have started work - it does not classify all of these cases as wholly fraudulent.

47. Assumptions underpinning levels of Universal Credit fraud and error changed between 2015-16 and 2016-17, most notably in respect of the loss of claimant contact issue outlined above. Where claimant contact was lost and there was no evidence to indicate why, the 2015-16 preliminary estimates classified cases as 100% overpayment fraud with no underpayment value.

48. For 2016-17 where claimant contact was lost with no evidence to indicate why, the preliminary estimates assume for overpayments 20% fraud, 0.2% claimant error and 2.0% official error[6]. For underpayments the estimates assume no fraud, 0.4% claimant error and 0.8% official error.

49. Sensitivity analysis of the 20% overpayments fraud assumption shows how uncertain the Universal Credit measure is in its infancy, see note 23 in the Departmental accounts. It highlights the importance of considering the estimate range to understand where the levels of Universal Credit fraud and error could lie. For 2016-17 preliminary estimates, the range is overpayments 3.5-6.1% and underpayments 0.8-1.8%.

50. The Department is still developing its fraud and error strategy for Universal Credit. It intends for this to be more focussed on prevention than detection, which marks a change from its approach for some of the legacy benefits. Universal Credit is still new and is not yet rolled out to significant proportions of its eventual customer base. As such, when designing the Universal Credit fraud

[6] The claimant error and official error rates used for these unreviewed cases are proxy rates from the extrapolated results of those Universal Credit cases which could be reviewed by Performance Measurement. The Department's explanation of this can be found at Page 13 of the Department's *Fraud and Error in the Benefit System: Preliminary 2016-17 Estimates* publication.

and error strategy, the Department will need to take into account this evolution and ensure that its response to fraud and error is reactive and can be adapted against emerging fraud and error priorities. Using the F&E Framework to develop and review the Universal Credit fraud and error strategy will help the Department do this. I will report on progress in 2017-18.

Conclusion

51. I have again qualified my regularity opinion due to material levels of fraud and error in benefit expenditure, excluding State Pension. Although State Pension continues to demonstrate a very low level of fraud and error, overpayments excluding State Pension have returned to the highest level since 2009-10 at 4.1%. Underpayments excluding State Pension rose to a highest ever level of 1.9%.

52. The Department is taking a more structured approach to tackling fraud and error, making use of the F&E Framework to systematically consider a response to the causes of fraud and error. However, the increases in over and underpayment levels indicate that the Department has not yet realised the benefits of this work. It remains essential that the Department continues to address fraud and error, given overpayments increase the cost to taxpayers and reduce the public resources available for other purposes, and that underpayments mean households are not getting the support they are entitled to.

53. In applying the F&E Framework, the Department has identified that it has more to do to use its data systematically to understand the impact and effectiveness of fraud and error activities, and target its resources. The Department should also review whether its approach to the estimation of fraud and error for periodically and unreviewed benefits provides sufficient data to understand fraud and error in those benefits, and how to tackle it.

54. The Department is continuing to develop its method for estimating fraud and error in Universal Credit, and its understanding of the causes of fraud and error. As the roll out of Universal Credit gathers pace in 2018, it will be important to use this understanding to embed fraud and error prevention and detection through refining its system and operational procedures.

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Appendix One

The Department's response to the Committee of Public Accounts fraud and error stocktake recommendations

1 Following the July 2016 session on Universal Credit and fraud and error[7], the Committee of Public Accounts (the Committee) made a number of recommendations to both the Department for Work & Pensions (DWP) and HM Revenue and Customs (HMRC) with regard to tackling fraud and error. DWP's progress on the recommendations is set out in **Figure 8**.

[7] HC Committee of Public Accounts, *Universal Credit and fraud and error: progress review*, Twenty-third Report of Session 2016-17, HC 489, November 2016.

Figure 8

Committee of Public Accounts recommendations, Treasury Minute responses and developments since

Committee of Public Accounts Recommendation	Department's Treasury Minute response	Developments since
Neither DWP nor HMRC has set meaningful targets for tackling fraud and error. DWP and HMRC should set stretching targets for fraud and error across all benefits and tax credits to secure better performance, review these targets annually, and report progress to the Committee.	The government agreed this recommendation. Stating: In July 2016, DWP and HMRC announced a new external target for overpayments to be no more than 1.6% of expenditure during 2017-18. This figure represents net loss across welfare (DWP benefits plus Tax Credits) once DWP recoveries are taken into consideration. Targets beyond 2017-18 will be set in the autumn of 2017, alongside the autumn Budget.	The departments will report on progress towards the 1.6% joint net loss target in 2017-18. DWP has reported a DWP only net loss again this year, which has increased from 1.3% to 1.4% as overpayments have increased more than the increase in recoveries. Net loss is based on overpayments less recoveries received in year, however the overpayments and the recoveries are not matched like for like as it can take a significant number of years to recover an overpayment. Gross over and underpayments is the most transparent measure of fraud and error, and the impact of fraud and error on the claimant. A gross measure should continue to be the primary measure for the departments, and should continue to be reported to provide vital context for any net loss.
DWP's understanding of the level and causes of fraud and error in Universal Credit and some other benefits is incomplete, potentially undermining efforts to reduce losses. DWP should: establish and agree with the National Audit Office a robust method for estimating Universal Credit fraud and error; and undertake regular risk assessments to improve its understanding of the causes of fraud and error in those benefits where it has not been measured for some time or at all.	The government agreed this recommendation. Stating: DWP continue to refine the Universal Credit measurement methodology. DWP recognises that means-tested benefits demonstrate the highest levels of fraud and error so focusses the measurement system primarily on those benefits. The mix of benefits to be measured is periodically reviewed and agreed by DWP's Fraud, Error and Debt Council. The only change currently planned to the portfolio of benefits covered by the measurement system is the inclusion of Personal Independence Payment, which will be published by June 2017. DWP takes into account wider ranging internal information when developing strategies for tackling fraud and error for periodically and unreviewed benefits.	DWP has refined its measurement methodology for Universal Credit fraud and error between its preliminary (published May 2016) and final 2015-16 estimates (December 2016). Difficulties in producing a reliable estimate remain as outlined in my report (paragraphs 40 to 50). Currently DWP is only measuring Universal Credit Live Service, not Universal Credit Full Service. The estimate therefore does not provide an indication of the likely future level of Universal Credit fraud and error. DWP has not made any commitment to further considering causes of fraud and error in those benefits where it has not been measured for some time or at all. As noted in paragraph 18 DWP has not yet published the levels of fraud and error for Personal Independence Payment for 2016-17.

Committee of Public Accounts Recommendation	Department's Treasury Minute response	Developments since
	DWP is establishing cross-cutting activity as a means of focussing on the principal causes of fraud and error across all benefits. DWP continues its work with the National Audit Office to tailor the F&E Framework (Strategy, Design, Implementation, Monitoring and Evaluation) to Pension Credit, with a view to extending this model across other key benefits.	An update on fraud and error levels within periodically reviewed and unreviewed benefits is provided in paragraph 15 to 16 of my report. The internal information used to monitor Disability Living Allowances provides a view of official error only, not customer error or fraud. The department is using the Fraud and Error Framework to support its efforts to tackle fraud and error (paragraphs 25 to 31).
DWP estimates that inaccuracies in its information on income and earnings resulted in almost £1 billion of losses in 2015–16. DWP should update the Committee, following the publication in November 2016 of the 2015–16 final fraud and error estimates, on its progress in tackling the largest areas of loss. It should include details of the impact of making full use of RTI in reducing over and underpayments due to errors in income and earnings.	The government agreed this recommendation. Stating: The final 2015-16 statistics were published on 8 December 2016. Once analysis has been completed, the department will write to the Committee outlining progress and the impact RTI has had on both over and underpayments.	This update has been delayed due to the election and dissolution of parliament. The target implementation date is Autumn 2017 and updates are due to be provided in the January 2018 Treasury Minute progress report. The department's approach to tackling income and earnings fraud and error and its use of RTI is outlined in paragraphs 32 to 39. While Pension Credit shows a decrease in income and earnings related fraud and error, total over and under payments relating to income and earnings continue to rise.
Too many claimants are unclear about the rules and obligations that apply when claiming benefits or tax credits, leading to high levels of claimant error. DWP and HMRC should: report back to the Committee by the end of the year on what has been set for their new underpayments and accuracy targets, and the rationale behind those targets; and undertake research to understand the issues that confuse claimants and take appropriate action to better inform claimants of the rules and their obligations in order to reduce the level of claimant error.	The government agreed this recommendation. Stating: Both Departments wrote to the Committee, in January 2017, outlining their respective targets for underpayments. DWP is using behavioural insight to help customers report changes. The department has updated 60 fraud and error products in 2016, and will improve communications throughout 2017 by reviewing the language and prominence of the customer declaration. The department has built in customer and stakeholder testing, including commissioning independent customer focus groups. For Universal Credit, DWP is using customer insight to improve understanding of what drives responses and behaviour. This is in respect of claims for partners and to inform design changes to improve claimant orientation and screen content. DWP is working with specialists to understand the most effective interventions and levers. The department is trialling different letters to improve the 'Failure to Attend' rate for Local Service Compliance interviews.	The department has set a target of 0.9% of expenditure, against a past trend of 1.0%, and HMRC's target of 0.7%. It achieved this target in 2016-17, paragraph 20.

NOTES
Source: National Audit Office Analysis