National Audit Office

Report on Accounts

Department for Work & Pensions

REPORT

by the Comptroller and Auditor General

JULY 2021

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Report on Accounts

Department for Work & Pensions

Report by the Comptroller and Auditor General

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National Audit Office

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Fraud and error in benefit expenditure

Introduction

1 The Department for Work & Pensions (the Department) is responsible for developing and delivering the UK's welfare system, paying benefits and State Pension to claimants and pensioners on time, and in full, in accordance with legislation and the related regulations.

2 In 2020-21 the Department spent £212.2 billion on benefits and State Pension payments to claimants and pensioners.[1] Of this, £100.8 billion was spent on the State Pension, £93.7 billion was on benefits paid directly by the Department and £17.7 billion was for Housing Benefit paid on its behalf by local authorities. Benefits and State Pension expenditure represents 97% of the Department's total operating expenditure of £219.6 billion. The remaining expenditure relates to the Department's running costs including staff remuneration and contracted-out programmes.

3 This report sets out:

- the reasons and context for my qualified audit opinion in relation to fraud and error in benefit expenditure, including an overview of the Department's estimates;
- the key facts around the systemic underpayment of State Pension due to errors by the Department;
- the impact of COVID-19 on fraud and error and the Department's strategy; and
- the consequences of fraud and error.

1 Audited total expenditure on benefits in 2020-21 was £212.2 billion, as reflected in the Statement of Comprehensive Net Expenditure for the Departmental Group. Note 18 to the Department's accounts sets out estimated total expenditure on benefits of £211.7 billion, which represented the latest available forecast for 2020-21 at the time the Department produced the fraud and error estimates.

Key findings

4 **I have qualified my opinion on the regularity of the Department's 2020-21 financial statements due to a record level of fraud and error in benefit expenditure.** While this is the thirty-third year in which the Department's accounts have been qualified due to material fraud and error, the impact of the COVID-19 pandemic, the increase in the number of claimants and the Department's response to these increased the Department's exposure to fraud and error (paragraphs 17 to 22).

5 **The Department has recognised a new provision of £1.0 billion in its accounts relating to the underpayment of State Pension going back at least 30 years.** It estimates 132,000 pensioners have been underpaid due to continuing process and control failings. It is the fifth systemic underpayment recognised by the Department in the last three years. It aims to review all relevant cases to make good this official error by the end of 2023. The impact of this underpayment on the individual pensioners is significant, and it is vital the Department learns lessons to avoid systemic underpayments in the future and correct past underpayments. Although I note the impact of this provision and the failings by the Department that caused it, the new provision covers expenditure over a 30-year period and as such I do not consider it a material irregularity in the current year. I have again excluded expenditure on State Pension from my qualified opinion as the annual level of fraud and error in State Pension remains lower than all other benefits at 0.1% and 0.3% for overpayments and underpayments respectively (paragraphs 20 and 31 to 34).

6 **The Department estimates it overpaid £8.3 billion (7.5%) out of £111.4 billion of benefits other than State Pension in 2020-21, an increase of £3.8 billion since 2019-20.** This is the highest rate since records began in 2005. It also estimates that it underpaid £2.2 billion (2.0%) of benefits excluding State Pension. This increase in value is in line with the increase in payments, the underpayment rate remained the same as 2019-20. The COVID-19 pandemic prevented the Department from undertaking a full sampling exercise in 2020-21 on benefits other than Universal Credit. As a result, the Department's estimate is more uncertain than in previous years (paragraphs 20 to 21 and 24 to 26, and Figure 1).

7 Nearly all the increase in fraud and error was on Universal Credit, which now has an estimated gross level of fraud and error of 15.9%. The Department estimates that it overpaid £5.5 billion of Universal Credit (14.5%) and underpaid £540 million (1.4%). This represents a £3.8 billion increase in overpayments, due to: (paragraphs 28, 30 and 37, and Figure 3):

- a surge in new claims at the start of the COVID pandemic that led to a doubling of the number of people claiming Universal Credit from three million to six million. The Department estimates that this increased the amount it overpaid by £1.9 billion;
- many of the new claimants having more complex claims, such as self-employed income, which are more vulnerable to fraud. The Department estimates this change in caseload mix increased fraud by £650 million; and
- the Department relaxing verification and other important controls to enable it to process the surge in new claims on time and it removed a key control for self-employed claimants. It estimates these control easements led it to overpay a further £1.3 billion.

8 The Department has identified four fraud and error risks that it needs to tackle in Universal Credit. It is looking to improve controls over incorrectly reported self-employment earnings, capital levels, living arrangements and housing costs. These represent both the largest causes and greatest increase in fraud and error by risk types in 2020-21. It also identified several organised criminal attacks exploiting control easements during the pandemic (paragraphs 41 to 46 and 50 to 53, and Figure 5).

9 The Department expects the level of overpayments of benefits excluding State Pension to stay at 7.5% this year (2021-22) and to remain significantly higher than normal for some time. The Department says it will set a target this autumn for fraud and error in 2022-23, when the baseline level post-pandemic will be clearer. The Department still aims to reduce Universal Credit overpayments to 6.5% by 2027-28 in line with the original business case. The Department has not set targets for specific benefits or State Pension, for causes of fraud and error or for underpayments (paragraphs 56 to 58).

10 The Department estimates that it will need at least 3,000 additional staff to manage fraud and error in its recovery from the pandemic. This will help it tackle the backlog of compliance cases that peaked at 750,000 in 2020-21 as staff were redeployed across the business. As new staff come in and redeployed staff return to their normal compliance roles, the Department is reducing the backlog. Additional staffing will also allow the Department to continue its investigations into serious and organised attacks against the Department and to detect overpayments through its data-analytical capability. Further resourcing is also required to review 927,000 Universal Credit cases that were not subject to normal verification checks during the early part of the pandemic (paragraphs 40 and 46 to 48).

11 The Department is owed £5.0 billion by claimants where overpayments have been detected on individual cases, placing additional strain on its resources and potentially causing hardship to claimants. It is owed a further £1.2 billion of debt relating to advances and some £200 million of debt that it has not yet referred to its debt management function to recover, or notified to claimants (paragraphs 60 to 62).

12 Over the past five years, the Department has sought to recover around 10% of the total overpayments it estimates it has made. Only fraud and error that is detected on individual cases can be pursued and recovered. To reduce fraud and error loss, the Department intends to balance activities to prevent fraud and error entering the benefits systems and activities that detect fraud and error that has evaded prevention controls (paragraphs 47, 48 and 64, and Figure 6).

13 It is not clear how much of the estimated fraud and error loss during the pandemic the Department will recover. Prevention controls were eased during the COVID-19 pandemic, but the Department does not currently plan to review all cases to detect fraud and error, for example it does not intend to review 433,000 claims that ended during 2020-21 (paragraphs 46 and 63, and Figures 4 and 6).

14 During 2020-21 the Department settled IR35 tax liabilities with HM Revenue & Customs (HMRC) relating to its incorrect assessment of the employment status of its contractors. This is reported as a fruitless payment of £87.9 million in the Losses and Special Payments section of the Accountability Report relating to tax liabilities arising from the Department's errors in assessing the employment status of contractors under IR35 for the years 2017-18 to 2020-21.[2] This payment relates to arrears of tax due and the interest on those arrears; the Department has not paid any penalties for non-compliance. A further liability of £6.9 million has been recognised in the Departmental Group financial statements for arrears of tax and interest on those arrears due from arm's-length bodies.

2 Managing Public Money Annex 4.10 sets out what is expected when departments and their arm's-length bodies incur losses or write off the values of assets, including details of when to notify Parliament. The Annex classifies categories of losses to be reported to Parliament and specifies that a payment for which liability ought not to have been incurred, where no benefit will be received by the entity although legally obliged to pay, is a fruitless payment and must be reported.

Recommendations

15 The Department's response to the impact of the COVID-19 pandemic has ensured that those in need received prompt support. However, delivering this support without face-to-face engagement and with control easements led to a significant increase in the level of fraud and error. In recovering from the pandemic and taking forward its efforts to reduce fraud and error the Department should:

- identify all cases where fraud could have occurred while controls were relaxed – including 433,000 claims that ended during the pandemic – and take action to review these unless there is clear evidence that it would not be cost-effective to do so;
- ensure that where overpayments have been identified, including from retrospective review or criminal attack, there is clear and prompt communication with claimants about the resulting debt they owe;
- assess the level of fraud and error in advances payments made during the pandemic, to ensure appropriate action can be taken against those who have sought to fraudulently obtain benefits;
- report the level of fraud identified in all cases subject to eased controls and retrospectively reviewed, to ensure transparency of the fraud and error costs of COVID-19; and
- conduct a full lessons-learned exercise from its approach to fraud and error during COVID-19 and consider wider lessons from the pandemic for its processes and controls, balance of detection and prevention controls and future emergency planning.

The Department should also continue to progress its responses to past recommendations from the National Audit Office (NAO) and the House of Commons Committee of Public Accounts, as set out in Annexes A and B.

16 I will report further on the systemic underpayment of State Pension later in 2021. As the Department progresses its work on this it should:

- ensure clear communications and prompt redress for those affected;
- undertake a full lessons-learned exercise and make appropriate amendments to processes and controls to ensure such underpayments do not occur in future; and
- improve the way it uses information from quality checks and explore how it can better use claimant and pensioner contact to identify systemic issues affecting payment accuracy.

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

17 I have qualified my opinion on the regularity of the Department's 2020-21 financial statements due to the material level of fraud and error in benefit expenditure - except for expenditure on State Pension where the level of fraud and error is significantly lower.

18 In performing my audit 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.

19 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 results in the payment of a benefit to an individual who is not entitled to that benefit; or a benefit is paid at a rate that differs from the amount specified in legislation, the over- or underpayment does not conform with Parliament's intention and is irregular.

20 In assessing my regularity opinion, I consider the rates across all benefits and State Pension. With the exception of State Pension, the Department has estimated material levels of fraud and error in all benefits. Estimated State Pension overpayments remain at 0.1% (£90 million) and although the levels of estimated underpayments of State Pension have increased this year to 0.3% (£310 million) I continue to regard the combined value of £400 million as immaterial to the accounts. As a result, I exclude State Pension expenditure from my qualified opinion on the accounts. However, I recognise that the underpayments of State Pension identified during 2020 can have a significant impact on those affected (paragraphs 31 to 34), and it remains important that the Department improves accuracy in all payments, not just those benefits where I qualify my opinion, to avoid loss due to fraud and error and provide support to those who need it.

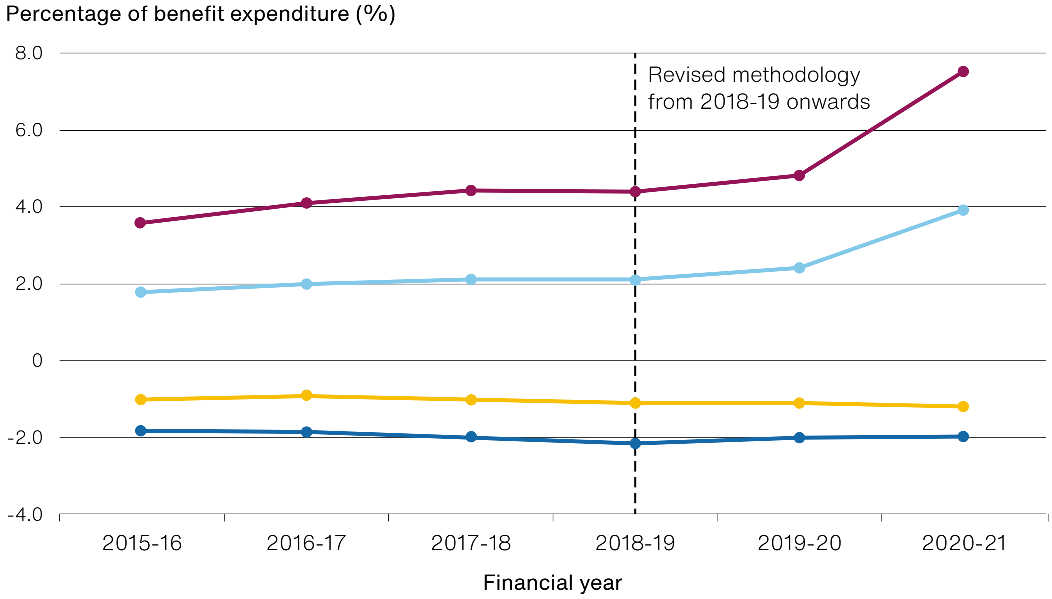
21 Excluding State Pension, the rate of overpayments across related benefit expenditure of £111.4 billion has risen to 7.5% (£8.3 billion) in 2020-21, its highest-ever level since records began in 2005 (**Figure 1** overleaf). The estimated rate of underpayments, excluding State Pension, is 2.0% (£2.2 billion), the same rate as it was in 2019-20.

22 The Department's accounts have been qualified every year since 1988-89 due to material levels of overpayments and underpayments in benefits expenditure. For 2020-21, the rate of overpayments excluding State Pension has increased significantly, as a result of changes introduced at the start of the pandemic to ensure benefits were delivered to those in need, and due to an increase in cases with greater fraud and error risk. This increased rate presents the Department with an even greater challenge as it looks to reduce fraud and error and achieve a cost-effective control environment for benefit delivery.

Figure 1

The Department for Work & Pensions' (the Department's) overpayments and underpayments in benefit expenditure 2015-16 to 2020-21

The level of overpayments increased to record levels in 2020-21



	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Overpayments excluding State Pension (%)	3.6	4.1	4.4	4.4	4.8	7.5
All overpayments (%)	1.8	2.0	2.1	2.1	2.4	3.9
Underpayments excluding State Pension (%)	-1.8	-1.9	-2.0	-2.2	-2.0	-2.0
All underpayments (%)	-1.0	-0.9	-1.0	-1.1	-1.1	-1.2

Notes

1 Underpayments are presented as negative percentages here for clarity of presentation, and because whereas overpayments represent amounts greater than entitlement, underpayments represent claimants receiving less than their entitlement.

2 All data points are the Department central estimates of the rates. The Department reports its ranges in its published statistics on fraud and error in the benefit system. Preliminary results have been used from 2015-16 to 2017-18, as reported in the incorrect payments note of the relevant Department for Work & Pensions' Annual Report and Accounts. Final statistics have been used for all other years, taken from the supporting tables accompanying the Department's *Fraud and error in the benefit system for financial year ending 2021 estimates*. That publication provides full data going back to 2005-06 when the Department first started measuring fraud and error.

3 The Department changed its methodology in 2019-20 and restated its results for 2018-19. The data above shows the restated results for 2018-19 with the vertical line signifying the change in methodology.

4 There have been changes to the benefits measured or in payment since 2015-16, for example Universal Credit was introduced in April 2013 to replace other working age and incapacity benefits, with fraud and error in the benefit first measured in 2015-16. In 2020-21, Universal Credit was the only benefit fully measured as the Department reduced the number of cases it reviewed due to COVID-19.

5 Data relate to benefit expenditure in Great Britain, excluding expenditure that has been devolved to the Scottish Government. Benefit expenditure in Northern Ireland is the responsibility of the Northern Ireland Executive.

Source: National Audit Office analysis of the Department for Work & Pensions' fraud and error statistical data

The estimated level of fraud and error in benefit expenditure

23 Benefit payments are susceptible to both deliberate fraud by individuals, and unintended error by claimants and the Department. 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.

24 The Department sets out its latest estimates of overpayments and underpayments due to fraud and error in benefits and State Pension for 2020-21 in Note 18 to the accounts. In previous years, the Department has measured five or six benefits using a statistical sampling exercise, with estimates for other benefits either rolled forward from previous sampling exercises or, for those benefits never measured, based on assumptions about the likely level of fraud and error.[3] This year, however, the Department only conducted a full sampling exercise for Universal Credit as COVID-19 restricted its ability to conduct case reviews that are undertaken face-to-face. State Pension also underwent a sampling review, but in keeping with previous years, the Department only checked for official error on those claims and not claimant fraud or error. For all other benefits, the Department rolled over the rate of fraud and error from when they were last measured.

25 The Department does not include advances in its annual exercise to estimate fraud and error despite evidence that Universal Credit advances are vulnerable to fraudulent claims.[4] Benefits no longer in payment, or benefits denied at application, are not included in the sampling exercise, and so any fraud or error in those benefits are not included in the Department's estimate.

26 Given the impact of COVID-19 on the control environment, for the benefits that were not sampled in 2020-21, the Department conducted analysis to quantify the potential impact on fraud and error due to easements affecting those benefits. This analysis was assessed by the Department as either not robust enough to warrant adjustments in the statistics or the impact of any adjustment was small and fell within the confidence intervals. The Department therefore determined rates should be rolled forward from 2019-20 for these benefits (see Note 18 to the accounts for more details). It does, however, acknowledge that some of these changes in the control environment will have increased fraud and error. To reflect the increased uncertainty around the true levels of fraud and error in these benefits, the Department has doubled its confidence intervals, the range within which the level of fraud and error is most likely to fall based on its analysis.

3 The benefits that the Department usually measures annually are: Housing Benefit, Personal Independence Payment, Employment and Support Allowance and Pension Credit. In 2019-20, it also measured Carer's Allowance, for the first time since 1995-96 but this was only intended to be a one-off exercise rather than an annual commitment. For 2021-22, the Department also plans to measure State Pension claimant fraud and error and Attendance Allowance.

4 Comptroller and Auditor General, *Universal Credit advances fraud*, session 2019-2021, HC 105, National Audit Office, March 2020

27 The reviews of Universal Credit and State Pension mean that nearly two-thirds of benefit expenditure was subject to some form of review. A large increase in claims for Universal Credit at the start of the pandemic means that Universal Credit expenditure now accounts for 18% of total benefit expenditure, up from 10% in 2019-20. State Pension payments accounted for 48% of total benefit expenditure. Understanding fraud and error in Universal Credit and State Pension is vital to inform efforts now and in future years, as the main working age and retirement age benefits respectively.

Fraud and error in Universal Credit

28 The gross rate of fraud and error in Universal Credit rose to an estimated 15.9% (£6.1 billion) in 2020-21, with overpayments at 14.5% (£5.5 billion) and underpayments at 1.4% (£540 million). For overpayments, this is a 5.1 percentage points (£3.8 billion) increase on the estimated amount in 2019-20. The estimated rate of overpayments in Universal Credit has risen every year since the Department first started measuring it in 2015-16 and is now the highest rate ever recorded for a benefit administered in the UK for which comparable records exist.[5]

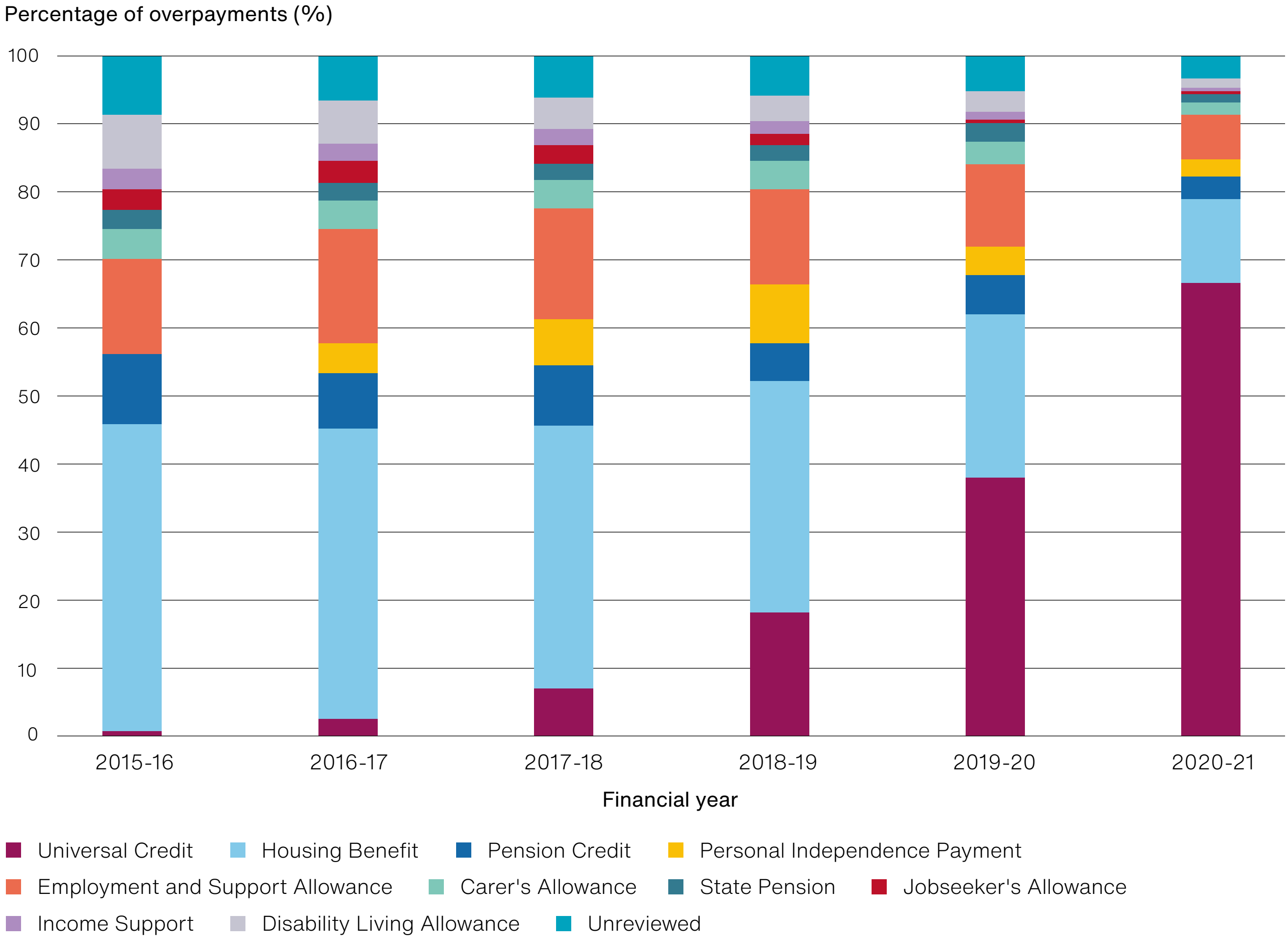
29 Overpayments in Universal Credit now account for an estimated two-thirds of all overpayments by the Department compared with 1% in 2015-16 (**Figure 2**). This is in part driven by the increasing Universal Credit caseload as claimants move over from legacy benefits such as Housing Benefit, Jobseeker's Allowance as well as Tax Credits administered by HMRC. To date, most claimants have moved to Universal Credit due to changes in their circumstances with only a small number transferred from the legacy benefits Universal Credit replaces in a managed process called 'Move to UC'. The Department suspended this process due to the pandemic but is now aiming to restart this with a voluntary transfer phase later in 2021, supported by a media campaign. It is still aiming to complete the transfer of the remaining 2.5 million legacy benefit claimants to Universal Credit by the end of 2024.

5 The Department revised its measurement methodology in 2005-06 and times series data before that date are not comparable. HMRC started measuring Tax Credits error and fraud in 2003-04 with the highest rate recorded in the first year at 9.7%.

Figure 2

Percentage of total overpayments for the Department for Work & Pensions' (the Department's) benefits, 2015-16 to 2020-21

Universal Credit has become the most common cause of overpayments, accounting for two-thirds of all overpayments in 2020-21



Notes

1 The Department has a categorisation of overpayments called 'interdependencies', which accounts for less than 1% of total overpayments and has been omitted here.

2 Data relate to benefit expenditure in Great Britain, excluding expenditure that has been devolved to the Scottish Government. Benefit expenditure in Northern Ireland is the responsibility of the Northern Ireland Executive.

Source: National Audit Office analysis of the Department for Work & Pensions' fraud and error statistical data

30 The pandemic led to a doubling of the Universal Credit caseload in 2020-21. The number of people on Universal Credit increased from 3.0 million in March 2020 to 6.0 million in March 2021. Expenditure overall on Universal Credit rose from £18.1 billion in 2019-20 to £38.1 billion in 2020-21.[6] Assuming the same rate of fraud and error as seen in 2019-20 (9.4%), this increase in claimants would have added £1.9 billion to total overpayments. The Department, however, assesses that the additional claimants in 2020-21 are more likely than claimants in 2019-20 to have circumstances where fraud and error could occur. As a result, it estimates that this change in claimant composition added a further £650 million to total overpayments on top of the £1.9 billion due to increased claimants (**Figure 3**).[7]

Fraud and error in State Pension

31 Estimated State Pension overpayments were £90 million (0.1%) and underpayments were £310 million (0.3%) in 2020-21. In 2020, the Department became aware of systemic errors by officials that have accumulated over many years, leading to underpayments of State Pension entitlements to claimants which are currently estimated to total £1.0 billion (Note 16 to the accounts). These errors have primarily affected: women, and a small number of men, who should have received additional State Pension derived from their spouse or civil partner's contributions; widows, and a small number of widowers, who have not received contribution rights inherited from their spouse or civil partner that may increase their entitlement; and individuals over the age of 80 who may be entitled to a minimum basic pension higher than their current payment. The Department estimates these issues affect 132,000 pensioners.

32 During 2020-21 the Department has undertaken scans of its pension systems, and further detailed analysis, to identify those individuals who could be affected and to estimate the amount they may be owed. These are the first stages of an exercise required by law to redress systemic underpayments, the fifth such exercise undertaken by the Department in three years.[8] In Note 16, the Department has set out further details of the affected groups, how many people it expects to make arrears payments to and its current estimate of the total amount of arrears that may be due to each group, noting the assumptions it has made where it does not yet have sufficient data to quantify the arrears precisely. It has currently allocated 167 people to remedying these underpayments and it plans to increase this by 360 people in order to make all the remaining payments by the end of 2023.

6 These numbers are those reflected in Note 5a of the Department's accounts. Note 18 to the Department's accounts sets out an estimate of Universal Credit expenditure, which represented the latest available forecast for 2020-21 at the time the Department produced the fraud and error estimates.

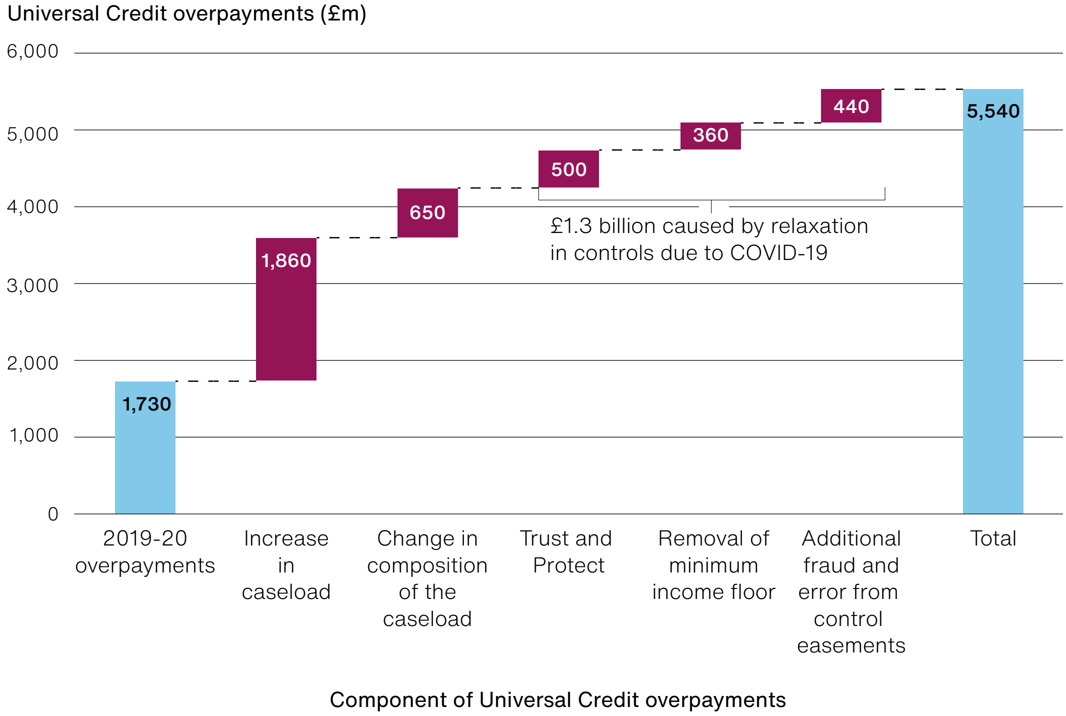
7 The Department's analysis adjusts for the fact that the proportion of new claimants since the start of the pandemic are nearly three times as likely to be self-employed and twice as likely to have capital savings. Previous data shows that such characteristics mean that these claimants are more likely to accrue overpayments due to mis-stating their earnings or capital levels.

8 The 'Legal Entitlement and Administrative Practices' (LEAP) principles provide a framework for considering how to deal with cases where there has been a failure by a government department to meet legal entitlements. Prior LEAP exercises by the Department covered underpayments of Employment Support Allowance and three relating to Personal Independence Payments.

Figure 3

Estimated components of Universal Credit overpayments in 2020-21

Two-thirds of the increase in Universal Credit overpayments in 2020-21 was due to an increase in the caseload and its composition and one-third caused by relaxation of controls



Notes

1 All data points are the Department for Work & Pensions' (the Department) central estimates.

2 The change in the composition of the caseload reflects the fact that the proportion of claimants in 2020-21 who were self-employed was nearly three times as high as seen in 2019-20, and the proportion who had potential capital to declare was twice as high.

3 Trust and Protect refers to the early period of the pandemic where the Department relaxed a number of key controls in order to be able to process and pay claims on time.

4 The minimum income floor is an assumed minimum level of income for claimants who are gainfully self-employed. It was removed at the start of the pandemic and consequently more self-employed people were potentially able to mis-state their actual earnings and claim more than they were entitled to.

5 The £440 million is assumed to be additional fraud and error exacerbated by other COVID-19 control changes.

6 Data relate to benefit expenditure in Great Britain excluding expenditure that has been devolved to the Scottish Government. Benefit expenditure in Northern Ireland is the responsibility of the Northern Ireland Executive.

Source: National Audit Office analysis of the Department for Work & Pensions' data

33 The Department did not identify these systematic underpayments; they were brought to its attention by individual complaints and third-party reports of underpayments that it then investigated. Cases with these types of underpayments were found by the Department in past sampling exercises to estimate official error in State Pension so opportunities to identify these underpayments earlier were missed. The Department commissioned a root cause analysis to understand the cause of these underpayments. This analysis identified a range of process and control issues including poor staff training, instructions and quality review that led to the underpayments. These issues have also affected the Department's initial work to quantify and rectify errors. The Department has asked the Government Internal Audit Agency to review State Pension legislation to ensure there are no further entitlements that may be underpaid.

34 The longevity of State Pension awards means individually small mistakes in assessing entitlement can lead to significant sums being underpaid to pensioners over time. I will report on the State Pension underpayment later in 2021, setting out what has happened, plans to remedy this underpayment and the lessons identified. I have continued to exclude State Pension from my qualified opinion on the regularity of benefit expenditure as the level of fraud and error each year remains immaterial in the context of annual expenditure on State Pension and the financial statements; the £1.0 billion provision reflects a cumulative underpayment over at least 30 years.

The impact of COVID-19 on fraud and error and the Department's strategy

35 The Department had to radically rethink its approach to tackling fraud and error as a result of the COVID-19 pandemic. Its approach can be viewed in four stages, from its initial emergency response through to its plans now for long-term strategic transformation (Figure 4).

Initial emergency response

36 When the pandemic started, the Department had to quickly respond to three million new Universal Credit claims as well as adjusting its controls to operate in lockdown conditions without face-to-face contact with all claimants bar the most vulnerable. Quality assurance checks were significantly reduced and case reviews as part of the annual sampling to estimate the monetary value of fraud and error were suspended. It also redeployed most of its compliance staff to elsewhere in the business, primarily to help process the large increase in Universal Credit claims. At the peak of the first wave of the pandemic, around 6,000 out of its 8,000 compliance staff were redeployed. These staff returned in a staged approach from summer 2020, with the majority of them back in their normal compliance roles by March 2021.

37 The Department elected to prioritise registering new claims and making payments on time, acknowledging this increased fraud and error risks. It succeeded in maintaining its performance of paying more than 90% of first payments on time and in full, but only by choosing to relax key identity and information verification controls between March and June 2020. This meant that it was placing more trust in the information provided by claimants rather than seeking to verify it against third-party sources, with the intention of returning to these claims to verify them later, a process it called Trust and Protect. The Department has undertaken a detailed review of the impact of these control easements on Universal Credit claims, and estimates that Trust and Protect led to £500 million of overpayments and the removal of the minimum income floor for self-employed claimants (see paragraph 51) added £360 million (Figure 3).[9] Other pandemic-related control changes, such as removing conditionality requirements, are estimated to have contributed to a further £440 million of overpayments.

Transitional initiatives

38 Since June 2020, the Department has taken steps to reintroduce controls, in an effort to prevent further Universal Credit losses occurring in 2020-21. This included improving its ID verification processes and introducing an Enhanced Checking Service with compliance officers performing checks on suspected fraud cases before they are put into payment. The latter proved relatively successful, with around 55% of cases checked being amended, meaning that the Department prevented fraud before it made the first payment.[10] In addition, as controls over initial verification have improved, there has been a decline in the number of cases needing to be referred for enhanced checking, from more than 10% in May 2020, down to 3% in May 2021.

39 Across all benefits the Department put in place more than 200 easements in the early months of the pandemic. Not all controls that were eased have been reinstated, and in some cases, more effective controls have been identified. The Department made some changes to controls from June 2020 onwards that aimed to prevent fraud and error while still recognising pandemic restrictions. For example, it took steps to enable claims for Employment and Support Allowance and Jobseeker's Allowance to resume while ID was verified remotely. There are still around 100 easements in place as the Department continues to transition towards more normal operating processes.

9 The estimate of £360 million is taken as the mid-point of the Department's assessment that the removal of the minimum income floor added 0.7% (£270 million) to 1.5% (£570 million) to total Universal Credit overpayments, with an adjustment to allow for the fact that there was some overlap between cases relating to Trust and Protect and the minimum income floor.

10 First payment refers to a first payment of Universal Credit, an advance may be paid ahead of this first payment, which would be recovered from subsequent Universal Credit payments.

40 The redeployment of compliance staff at the start of the pandemic caused some large backlogs in working compliance and debt cases. The Department assessed that these peaked at 750,000 compliance and 1.6 million debt cases that were outstanding. The Department is seeking to recruit 3,015 compliance staff in 2021-22, including 307 into debt management, to help tackle these backlogs. The majority of debt cases were cleared by June 2021, while outstanding compliance cases are now down to 690,000. The Department accepts, however, that even if it successfully recruits 3,015 additional staff this will not be sufficient to clear all these cases. It is looking at what additional resources it might need beyond 2021-22 and also considering whether there are alternative means of clearing cases, such as pursuing civil rather than criminal litigation where appropriate.

Responding to increased serious organised crime risk

41 The Department has also had to deal with an increased risk from serious organised crime since the start of the pandemic, with organised fraudsters targeting Universal Credit in particular. These fraudsters have sought to exploit control easements introduced since March 2020, for example by hijacking people's identities, including people who have had minimal interaction with the Department previously, in order to make fictitious claims in their names, but with payments routed into bank accounts that the fraudsters can access.

42 The Department was aware that removing the requirement for face-to-face meetings to verify identities would increase the threat of identity fraud. It had previously allowed Universal Credit advances to be claimed without face-to-face verification but reversed this decision in late 2019 in order to try to reduce the threat associated with advances.[11] The Department, however, believed that it had little choice but to move to online verification when the first lockdown came into effect in March 2020 due to the requirement to enforce social distancing.

43 In May 2020, the Department identified a serious organised crime attack based on suspicious patterns in Universal Credit claims and around 60,000 accounts were suspended to enable further investigation. By the end of March 2021, it has identified 152,000 cases linked to this attempt and estimates that £68 million was paid out fraudulently across 40,000 cases, with most of this being advances. There is an ongoing criminal investigation into the matter.

44 There have been 5,363 people whose stolen identities led to their benefits being incorrectly stopped. This is because a claim for Universal Credit automatically triggers a stop notice for the legacy benefits it replaces, regardless of whether the Universal Credit claim is legitimate. The claimants who suffered as a result of this spent an average of two and a half weeks without payments before the Department was able to reinstate their benefits. The Department now has processes in place that should prevent anyone going more than a week without receiving their benefit entitlement.

11 Comptroller and Auditor General, *Universal Credit advances fraud*, Session 2019-2021, HC 105, National Audit Office, March 2020.

45 Some people whose identities were stolen as part of this fraud were subsequently asked to make repayments despite having obtained no money themselves. The Department's position is that no one who has had their identity stolen should be asked to make repayments and it has been working to ensure that appropriate procedures are in place to stop such people being asked to make repayments. Its assessment is that around 4,000 people may have wrongfully been asked to make repayments. In the majority of these cases debt recovery action was suspended prior to any repayments being made, but in nearly 300 of these cases automatic repayments had already commenced and the citizen had to be fully recompensed by the Department.

46 The Department has dedicated significant resources towards trying to tackle serious organised crime. It currently has around 1,300 staff working in this area, with some of these coming from existing compliance roles within the Department. As part of the wider recruitment drive for compliance staff, the Department aims to increase this by 293 staff by the end of March 2022.

Retrospective action

47 The Department has begun retrospective action on Universal Credit claims paid out in the early period of the pandemic where it suspects that control easements introduced may have led to fraudulent or erroneous claims (**Figure 4** on pages 20 and 21). It assessed that of 2.1 million new claims between March and early June 2020, 1.36 million might have been at risk and initial testing indicated around 20% of these cases showed fraud or error. Of those 1.36 million claims at risk, 433,000 had ended by the time the Department began the retrospective checks in January 2021 and are not included in the cases subject to retrospective checks to date. The Department has not yet taken a decision as to whether further work will be done to recover amounts potentially lost on those claims that were ended. Retrospective checks will include advances on claims put into payment, but the Department has not planned activity to assess the scale of potential fraud in Universal Credit advances, despite evidence of a large spike in the number of suspicious advances claimed at the start of the pandemic.

48 Of the 927,000 claims that the Department is committed to checking, it has completed checks on 585,000, with around 1,500 staff working on them. Fraud and error was found on just over 10% of the claims reviewed so far, which although lower than initial testing suggested still amounts to significant fraud and error, with overpayments of £96 million detected to date. The Department's current estimate is that completing checks on the remainder of cases might detect additional overpayments of £65 million, forecasting total detected amounts in the 927,000 cases of £161 million.

Figure 4
How the Department for Work & Pensions (the Department) has responded to the pandemic

The Department's response to the pandemic can be viewed in four stages and cuts across both prevention and detection activity on Universal Credit claims

Claims

2.1 million Universal Credit claims and 1.0 million advances (March-June 2020)

Initial emergency response

- Key controls are relaxed and case reviews postponed
- Redeployment across the business to process Universal Credit claims

Transitional initiatives

- Enhanced Checking Service established
- Enhanced ID verification implemented

Retrospective compliance action

- Analysis of Universal Credit claims to establish likely fraud and error cases
- Post-payment checks begin
- Recovery plans in place for backlogs in compliance

Long-term strategic transformation

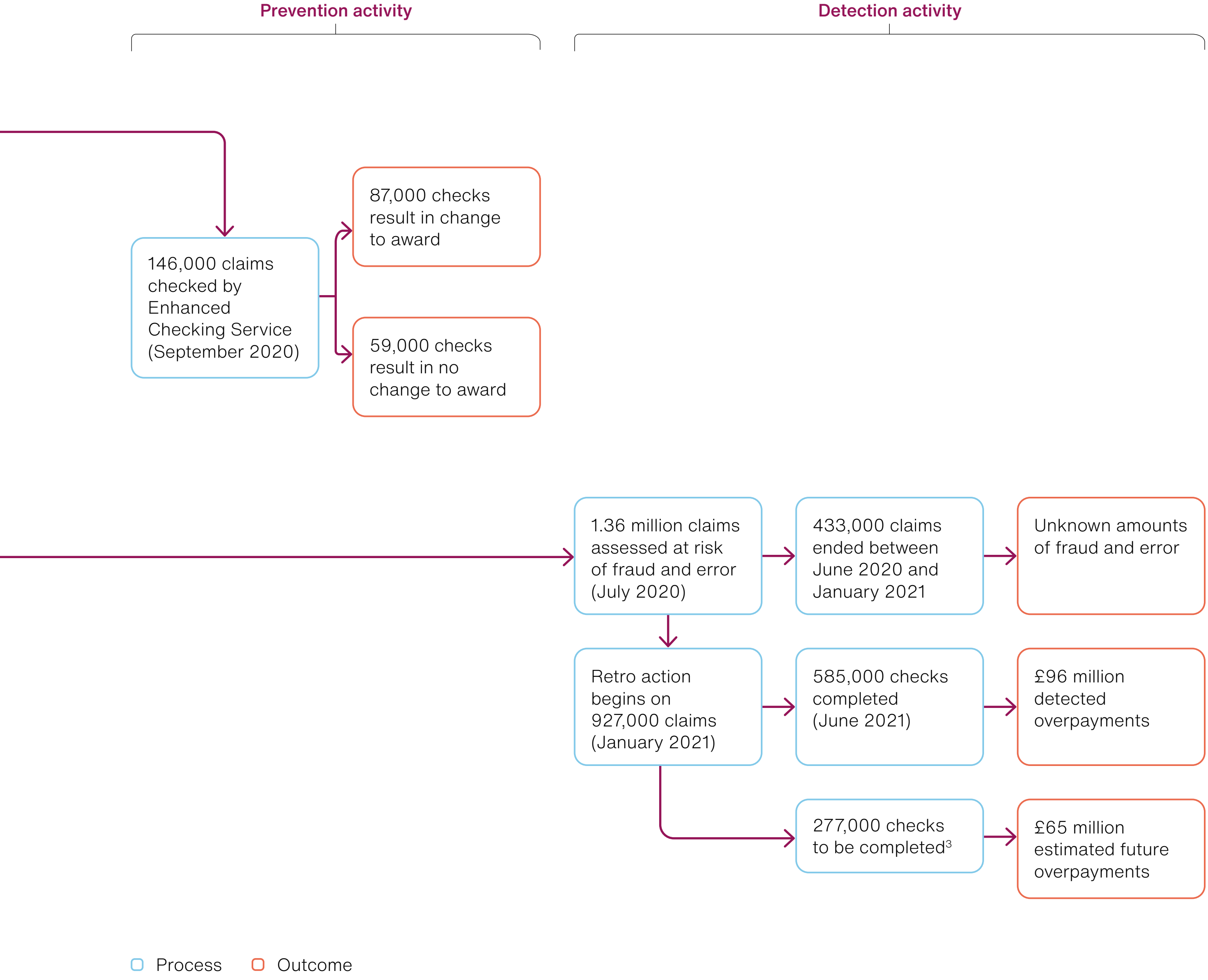
- Shift towards prevention rather than detection
- Increased use of data analytics and greater automation
- Roll out of risk models to concentrate checks on highest risk cases

Notes

1 The Department notes in its Annual Report and Accounts, pages 28-34, its response to the pandemic in three stages. This is its response across the whole of the organisation whereas this figure is concentrating only on the fraud and error response, which is viewed in four stages.

2 The Enhanced Checking Service was set up in April 2020 to enable staff to refer suspicious Universal Credit claims to experienced compliance officers to investigate. If, after investigating a claim, the Universal Credit award is amended then the Department estimates a prevented amount of fraud and error based on the value of the adjustment.

3 Of the 927,000 claims initially in scope for this retro-action work, 65,000 were removed as they were deemed to require more extensive work from compliance investigators and are therefore being looked at separately.



4 The 433,000 claims that ended between June 2020 and January 2021 may have ended because the claimant found work and no longer needed to claim Universal Credit. There is still a risk, however, that these claims may have contained fraud or error, and the Department is yet to take a decision on any retrospective action that it might take to investigate these claims.

Source: National Audit Office analysis of the Department for Work & Pensions' information

Long-term strategic transformation

49 The Department views the pandemic as an opportunity to further evolve its approach to fraud and error. The Department was mid-way through its five-year strategy launched in 2018 when the first lockdown was introduced and it acknowledged at that point that its ambitions to improve capability and move towards more preventative measures had not been as successful as hoped. Although the easements to controls at the start of the pandemic increased fraud and error levels, they have also created an opportunity for the Department to consider what it deems an appropriate control environment as it looks beyond the exceptional circumstances relating to the COVID-19 pandemic.

Understanding key fraud and error risks

50 The Department's strategy is based on understanding where fraud and error occurs in claims, to identify fraud and error risks. For Universal Credit, the largest risks relate to incorrectly reported self-employment earnings, capital levels, housing costs and whether claimants are correctly reporting living together. For all four of these risks, COVID-19 has exacerbated known control weaknesses in Universal Credit, leading to substantial rises in amounts overpaid (see **Figure 5**). Together, these four risk types account for two-thirds of all overpayments in Universal Credit in 2020-21, up from 51% in 2019-20.

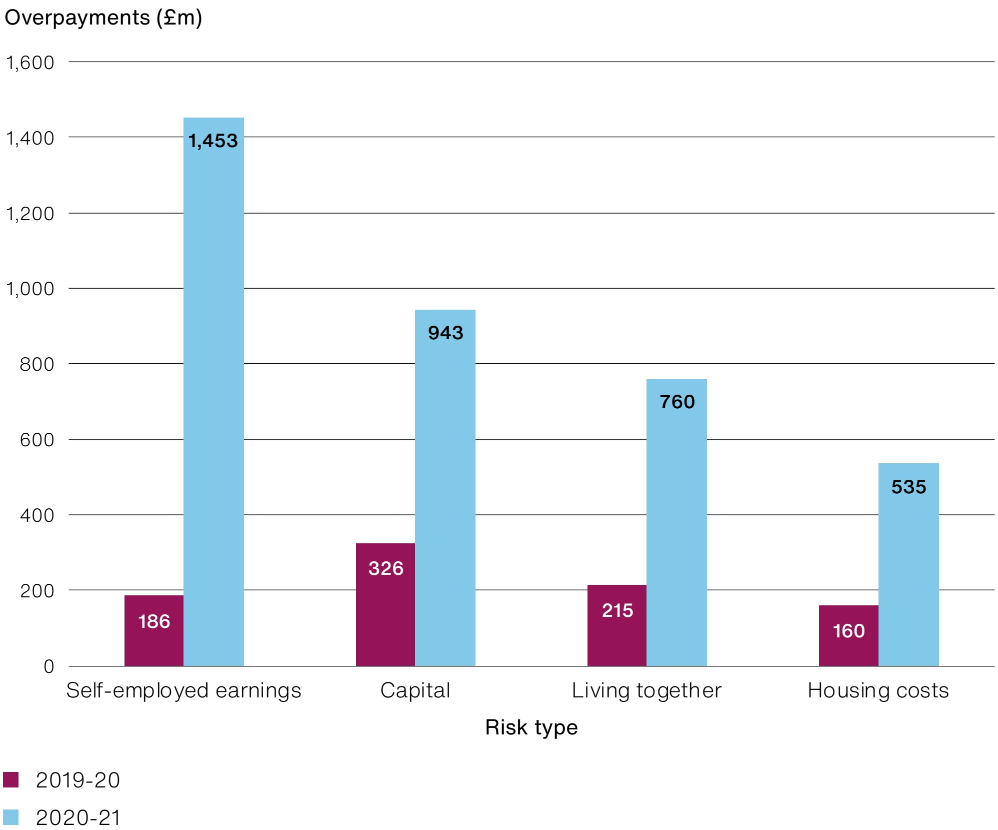
51 The largest increase has occurred for problems with self-employment earnings with overpayments in this area increasing by 680% in 2020-21. The Department states that two factors have driven this. First, the proportion of Universal Credit claimants that identity as self-employed has nearly trebled over the last year. Second, the Department removed the minimum income floor (MIF) requirement at the start of the pandemic. The MIF works by assuming that a self-employed person has a minimum level of earnings based on what someone would earn on the National Minimum Wage working a 35-hour week. It effectively acts as a control on fraud and error by preventing self-employed claimants from stating that they have earnings below that level. Without it in place claimants could understate their self-employment earnings to maximise their Universal Credit entitlement. The Department's assessment is that not having this control in place has increased overall overpayments in Universal Credit by £360 million (Figure 3).

52 The Department was aware of deficiencies in its control environment for self-employment income before the pandemic. It acknowledged that unlike regular employment income, reported through HMRC's Real-Time Information system, it had no reliable means of promptly verifying the income that self-employed claimants were stating. It has been looking at options to try to receive more timely information from HMRC or other data sources that may enable it to independently verify self-employed claimants' income. The Department believes that obtaining such data could help to significantly reduce self-employment overpayments. It recognises, however, that this is a challenging area, with self-employed individuals currently only having to report their tax returns annually in arrears.

Figure 5

Universal Credit overpayments by largest risk types in 2019-20 and 2020-21

There were large increases across all four main risk types in 2020-21



Notes

1 The Department for Work & Pensions (the Department) revised its categorisation of Universal Credit risks in 2020-21 and applied the revisions to 2019-20 figures as well. This revised categorisation means that some fraud previously attributed to risks such as capital and self-employment have been reassigned to a category labelled "failure to provide evidence/fully engage in the process" reflecting uncertainty as to the exact cause of the fraud.

2 The data presented here are central estimates. The Department reports its ranges in its published statistics on fraud and error in the benefit system. Available at: www.gov.uk/government/statistics/fraud-and-error-in-the-benefit-system-financial-year-2020-to-2021-estimates/fraud-and-error-in-the-benefit-system-for-financial-year-ending-2021

3 The risks shown here are the four largest risk categories. The Department categorises self-employed earnings as a sub-category of a wider earnings/employment risk. Previous National Audit Office reports have presented the data using the earnings/employment categorisation. A full list of all categorisations can be seen in the Department's fraud and error estimates at the link above.

4 Data relate to benefit expenditure in Great Britain, excluding expenditure that has been devolved to the Scottish Government. Benefit expenditure in Northern Ireland is the responsibility of the Northern Ireland Executive.

Source: National Audit Office analysis of the Department for Work & Pensions' published data on fraud and error

53 The Department recognises that it needs to tackle these key risks and its current fraud and error plans for Universal Credit focus on reducing these risks. It is working to understand the underlying causes behind all of them and put in place new controls that might produce savings. Much of this root cause analysis is focusing on issues that are longstanding, such as:

- finding a way to verify income and earnings without access to real-time data for self-employed claimants;
- accessing banking data to identify incorrectly declared capital levels, which is under discussion with the Cabinet Office;
- accessing data from landlords to ensure housing-related elements are accurate and updated in a timely manner;
- clarifying and improving claimants' understanding of whether they should be claiming as individuals or partners; this was a common issue in Tax Credits that the Department forecast would become an issue in Universal Credit as claimants transferred; and
- reducing reliance on data provided by the claimant and improving its ability to identify and match data from external sources and its own systems to verify claimants' details.

54 The Department's strategy places heavy emphasis on being able to increase the reliability of its data, to enable greater data analytics and to automate processes. It also wants to introduce risk modelling into its systems to enable it to focus on the highest-risk cases. It has been working on developing these models, particularly within Universal Credit. It believes it is very close to having a viable model to roll out for Universal Credit advances; however, to date no such modelling is fully operational in its systems.

55 The Department's strategy emphasises the importance of applying the principles set out in our Fraud and Error Audit Framework (the Framework).[12] The Department acknowledges that it needs to iterate its approach over time to understand what controls are working to prevent and detect fraud and error. It recognises the need to build consideration of fraud and error into policy design and has therefore created a new fraud and error policy unit within its policy group for that purpose. The Framework also places a heavy emphasis on having effective measurement and evaluation of controls to ensure that the Department can understand the impact that controls are having on fraud and error levels. The Department aims to apply the principles of this Framework to demonstrate how it will drive down fraud and error and demonstrate a cost-effective control environment where all cost-effective responses to fraud and error risk have been exhausted. Our recommendations arising from a review before the COVID-19 pandemic of the Department's approach to fraud and error using our Fraud and Error Audit Framework are included at Annex A.

12 Full details of the Fraud and Error Audit Framework can be found in National Audit Office, *Fraud and error good practice guidance*, March 2021. Available at: www.nao.org.uk/wp-content/uploads/2021/03/010381-001-Fraud-and-Error-Accessible.pdf

56 The Department has not set a fraud and error target for 2021-22 despite previous commitments to doing so. This follows on from its decision not to set one in 2020-21 because it needed to understand the full impact of COVID-19 in order to establish a baseline. It still believes that it cannot establish a stable baseline because of COVID-19 and has therefore instead committed to setting a target for 2022-23 after the Spending Review later this year. It has stated that its expectation is that across all benefits, the overpayment rate will remain at 3.9% in 2021-22, which is 7.5% excluding State Pension.

57 For Universal Credit, it is aiming to reduce overpayment levels to 6.5% by 2027-28, bringing it back in line with the levels it forecast in the Universal Credit business case, but it does not currently have the necessary plan or resources to achieve this. For other benefits and State Pension, the Department does not have targets on a one-year horizon or beyond. Nor does it have a target for underpayments or amounts detected each year. It has also not set out the expected reduction in fraud and error from its initiatives to understand whether these have the expected impact.

58 The Department continues to report against a 'net loss target' (page 106 and Note 18 of its Annual Report and Accounts). This measure looks at estimated overpayments made in-year, less actual 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, at additional administrative cost. The net loss target as currently constructed does not indicate the inaccuracy of benefit payments made in-year because it combines past and current performance in a single measure. The net loss target is no substitute for annual gross targets by benefit, against which the Department can assess in-year progress.

59 The Department has engaged with the Committee of Public Accounts on its efforts to reduce fraud and error in the long term. The Committee took evidence from the Department on its 2019-20 Annual Report and Accounts in September 2020 and subsequently made a series of recommendations for the Department. We have set out in Annex B these recommendations and provided updates on the Department's progress against them.

The consequences of fraud and error

60 Fraud and error have a real cost. Overpayments arising from fraud and error increase costs for taxpayers and reduce the public resources available for other purposes. When the Department recovers overpayments, this can lead to problems for claimants who face deductions from their income. Underpayments mean that households do not get the support they are entitled to. Even where payment errors are later corrected, this can lead to costly additional administrative work for the Department, and uncertainty and other challenges for claimants.

Overpayment debt

61 The Department's accounts show that as at 31 March 2021, gross debt relating to overpayments it administers totalled £2.8 billion. There is a further £2.2 billion of gross debt relating to Tax Credit debt that has been transferred over to the Department as Tax Credit claimants move over to Universal Credit. Total overpayment debt, therefore, stands at £5.0 billion, a 15% increase compared with last year. This continues a trend that has seen overpayment debt rise every year over the past decade. Separately, there is £1.2 billion of debt in relation to benefit advances, nearly all of which relates to Universal Credit.

62 The Department elected to suspend debt collection during the COVID-19 pandemic, both for existing debt balances and for new overpayment debt being detected.[13] This suspension ran from April to June 2020. Since then, the Department has resumed its debt management operations but is phasing new debt referrals, to avoid debt that built up from April 2020 overwhelming the debt management team. As a result of the pause in debt collection, there is some £200 million of gross debt arising in 2020-21 that has not yet been referred or recorded in the accounts; around three times more than would usually be added to the debt queue in-year. Recovery on these debts can therefore not yet start and claimants have not been notified of their potential debts. Other debt-related activities, such as outbound calls to customers and civil litigation, have not yet resumed.

63 The Department recognises that it needs to recruit additional staff to manage debt going forward. It currently has 2,183 full-time equivalent (FTE) staff working in debt management and wants to increase that up to 2,800 throughout 2021-22. A further 160 FTE staff are provided through a contract with Serco, and another 150 through an agency agreement, meaning it needs to hire an additional 307 FTE staff through the course of 2021-22 to achieve its target staff level.

13 The one exception to this was for Universal Credit advances, where any overpayment continued to be deducted from future awards.

64 In addition to the overpayment debt shown in the accounts, there is likely to be substantial amounts that are not recorded because the Department does not detect all overpayments it makes. Where it does detect overpayments, this is through controls such as its quality assurance checks, sampling reviews and data-matching. For example, in 2020-21 the Department estimates that there were £7.3 billion of overpayments across all benefit expenditure except Housing Benefit.[14] By contrast, it detected and recorded only £331 million of overpayments relating to 2020-21 for recovery as debt by 31 March 2021. This suggests that only around 5% of total estimated overpayments were detected and recorded in 2020-21, where the Department can identify the individual claimant who has been overpaid and attempt recovery. The Department cannot collect amounts of debt that are estimated but not detected. The Department believes its retrospective testing will identify further overpayments for recovery relating to 2020-21, and has already detected and recorded a further £284 million of 2020-21 overpayments in the first three months of 2021-22, reducing the gap between estimated and detected overpayments. Over the past five years, the data suggest that around 10% of estimated overpayments are detected and recovery can be attempted, with a total of £16.1 billion going undetected and potentially lost (**Figure 6** overleaf).

Underpayments

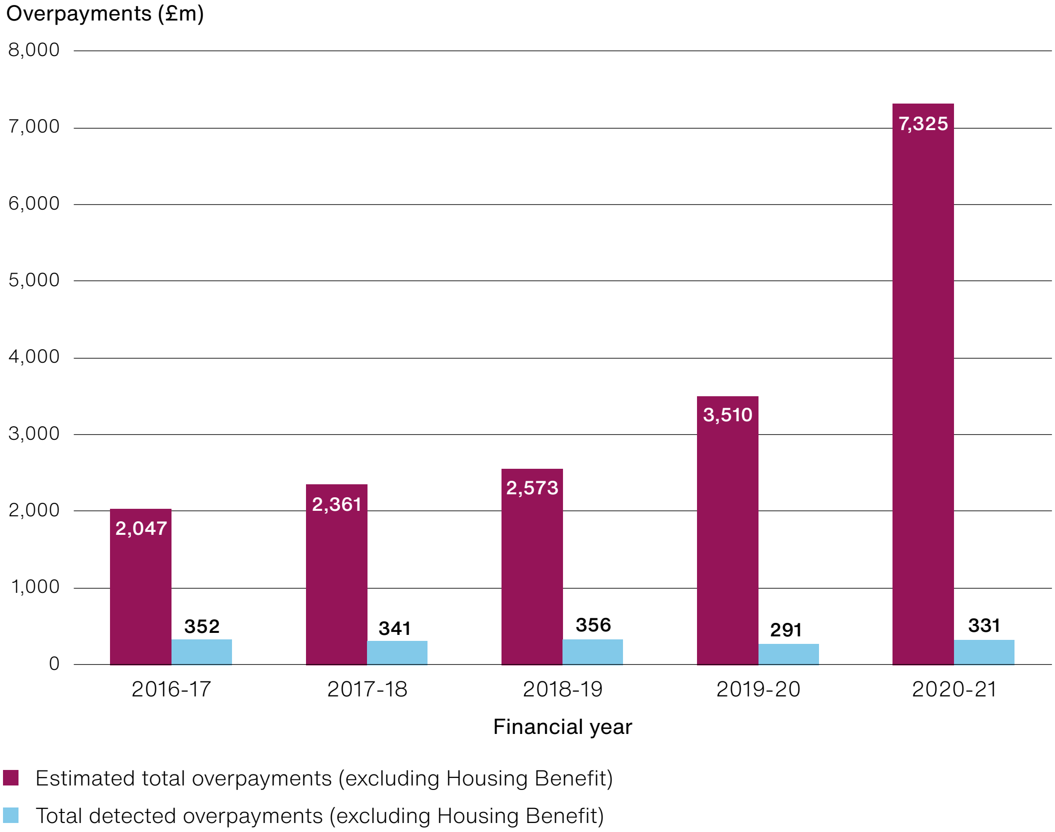
65 The Department does not have a complete measurement of underpayments detected. Where underpayments are identified in the annual sampling case testing, or through other controls, these are corrected. It does not, however, have a business process in place that accumulates the value of all these underpayments detected in the same way that it does for overpayments. In the absence of any complete data on the value of underpayments detected, the Department cannot assess the systemic causes of underpayments and ensure it is repaying all those who it estimates may have been underpaid benefits that they are entitled to. Better use of its information on detected fraud and error will also inform its strategies to prevent fraud and error and ensure that claimants receive the right benefit award.

14 The Department is not responsible for overpayment debt recovery for Housing Benefit as this is the local authorities' responsibility and therefore it is excluded from the estimate of total overpayments here.

Figure 6

The estimated total of fraud and error compared with total overpayments detected, 2016-17 to 2020-21

The Department for Work & Pensions (the Department) does not detect billions each year compared with its estimate of total overpayment levels



Notes

1. Values presented here exclude Housing Benefit because the Department is not responsible for the collection of Housing Benefit overpayment debt.
2. The estimates of total overpayments are the Department's central estimates based on the sampling that it does each year across different benefits. The Department reports its ranges in its published statistics on fraud and error in the benefit system.
3. The Department changed its methodology for estimating overpayments in 2019-20 and restated its results for 2018-19. The data above shows the restated results for 2018-19.
4. The total detected overpayment values in a given year may increase in the future because the Department continues to detect overpayments that may span several financial years. For example, the Department has detected and recorded a further £284 million of overpayment debt relating to 2020-21 between April and June 2021, increasing the total overpayments detected and reported for 2020-21 to £615 million, around 8% of total estimated overpayments.
5. Data relate to benefit expenditure in Great Britain, excluding expenditure that has been devolved to the Scottish Government. Benefit expenditure in Northern Ireland is the responsibility of the Northern Ireland Executive.

Source: National Audit Office analysis of the Department for Work & Pensions' fraud and error statistical data

Annex A

National Audit Office recommendations

1 These recommendations followed an in-depth assessment of the Department for Work & Pensions' (the Departments') approach to fraud and error in Universal Credit, Pension Credit and Carer's Allowance in 2019-20, before the COVID-19 pandemic. This work supported the report on the 2019-20 accounts and Committee of Public Accounts session in September 2020 (Annex B). The recommendations remain relevant post-pandemic, and we will continue to assess progress in implementing them as part of our wider work to follow up recommendations we have made to improve public services. These recommendations were presented to the Department's executive team in June 2020 but were not previously published.

Figure 7

The Department for Work & Pension's (the Department's) responses to the National Audit Office's 2020 Management letter on Fraud and Error

The Department accepted all 13 recommendations but has not yet fully implemented many of them

	Recommendation	Progress
1	Set as its ultimate goal having and demonstrating it has a cost-effective control environment to counter-fraud and error. This will help to engage Parliament on the issue of regularity. At present, the recorded levels of fraud and error are at record highs and have been increasing steadily since 2014-15.	The plans and expected actions the Department has set out indicate that it is committed to reducing fraud and error, and that establishing a cost-effective control environment is its ultimate goal. Responsibility for achieving improved fraud and error outcomes now sits with a member of the executive team, at the highest level of the organisation. The Department's fraud and error strategy has been refreshed in the light of COVID-19 and the Department has identified priority activities to undertake to try to tackle the main causes of fraud and error in Universal Credit, after record levels of estimated fraud and error in 2020-21. The Department is using the principles of the Fraud and Error Audit Framework to try to reduce fraud and error to the lowest feasible level.
2	Continue to employ Test and Learn, and iterate its approach to tackling fraud and error. This should enable the Department to collate evidence about what is and is not cost-effective to implement at the level of each control and fraud and error risk.	The Department employs Test and Learn to iterate its response to fraud and error, particularly in the design of Universal Credit. The Department's response to the increased fraud and error as a result of the pandemic further evidences Test and Learn around self-employment, to inform retrospective action on cases from the early part of the pandemic. The Department is also making use of internal management information to monitor emerging fraud and error trends. This can then lead to 'deep-dives' into specific issues that enable the Department to understand the underlying causes of fraud and error and what might be needed to tackle them.
3	Ensure that its benefit strategies set out an appropriate balance between deter, prevent and detect controls and the plans for improving each.	The Department has confirmed its intention to use the principles of the Fraud and Error Audit Framework to help it achieve an appropriate balance between detection, prevention and deterrence across the business. However, the Department has not yet decided which measures it will adopt to achieve the recommendation, including some which seem important for achieving the recommendation. For example, the Department does not fully commit to listing out controls for each benefit by deter, prevent or detect, as well as the measurement and evaluation of the effectiveness of these controls.
4	Gather evidence on and analyse the cost-effectiveness of each fraud and error control.	The Department has committed to gathering more evidence on the cost-effectiveness of controls and appears ambitious in this area, although work has only just begun to establish a baseline position to work from. Priority activities to tackle Universal Credit fraud and error include a value impact on estimated fraud and error levels.

Figure 7 *continued*

The Department for Work & Pension's (the Department's) responses to the National Audit Office's 2020 Management letter on Fraud and Error

	Recommendation	Progress
5	Set annual targets for the gross levels of fraud and error and amounts detected over a three-year time horizon. These should be based on the individual strategies and the expected successful delivery of its plans to control fraud and error, so that it can be held to account. Targets should be publicly reported, revised annually and provided with a commentary of progress against expectation.	Despite its earlier commitment, the Department has not set a fraud and error target for 2021-22 but plans to set a target for 2022-23 after the Spending Review later this year. For Universal Credit, it is aiming to reduce overpayment levels to 6.5% by 2027-28, but it does not currently have the necessary plan or resources to achieve this. For other benefits and State Pension, the Department does not have targets on a one-year horizon or beyond. Nor does it have a target for underpayments or amounts detected each year. More information is set out in paragraphs 56 to 58.
6	Produce fraud and error impact statements for any significant policy changes. Where changes require the approval of Parliament, the Department should set out in the public business case and any explanatory memorandum the fraud and error consequences of any new benefit policies or regulations. Where changes do not require the approval of Parliament there should be a systematic assessment of the impact on fraud and error that is signed off by the Fraud and Error senior responsible owner and tabled to the relevant internal decision-making body or other government department where appropriate. These fraud and error impact assessments should make the cost-benefit analysis transparent and explicit, and set out the evidence basis for the decision.	The Department believes that it already did this to an extent, on an informal basis. The Department is now seeking to formalise this process by developing an impact assessment tool to assess the fraud and error implications of major proposals. It is not yet clear the degree to which this process will be visible to Parliament. A new counter-fraud policy team with 50 full-time equivalent (FTE) staff led by a senior civil servant has been established to support this work.
7	Introduce a rolling programme to review all of its products and services to assess whether their regulations could be altered to help better address fraud and error. Potential barriers created by legislation should also be considered.	The Department has assessed what it already does to measure and evaluate what works and what needs changing in regard to reducing fraud and error – although this refers to activity wider than just legislative activities. This work is mainly being applied in the Universal Credit area, but the Department believes that many of the measures will be cross cutting. The Department is also reviewing its current legislation and identifying what needs to be updated – for example, to take account of the new payment scheme for Kickstart – and considering what new powers it might need, for example access to claimants' savings data. The new counter-fraud policy team will support this work.
8	Perform an assessment of the fraud and error costs of using its legacy systems. The Department needs to understand the impact of not being able to make improvements to its control environment due to the inflexibility of its legacy IT and operational systems. This needs to be more explicitly costed into investment decisions and digital refresh plans.	The Department acknowledges the need to update some of its legacy systems and is making progress, for example in implementing a new case management system for fraud referrals. It has not, however, demonstrated any assessment of the costs of continuing to use its legacy systems in other areas.

Figure 7 *continued*

The Department for Work & Pension's (the Department's) responses to the National Audit Office's 2020 Management letter on Fraud and Error

Recommendation	Progress
9 Ensure that behavioural insights are used extensively in the design of controls to drive claimants towards more compliant behaviours. The Department should seek to understand how claimants respond to the interactions that they have with the Department and tweak controls and communications where there is a clear evidence base that shows a change will drive more compliant behaviour.	There is good evidence that the Department has some mechanisms in place to ensure that behavioural insights are identified and made use of. This is particularly apparent on Universal Credit, but it is also developing a Customer Sounding Board that it designed to improve its understanding of behaviours across all benefits. In terms of combatting fraud, the work the Integrated Risk and Intelligence Service is doing to identify digital behaviours that might indicate fraud has been significant, especially in response to easements and increased applications for benefits during the COVID-19 pandemic, and we are aware that early successes are indicating that much more can be achieved in combatting fraud using insight like this.
10 Factor in fraud and error in its resourcing decisions. The Department should consider the fraud and error impacts in its supply and demand modelling for staffing levels, so that it can demonstrate that it has achieved the value-for-money level of staffing. It should also ensure that it identifies and reacts to developing backlogs or process degradation as a result of short staffing.	There is evidence that the Department is seeking to understand fraud and error implications from resourcing decisions. The Department has secured funding for 365 FTE staff in the 2021 Budget for 'spend to save' measures, and outlines a recruitment plan for more than 3,000 FTE in its counter-fraud compliance directorate.
11 Ensure that tackling fraud and error is part of claimant-facing staff job design. This should be built into job descriptions, with the right supporting tools and incentives, so that front-line staff recognise that tackling fraud and error is an integral part of their interactions with claimants. Where possible staff should be given information about the impact of their role in the fraud and error control environment, and how issues they raise are followed up.	The Department has acknowledged that tackling fraud and error is everyone's responsibility and opening up the annual Fraud Awareness Week to everyone, not just its counter-fraud and compliance directorate, is a positive step. Providing mandatory training for all new and existing Departmental staff with access to its systems (expanding to cover all contractors, agency workers and contingent labour by the end of May 2021) is also a positive step.
12 Put in place a measurement for detected underpayments across all benefits.	The Department acknowledges that the lack of data on detected underpayments is a weakness and offers some potential data sources that might provide valuable insight. There is, however, no definitive commitment to measure detected underpayments across all benefits. The systemic underpayments of Employment Support Allowance and State Pension reinforce the importance of monitoring detected underpayments and using these to improve controls.
13 Supplement MVFE estimates with estimates of the fraud and error that is not included. Types of fraud and error not included (for example, Universal Credit advances and hidden economy earnings) should be listed and, wherever possible, estimated.	The Department has committed to working with us to understand how it can supplement the main estimate but did not provide any further details in the 2020-21 fraud and error statistical publication or its 2020-21 Annual Report and Accounts.

Note

1 We have undertaken limited review of the Department's progress in implementing these recommendations during 2020-21 due to the impact of COVID-19. We will continue to monitor progress and report again.

Source: National Audit Office analysis of information provided by the Department for Work & Pensions

Annex B

Committee of Public Accounts recommendations

1 The Committee of Public Accounts took evidence from the Department for Work & Pensions (the Department) on its 2019-20 Annual Report and Accounts on 24 September 2020. It reported on 18 November 2020, with a series of recommendations, all of which were accepted by the Department.[15] Listed below are these recommendations along with our summary of the Department's progress in implementing them.[16]

15 HC Committee of Public Accounts, *Department of Work & Pensions Accounts 2019-20*, Twenty-sixth report of Session 2019-21, HC 681, November 2020.

16 The Department's responses can be seen in full here: HM Treasury, *Treasury Minutes, Government responses to the Committee of Public Accounts on the Twenty-Fifth to the Twenty-Ninth reports from Session 2019-21*, CP 376, February 2021.

Figure 8

The Department for Work & Pensions' (the Department's) progress against the Committee of Public Accounts' recommendations in 2020

The Department accepted all the Committee's recommendations but has made limited progress against several of them

Recommendation		National Audit Office assessment of progress
1	The Department should ensure that it learns from its experience and successes of spring 2020 to be ready for future challenges.	The Department has provided some limited details in its Annual Report and Accounts of how it would respond to a new surge of claims, looking to utilise its redeployment plans and making use of its governance arrangements around control easements. The Department could do more to evaluate, respond to and share its lessons more widely across government, to help inform contingency and emergency planning for any future challenges.
2	The Department needs to show sustained progress in reducing fraud and error. It should set annual targets, by risk and benefit, against which its progress can be assessed, based on its expectation of the intended impact of its counter-fraud and error initiatives over time. These should be set out and reported against in its Annual Report and Accounts for 2020–21. For Universal Credit, the Department should set out its plan for year-on-year reductions in fraud and error, assessing performance against short-term, achievable targets.	Despite its earlier commitment, the Department has not set a fraud and error target for 2021-22 but plans to set a target for 2022-23 after the Spending Review later this year. For Universal Credit, it is aiming to reduce overpayment levels to 6.5% by 2027-28, but it does not currently have the necessary plan or resources to achieve this. For other benefits and State Pension, the Department does not have targets on a one-year horizon or beyond. Nor does it have a target for underpayments or amounts detected each year. More information is set out in paragraphs 56 to 58.
3	The Department should report both the total level of fraud and error in the benefit system and the impact of its easement of controls on fraud and error, accompanied by both narrative and evidence, in its Annual Report and Accounts for 2020–21. This impact should be clearly distinguished from other fraud and error impacts of COVID-19, for example those due to the increase in caseload. The Department should use information obtained from the process of easing and restoring controls to assess the cost-effectiveness of controls.	The Department has set out in its Annual Report and Accounts the main drivers of the increase in fraud and error for Universal Credit, see paragraphs 27 to 29 (and Figure 3) in the main body of this report. This distinguishes between what has been caused by increasing caseloads and what has been caused by control easements. The Department has learnt valuable information from the pandemic about how certain controls impact fraud and error levels. For example, the impact of the Minimum Income Floor on Universal Credit (see paragraph 51). It still has more to do to demonstrate a full understanding of the cost-effectiveness across its control environment.
4	The Department needs to be able to monitor and report on the impact and cost-effectiveness of each of its fraud and error initiatives and in particular on the impact of its investment in new technology. The Department should monitor and report any discrimination or bias caused by using artificial intelligence and machine learning on different claimant groups.	The Department has benefits realisation plans in place for its new digital technologies that should provide a good evidence base for considering the effectiveness of controls. It still has more to do, however, to demonstrate a complete understanding of its control environment and the effectiveness of individual controls. The Department has put in place a draft Data Science Ethics Framework for machine learning that aims to ensure that bias and discrimination is considered in the design of predictive modelling. It has also set out the controls it has in place to guard against challenges that it is misusing personal data through its artificial intelligence and risk modelling techniques.

Figure 8 *continued*

The Department for Work & Pensions' (the Department's) progress against the Committee of Public Accounts' recommendations in 2020

	Recommendation	National Audit Office assessment of progress
5	The Department should review the regulatory regime around its fraud and error activities and communicate to Parliament where it believes additional powers or other changes to legislation would improve controls for specific fraud and error risks.	The Department has been communicating with Cabinet Office about the potential for new legislative powers to increase the effectiveness of counter-fraud activity. It acknowledges that in respect of losses due to incorrectly reported capital, it is legislative changes that could have the greatest impact on reducing losses. Capital overpayments in Universal Credit nearly trebled in 2020-21 to £950 million. The Department received funding in 2021-22 for a new counter-fraud policy team whose remit will be to explore legislative options for fraud and error measures (see paragraph 55).
6	The Department should set out clearly in its Annual Report and Accounts, starting 2020–21: the methods open to it to recover debt; the efficacy of each of these methods on recovering different types of debt; and its expectation of its recovery of different types of debt which are accumulating due to overpayments and be clear about the resources required to deliver on its targets.	The Department has set out in its Annual Report and Accounts the total debt balance, split by different types of debt and the methods used to recover the debt. Further information on the efficacy of debt collection methods and expected recovery of debts was not included nor was information about the resourcing requirements for debt management.
7	The Department should do more to understand the impact that both overpayments and underpayments have on claimants and ensure that vulnerable claimants are treated with care when dealing with error on the claim. As the Department investigates the impact of its COVID-19 response, it should consider systemic causes of underpayment and act quickly to assess and address these issues. We would like to hear from the Department how it intends to do this.	The Department is looking to use financial data to help identify vulnerable customers at source so that any deductions for overpayments can be tailored. It is also contributing to cross-government initiatives that are aimed at efficient and fair debt management, such as Breathing Space, a HM Treasury policy that aims to allow people with problem debt to obtain protection for creditor action and time to access debt advice. Universal Credit overpayments are included in this scheme, with Universal Credit advances to be included on a phased basis. Paragraphs 41 to 46 explain the Department's response to several attempted identity hijack frauds throughout 2020-21 and its approach to ensuring that affected citizens are not pursued for monies obtained by others fraudulently using their details. The Department is currently working on a new Code of Practice that would potentially enable it to write off Universal Credit and other benefit official error overpayments in exceptional circumstances. It is currently testing how this operates and plans to evaluate it by October 2021. The Department has identified a systemic underpayment of State Pension dating back up to 30 years and affecting up to 132,000 pensioners (paragraphs 31 to 34). The Department has undertaken a root cause analysis to identify lessons from this systemic underpayment.

Note

1 The Department responded to the Committee of Public Accounts' recommendations in February 2021. We have assessed progress against the Department's commitments using information acquired in the course of the audit of the Department's 2020-21 accounts.

Source: National Audit Office analysis of the Department for Work & Pension's response to the Committee of Public Accounts and further information shared

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