

National Audit Office: *Progress in tackling benefit fraud*

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EUROSAI Training Event
Prague, 10-12 November 2008

The presentation provides....

- **The context of fraud and error**
- An outline of our recent audit of the Department's progress in tackling fraud
- What next?

The context

- **The Department for Work and Pensions administers benefit payments of around £126 billion a year**
- The level of fraud has reduced but remains high value
- Tackling fraud is a key objective of the Department
- National Audit Office last conducted a Value for Money examination on fraud in 2003

Responsibility for Benefits Expenditure in the United Kingdom

- Great Britain benefits are administered by the Department for Work and Pensions – and audited by the National Audit Office, some key facts:
 - Around 130,000 staff
 - Approx £6 billion administrative costs
 - 22 million customers
- The majority of expenditure is administered directly by the Department for Work and Pensions and its Agencies:
 - Jobcentre Plus
 - the Pensions, Disability and Carers Service (newly formed)

Comptroller and Auditor General Audits

- Department for Work and Pensions Resource Accounts
- Great Britain National Insurance Fund
- Northern Ireland Insurance Fund
- Agencies' administration accounts
- Public Service Agreement (PSA) data systems
- Decision Making and Appeals (DMA) report
- Value for Money aspects of the Department's performance

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The benefits system in the UK is complex

- A number of benefits are inter-dependent so that entitlement to one benefit automatically leads to entitlement to other benefits
- A number of benefits are mutually exclusive so that, if you are in receipt of one particular benefit, you cannot also receive a related type of benefit
- The amount of data necessary to establish entitlement is extensive and may be held by a number of different parties
- A number of distinct organisations assess and make benefit payments, ie the various Agencies of the Department and local authorities, and actions by other parts of central government can also affect entitlement, for example the National Health Service
- Changes in circumstances usually lead to changes in benefits
 - Calculations are often complex

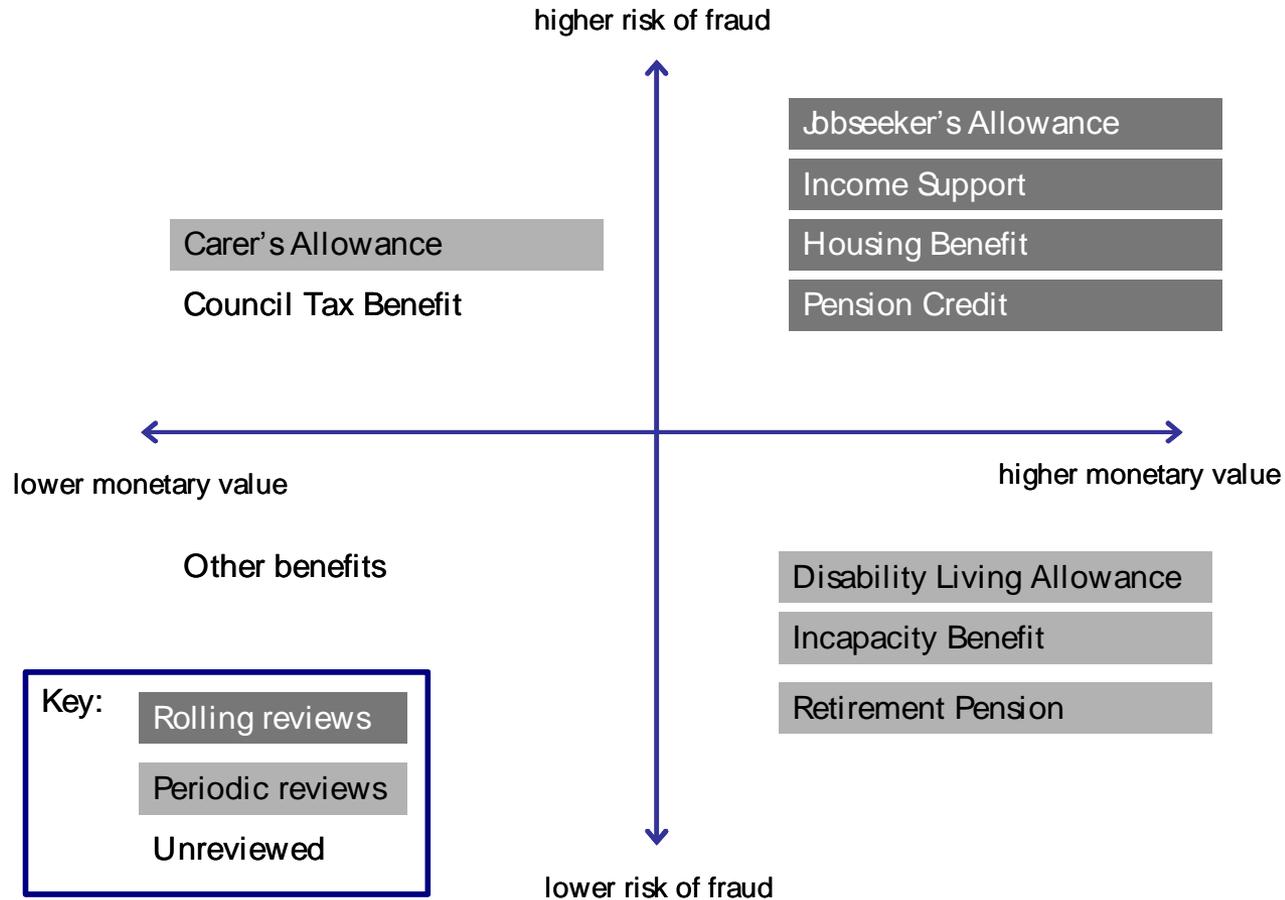
The context

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Overpayments of benefit expenditure

£ billion	Benefit Expenditure	<i>Official error</i>	<i>Customer error</i>	<i>Fraud</i>	Total overpayments	Percentage of total expenditure
2007-08	126	<i>1</i>	<i>0.9</i>	<i>0.8</i>	2.7	2.1
2006-07	120	<i>0.9</i>	<i>1.0</i>	<i>0.8</i>	2.7	2.2
2005-6	116	<i>0.9</i>	<i>1.0</i>	<i>0.8</i>	2.7	2.3
2004-05	111	<i>0.9</i>	<i>0.8</i>	<i>0.9</i>	2.6	2.3
2003-04	106	<i>0.8</i>	<i>0.7</i>	<i>1.0</i>	2.6	2.4

Measurement of fraud is risk based



A definition of fraud

- **Fraud** – those cases where customers deliberately claim money to which they are not entitled
- **Customer Error** – when customers provide information to the Department which is inaccurate, incomplete or untimely, but without dishonest intent
- **Official Error** – when officials fail to apply specific rules or do not take into account all the notified circumstances

Some examples of fraud

- Claiming as a single person, but living with a partner as husband and wife **£74 million**
- Fraud committed by customers living abroad **£74 million**
- Not declaring earnings **£70 million**
- Using a false address **£46 million**
- Undeclared capital **£32 million**

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Tackling Fraud is a key objective of the Department

- The Department has well defined strategies for tackling fraud
- Around 4,000 staff directly engaged in countering fraud
- £150 million a year spent on activities to prevent and identify fraud
- At a time of increasing public concern and interest

Growing concerns about benefit fraud and error

Hain in trouble over £2.5bn lost in benefit fraud and errors

David Hencke
Westminster correspondent

Peter Hain is to face a fresh attack on his competence next week with the publication of a National Audit Office report saying his ministry has failed to tackle benefit fraud and errors which are costing taxpayers more than £2.5bn a year.

and investigate fraud. The report looks at tion work into two divisions – customer “Basically th

THE INDEPENDENT

'Father of 36' jailed for benefit fraud

By Lucy Christian, PA
Thursday, 15 May 2008

A married father-of-two was jailed for 13 months today after fraudulently claiming almost £80,000 in benefits for 36 children.

LIVE BBC NEWS CHANNEL

Updated: Wednesday, 2 April, 2003, 04:23 GMT 05:2

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ry anger over 'fraud' inaction

re have been no investigations into suspected cases of fraud by landlords housing asylum



Last Updated: Saturday

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Two million 'wrongly get benefit'

Fewer than a third of the 2.7 million people claiming incapacity benefit are legitimate claimants, a government welfare adviser has said.

David Freud, an investment banker, said up to 185,000 claimants work illegally while on the benefit.



Mr Freud says most claimants should be looking for work.

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6pm

Benefit fraud costs government £2.5bn

HELPING THE NATION SPEND WISELY



National Audit Office

The context

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Our 2003 report recommended that the Department:

- Gave greater focus to higher risk activity;
- Ended the decline in fraud prevention and investigation activity;
- Ensured it had reliable information on costs and results to allow resources to be allocated efficiently;
- Did not make administrative savings at the expense of the reduction of losses; and
- Increased the number of prosecutions and assessed the success of other deterrents and sanctions to prevent fraud.

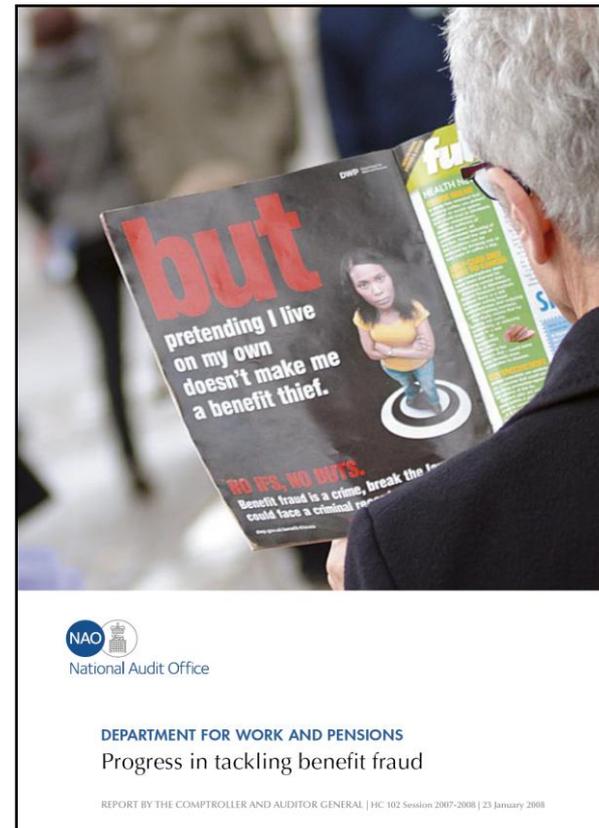
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- The context of fraud and error
- **An outline of our recent audit of the Department's progress in tackling fraud**
- The Department's response to our work

Progress in Tackling Benefit Fraud

To examine what progress had been made since 2003: we considered:

- how effective the Department's interventions to tackle benefit fraud are; and
- whether the Department's counter-fraud interventions represent value for money



Progress in tackling benefit fraud

Changes since 2003:

- Estimated level of fraud at lowest level - £800 million
- Risk based approach to focussing the use of resources
- Electronic case management system being introduced
- Restructured its investigative resources

But, a number of obstacles remained, including:

- Lack of robust management information
- Limited attempts to understand the costs and benefits of methods
- Not enough money recovered

Progress in tackling benefit fraud

Our 2008 study focussed on six of the Department's most significant activities to counter EXTERNAL FRAUD which make up the Department's strategy:

- Use of advertising/media campaigns
- National telephone hotline
- Data matching services
- Fraud Investigation Service
- Customer Compliance
- Prosecution activity

Our methodology

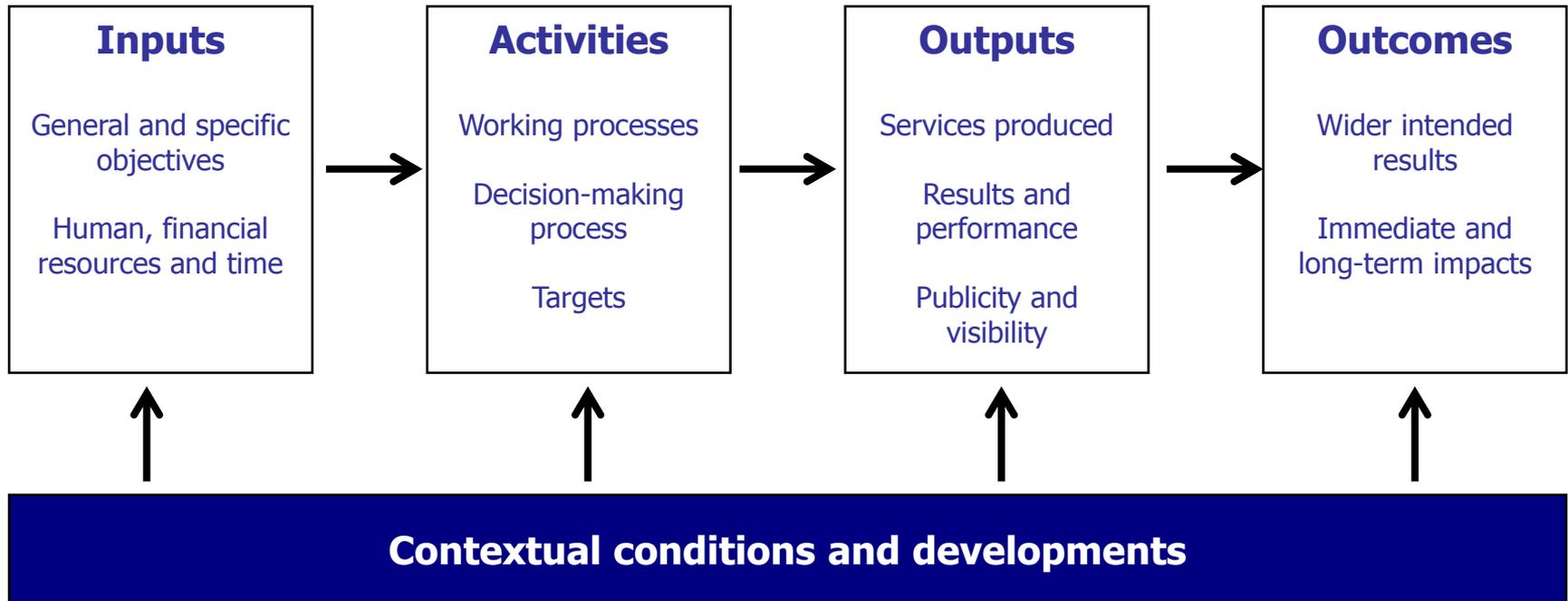
Used innovative methodology to take debate forward including:

- ‘Theory of change’ modelling
- Cost Effectiveness Analysis
- Tried to use Multi-Criteria Decision Analysis

Methodology – Theory of change

- Logic modelling workshops and interviews with more than 100 DWP officials of varying grades
 - Created a common understanding of the inputs, process, outputs, and outcomes of interventions
 - Outlined the main management issues identified in the Department
 - Served as an input to our cost-effectiveness analysis

An example of a basic logic model



Methodology – Theory of change

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Management issues identified

- Staff face an absence of training
- The workforce is ageing
- Many of the management targets are
 - Poorly understood by staff
 - Viewed by middle management as easy to achieve
- Staff are keen to know more about the impact of the interventions in which they are involved
- Little feedback occurs between interventions
- Coordination between tasks within interventions is lacking

Methodology - Cost effectiveness analysis

- Management information across all the fraud interventions was poor – with significant gaps
- We used existing data and supplemented this with data identified through the Logic Modelling to derive costs
- Analysis was in three stages:
 - Determined the **unit of activity** in each intervention (for example referrals)
 - Analysed the **cost of the unit of activity** of each interventions (direct costs only)
 - Derived **effectiveness measures** for each intervention using Monetary Value of Adjustment and Overpayments Identified
- Preventative and deterrent effects not included

What did we find.....

	Resources spent in millions (2006)	
Advertising	£6.7	Interventions to generate referrals About 10% of resources
Fraud hotline	£1.35	
Data matching	£7.6	
<hr/>		
Fraud investigations	£106.9	Interventions that act on referrals About 90% of resources
Compliance	£22.4	
Prosecutions	£9.5	
Total £154M		

Generating referrals

	Average cost of referral	Overpayments identified per £ spent
Data matching	£12	£24
Fraud hotline	£5	£16

} 2007

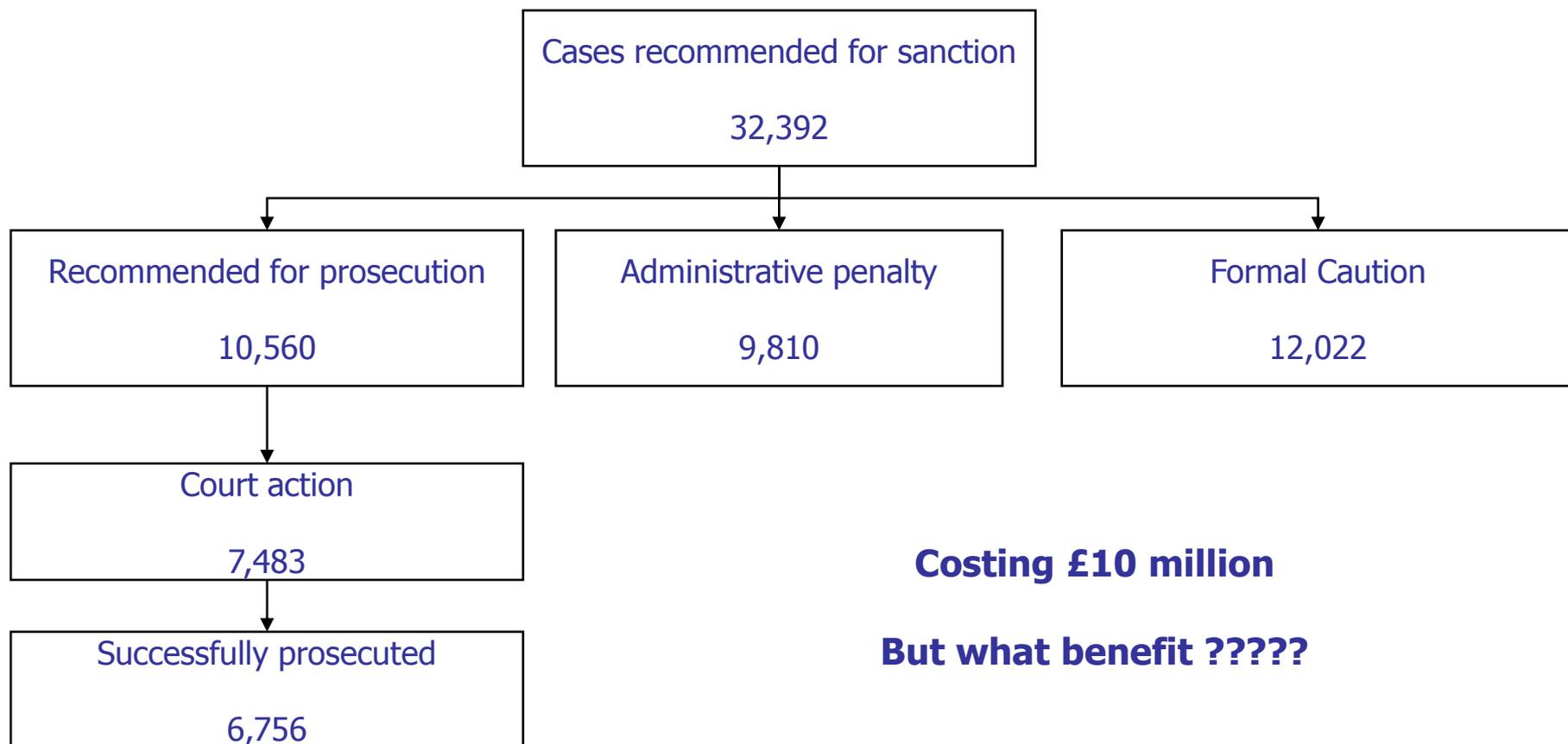
Investigating suspected frauds

	Average cost of action	Overpayments identified per £ spent	
Compliance	£77	£0.6	} 2007
Fraud investigations	£496	£0.9	

Overall conclusions

- The Department was spending around £1.50 for every £1 of overpayment it identifies
- Overall effectiveness is compromised by the low rate of recovery of overpayments identified
 - On average, 25 per cent of overpayments are recovered
- Measuring Prevention and Deterrent Effects:
 - Compliance visits are leading to a preventative effect close to £273 million a year
 - Anti-fraud spending more cost-neutral than data suggests?
 - Quantifying financial value of anti-fraud measures only one aspect of assessing progress

Deterrent effects of sanctions



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- **What next?**

What next?

- Public Accounts Committee evidence session in February 2008 – awaiting response
- In June 2008 organised a conference to platform the work of the Audit Office in the wider UK Counter Fraud context
- Examination of the Department's Debt Management function due towards end of 2008

Any questions?

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Thank you!