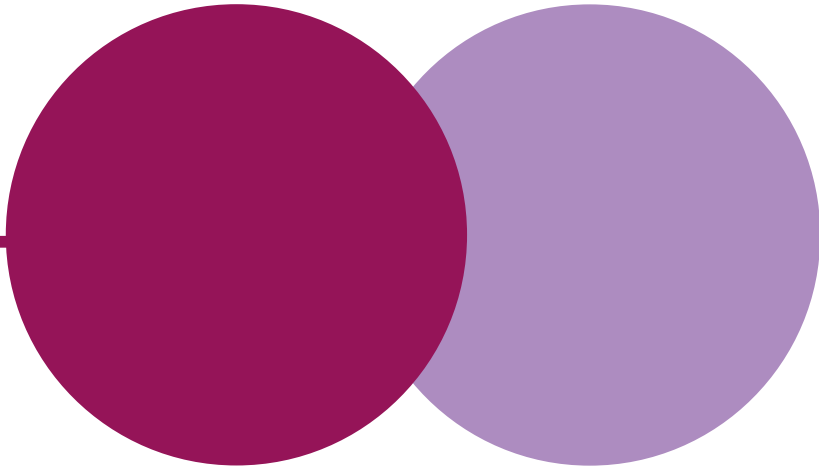




National Audit Office



REPORT

Report on Accounts

Department for Work & Pensions

SESSION 2024-25
HC 129



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National Audit Office

Report on Accounts

Department for Work & Pensions

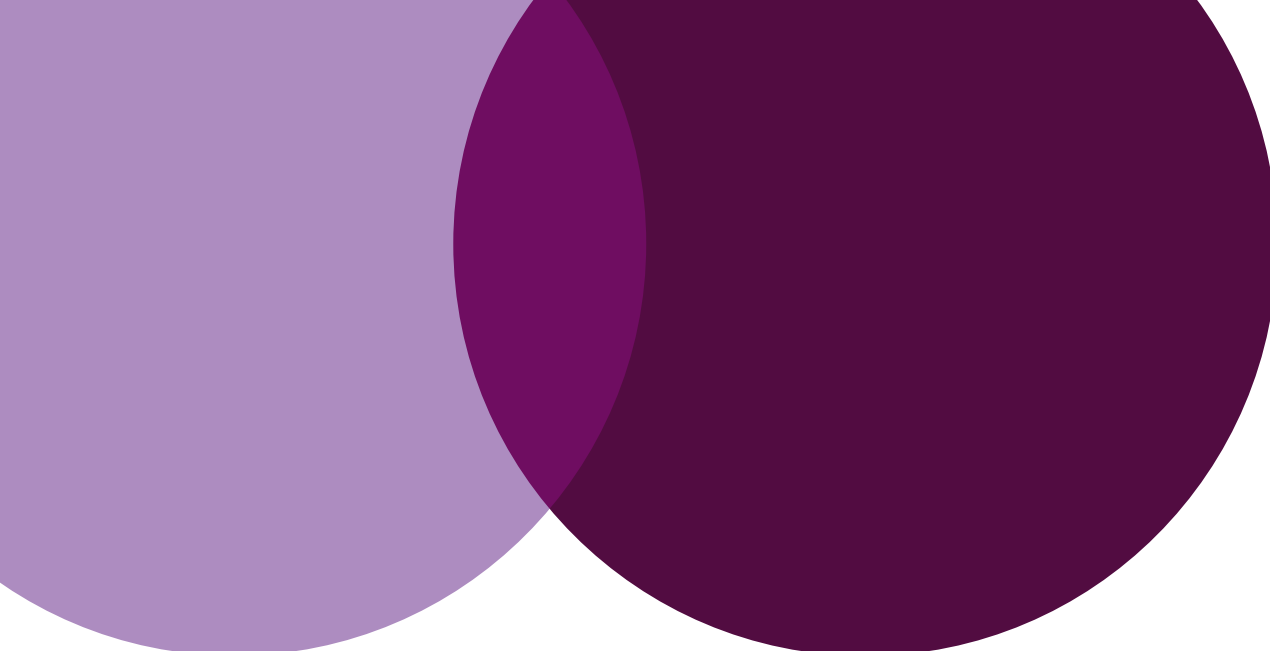
Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 22 July 2024

This report has been prepared under Section 6 of the
National Audit Act 1983 for presentation to the House
of Commons in accordance with Section 9 of the Act

Gareth Davies
Comptroller and Auditor General
National Audit Office

12 July 2024



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Fraud and error in benefit expenditure

Introduction

1 The Department for Work & Pensions (DWP) 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 2023-24 DWP spent £269 billion on benefits and State Pension payments to claimants and pensioners.¹ Of this, £124 billion was spent on State Pension, £129 billion was on other benefits paid directly by DWP and £16 billion was for Housing Benefit paid on DWP's behalf by local authorities. Benefit and State Pension expenditure represents 97% of DWP's total operating expenditure of £276 billion. The remaining expenditure relates to DWP's running costs such as staff remuneration.

3 This report sets out:

- the reasons and context for my qualified audit opinion in relation to fraud and error in benefit expenditure;
- the estimated levels and causes of fraud and error in the benefit system and changes to DWP's statistics; and
- DWP's plans to tackle fraud and error and to report transparently on its progress.

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

4 I have qualified my opinion on the regularity of the Department for Work & Pensions' (DWP's) 2023-24 financial statements due to the material level of fraud and error in its benefit expenditure – except for expenditure on State Pension, for which the level of fraud and error is significantly lower. This is the 36th year in which the Department's accounts have been qualified due to material fraud and error.

¹ Audited total expenditure on benefits in 2023-24 was £268.5 billion, as reflected in the Statement of Comprehensive Net Expenditure for the core Department. Note 19 to the accounts sets out estimated total expenditure on benefits of £266.2 billion, which represented the latest available forecast for 2023-24 at the time DWP produced the fraud and error estimates.

5 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 for the purposes intended by Parliament and that the financial transactions recorded in the financial statements conform to the authorities that govern them.

6 Legislation specifies the entitlement criteria for each benefit and the method to be used to calculate the amount of benefit to be paid. DWP relies on claimants providing timely and accurate information, particularly when their circumstances change. The complexity of the benefit system can cause confusion and genuine error both for the claimants providing the information, and for DWP and others responsible for processing it. Benefit payments are also susceptible to both deliberate fraud by individuals and organised crime attacks. Where fraud or error, including unfulfilled eligibility, 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 overpayment or underpayment does not conform with Parliament's intention and is irregular.

My consideration of State Pension in my qualification

7 In reaching my regularity opinion, I consider the rates of irregularity due to fraud and error across each benefit. DWP estimates that it overpaid 0.1% (£170 million), and underpaid 0.4% (£470 million), of State Pension payments in 2023-24. I continue to regard the combined value of £640 million of irregular payments as immaterial in the context of the £124 billion of State Pension expenditure in the accounts. As a result, I exclude State Pension expenditure from my qualified opinion on the account.

8 In note 17 of its financial statements, DWP sets out provisions of £1.5 billion relating to underpayments of State Pension due to historical errors. These errors occurred over a period of more than 30 years and as such I do not consider this a material irregularity in expenditure in the current year. However, I recognise that these underpayments of State Pension have had a significant impact on those affected and it remains crucial that DWP improves accuracy in all payments, not just those where I qualify my opinion. I discuss what DWP must do to reduce State Pension errors in paragraphs 24 to 27.

My consideration of Cost of Living Payments in my qualification

9 My qualified opinion on the regularity of benefit expenditure includes Cost of Living Payments. These are a temporary initiative to provide extra payments to people on certain benefits to help them with the cost of living at a time of high inflation. In 2023-24, DWP made Cost of Living Payments of £10.4 billion. It has estimated the level of fraud and error in these payments based on overpayment rates for the qualifying benefits. It estimated Cost of Living Payment overpayments were 5.4% (£550 million), which I consider to be material.

How DWP estimates the levels of fraud and error in benefit expenditure

10 DWP sets out how it measures the levels of fraud and error in benefit expenditure on pages 93 to 95. The estimates are published annually as National Statistics. DWP estimates fraud and error through direct measurement of five or six benefits each year using a statistical sampling exercise. Where it does not directly measure the rate of fraud and error in a benefit in a given year, DWP rolls forward the rate it used from the previous sampling exercises. For benefits that have never been measured, DWP makes an assumption of the rate, typically using a similar benefit as a proxy. This year DWP has measured fraud and error in Universal Credit, State Pension, Housing Benefit, Personal Independence Payment (PIP), Pension Credit and Disability Living Allowance (DLA). Overall, 83% of benefit expenditure for 2023-24 was subject to sampling.

11 This year DWP has changed the way it reports Claimant Error underpayments, which it previously included in the fraud and error statistics. It has decided to remove these underpayments from the fraud and error statistics and now separately publishes information on these underpayments under the name “Unfulfilled eligibility in the benefit system”. In doing so, DWP has made representations to me that Unfulfilled Eligibility should no longer be treated as fraud and error and should be removed from the scope of my regularity qualification on legal grounds. I have asked DWP to bring forward additional evidence in support of its position that I will evaluate in future audits. For 2023-24, my regularity opinion remains unchanged. I discuss this further in paragraphs 28 to 31.

The estimated level of fraud and error in benefit expenditure

12 The Department for Work & Pensions (DWP) sets out its estimates of the overall level of fraud and error in benefit expenditure on pages 117 to 118 of the performance report and note 19 of the financial statements (summarised in **Figure 1**). Because the rate of fraud and error in State Pension remains low, I report the level of fraud and error in benefit expenditure across all DWP benefits excluding State Pension. This also helps to show the trend in fraud and error in most benefits more clearly, because it excludes the continuing impact of the increase in State Pension as a share of all benefit payments that can obscure the trends in other benefits.

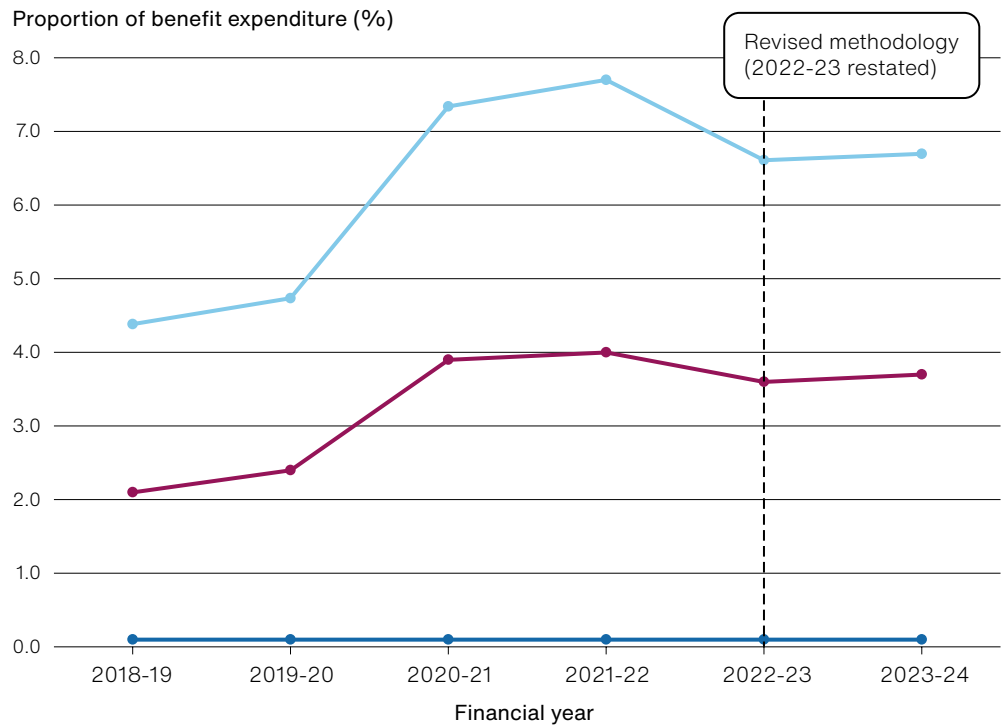
Overpayments

13 Excluding State Pension, DWP estimates that it overpaid a total of 6.7% (£9.5 billion) of benefit expenditure, which has increased from 6.6% (£8.2 billion) in 2022-23 (Figure 1). When it published its 2022-23 Annual Report and Accounts, DWP said it expected fraud and error to return to pre-pandemic levels by 2027-28. It now says that it cannot commit to substantially reducing the level of fraud and error, based on its current plans.

Figure 1

Estimated levels of benefit overpayments as a percentage of total benefit expenditure, 2018-19 to 2023-24

Overpayments of benefit expenditure excluding State Pension increased slightly in 2023-24 and remain higher than pre-pandemic levels



	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
● All overpayments	2.1	2.4	3.9	4.0	3.6	3.7
● Overpayments (excluding State Pension)	4.4	4.7	7.3	7.7	6.6	6.7
● State Pension overpayments	0.1	0.1	0.1	0.1	0.1	0.1

Notes

- 1 All data points are the Department for Work & Pensions' (DWP's) central estimates. DWP publishes its estimates for fraud and error in the benefit system annually as National Statistics. This publication provides full data going back to 2005-06 when DWP first started measuring fraud and error in this way.
- 2 DWP's 2023-24 estimates restate some figures slightly from what had been published in previous reports. For example, it changed its methodology in 2023-24 to remove Claimant Error underpayments and reclassify these as Unfulfilled Eligibility. DWP restated its results for 2022-23 and the data above show the restated results for 2022-23 with the vertical line signifying the change in the methodology.
- 3 There have been changes to the benefits measured each year since 2018-19, for example Disability Living Allowance was measured in 2023-24. This benefit was previously measured in 2005-06.
- 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' fraud and error statistical data

14 DWP categorises benefit overpayments into Fraud, Claimant Error, and Official Error. The estimated 6.7% (£9.5 billion) of expenditure that was overpaid across all benefits (excluding State Pension) comprised the following:²

- Fraud accounted for 5.1% (£7.3 billion). Fraud is where DWP considers a claimant should reasonably have been aware they were receiving money that they were not entitled to.
- Claimant Error accounted for 1.1% (£1.5 billion). Claimant Error is where a claimant made mistakes, for example they provided inaccurate or incomplete information, and DWP believes they did not have fraudulent intent.
- Official Error accounted for 0.5% (£780 million). Official Error is where a benefit was paid incorrectly due to action, delay or a mistaken assessment by DWP, a local authority, or HM Revenue & Customs (HMRC).

15 I have previously reported my disagreement with DWP's classification of some types of error as being the responsibility of claimants. Since 2018-19 I have reported that DWP classifies improperly declared income from other benefits as Claimant Error or Fraud, even though it knows what other benefits a claimant is receiving from its internal records. It remains my view that these should be classified as Official Error. Across the benefits it measured in 2023-24 DWP estimated it overpaid £163 million due to a failure to consider income from other benefits. More integrated use of DWP's data could significantly reduce the level of overpayments due to mis-reported benefit income.

Overpayments of Universal Credit

16 Two-thirds of all overpayments by value relate to Universal Credit (**Figure 2**). DWP sets out in the fraud and error statistics its categorisation of Universal Credit overpayments, which fell to 12.4% in 2023-24 from 12.7% in the previous year. Most of the fall was due to reductions in the under-declaration of earnings and claimants failing to declare they were living with another person in a joint household. Universal Credit overpayments fell by less than DWP forecast in 2022-23 and I discuss the reasons for this further in paragraphs 38 to 40.

17 There was an increase in the tendency for claimants not to engage with DWP's fraud and error review process leading to their benefit being stopped. Failure to engage is now the second-largest category of overpayment. In these cases, DWP cannot directly evidence whether fraud or error occurred but classifies them as fraud unless it can find evidence suggesting otherwise. As DWP does not know why the claimant did not engage with the review, it cannot implement specific responses to reduce fraud and error in the way that it can with known loss areas such as living together fraud. It also increases the uncertainty in analysing the different causes of overpayments, as some of the decrease seen in other causes of fraud may in fact be a move to this category. DWP does not know why claimants are increasingly choosing not to engage with its review process.

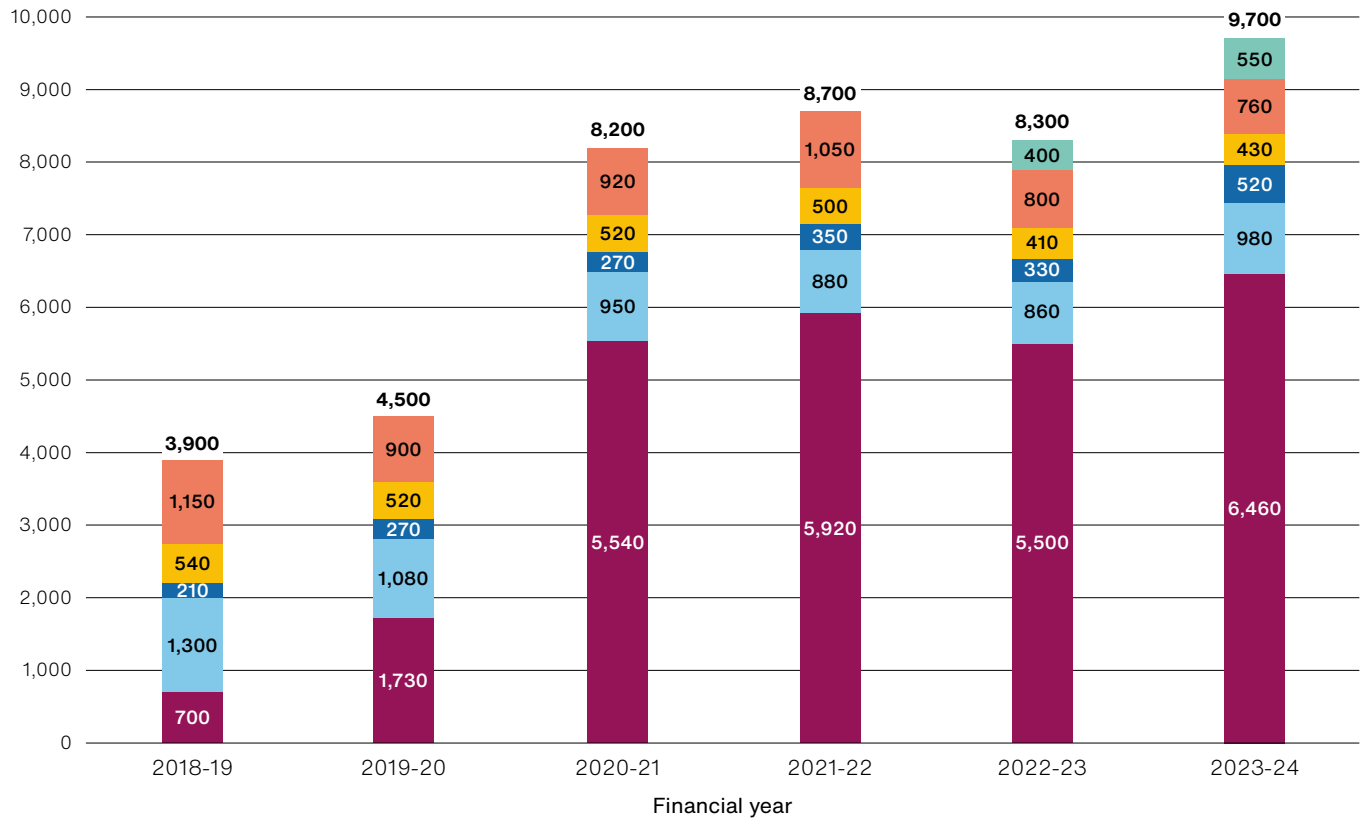
² Figures may not sum due to rounding.

Figure 2

Estimated benefit overpayments due to fraud and error, 2018-19 to 2023-24

Benefit overpayments increased from £8.3 billion in 2022-23 to £9.7 billion in 2023-24, most of this rise is due to Universal Credit

Overpayment of benefit expenditure (£mn)



- Universal Credit
- Housing Benefit
- Pension Credit
- Employment and Support Allowance
- Other
- Cost of Living Payments

Notes

- 1 The 'Other' category contains (in order of largest to smallest overpayment in 2023-24): Carer's Allowance, State Pension, Attendance Allowance, Personal Independence Payment, Disability Living Allowance, Income Support, Jobseeker's Allowance, and a number of unreviewed benefits.
- 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

18 Levels of Universal Credit overpayments have not decreased to the levels seen before the COVID-19 pandemic, despite the phased reintroduction of controls suspended during that time to speed up benefit processing. DWP says this is due to an increasing prevalence of fraudulent behaviour across society, which it asserts is offsetting the impact of its counter-fraud interventions. I discuss this assumption further in paragraphs 38 to 40 below.

Overpayments of other benefits

19 Pension Credit had the largest increase in overpayments, rising from 6.8% to 9.7% of expenditure on this benefit. Over half of the overpayments in Pension Credit were caused by under-declaration of capital³ or customers remaining abroad for longer than permitted. Overpayments due to income from other benefits are the third largest category and have nearly doubled this year.

20 The level of estimated overpayments in Housing Benefit has also increased. This was mainly driven by an increase in the under-declaration of capital, which has overtaken earnings to become the largest cause of Housing Benefit overpayments. This change may be because DWP reviewed pension-age Housing Benefit claimants this year, which were last measured before the pandemic.

Underpayments

21 DWP estimates that claimants received 1.6% (£4.2 billion) less than they were eligible for in 2023-24, up from 1.5% (£3.5 billion) in 2022-23 (**Figure 3**).⁴ This comprised the following:

- Official Error accounted for £1.1 billion.
- Unfulfilled Eligibility accounted for £3.1 billion. Unfulfilled Eligibility was referred to as Claimant Error by DWP until 2023-24. It is where a claimant by error, omission or choice fails to provide accurate information or evidence to DWP about their circumstances and as a result does not receive the full amount of benefit they are entitled to. I discuss this change to the statistics further below.

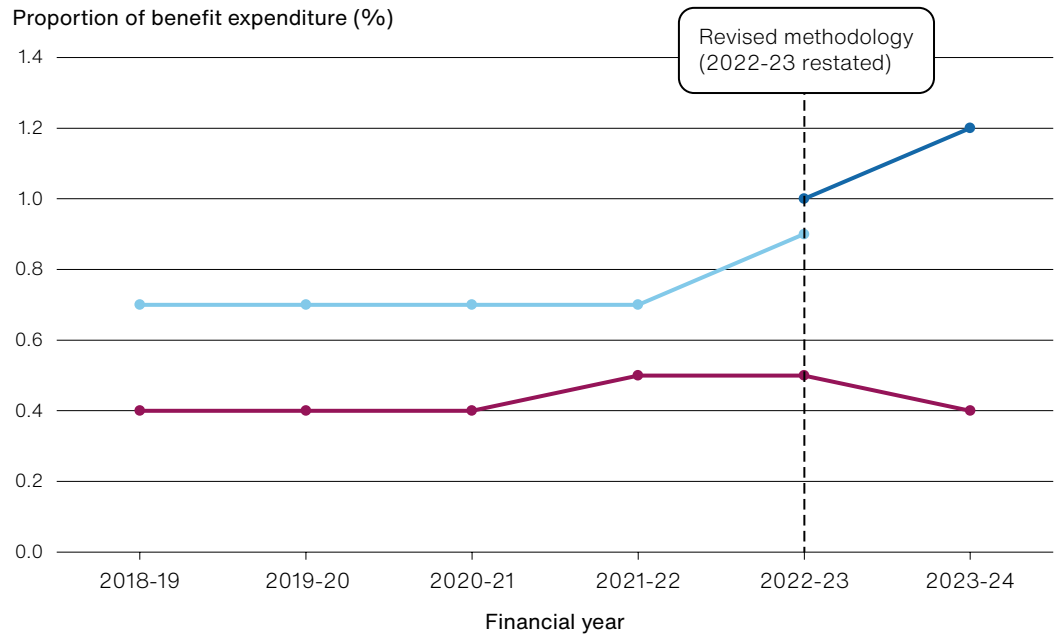
³ For means-tested benefits claimants are allowed a specified level of capital – savings and other assets – above which the amount of benefit they are entitled to is reduced.

⁴ DWP no longer includes Unfulfilled Eligibility in the fraud and error statistics, consequently cases with both Unfulfilled Eligibility and another error will no longer have these amounts netted off or capped. This introduces the possibility that these figures, when combined, may include a very small amount of double-counting.

Figure 3

Estimated levels of benefit underpayments and Unfulfilled Eligibility as a percentage of total benefit expenditure, 2018-19 to 2023-24

Claimants are increasingly receiving less benefit than their circumstances suggest they are entitled to



● Official error	0.4	0.4	0.4	0.5	0.5	0.4
● Claimant error	0.7	0.7	0.7	0.7	0.9	0.7
● Unfulfilled eligibility					1.0	1.2

Notes

- 1 All data points are the Department for Work & Pensions' (DWP's) central estimates. DWP publishes its estimates for fraud and error in the benefit system annually as National Statistics. This publication provides full data going back to 2005-06 when DWP first started measuring fraud and error in this way.
- 2 DWP's 2023-24 estimates restate some figures slightly from what had been published in previous reports. For example, it changed its methodology in 2023-24 to remove Claimant Error underpayments and reclassify these as Unfulfilled Eligibility. DWP restated its results for 2022-23 and the data above show both the original and restated results for 2022-23 with the vertical line signifying the change in the methodology.
- 3 There have been changes to the benefits measured each year since 2018-19, for example Disability Living Allowance was measured in 2023-24. This benefit was previously measured in 2005-06.
- 4 Rates shown are the estimated underpayment of each benefit expressed as a proportion of total expenditure on that benefit.
- 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

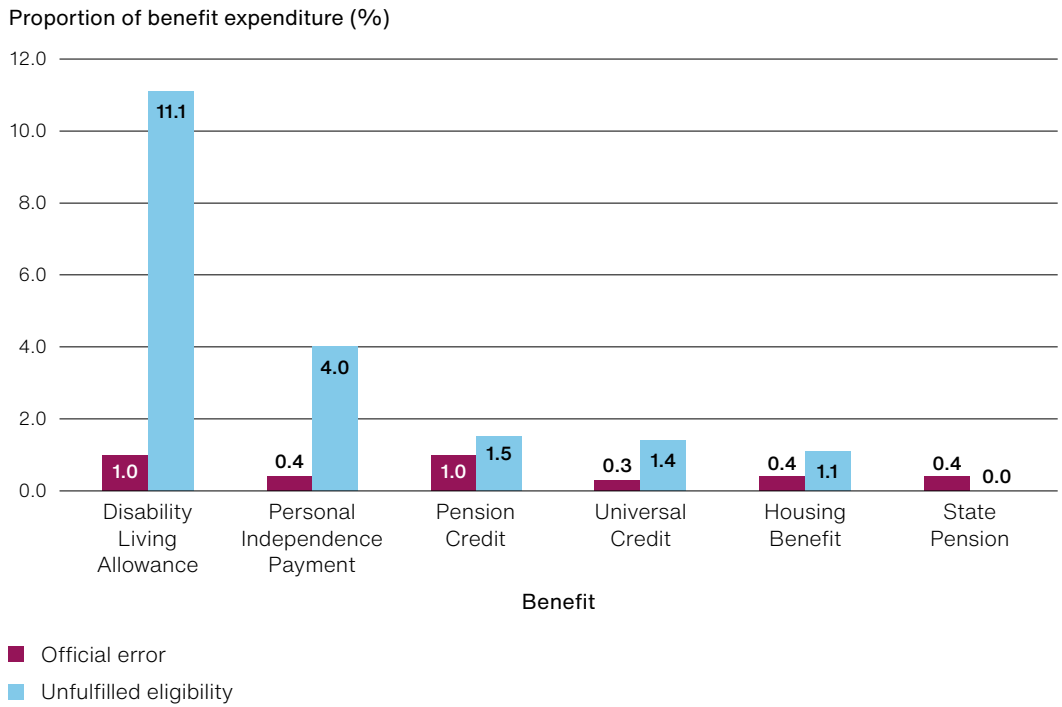
Underpayments of Disability Living Allowance

22 The increase in underpayments in 2023-24 is primarily due to DLA where DWP’s estimate of Unfulfilled Eligibility was 11.1% (£750 million), as shown in **Figure 4**. This year, DWP has measured fraud and error in DLA for the first time since 2004-05, having in the intervening years rolled forward the 2004-05 Claimant Error underpayment rate of 2.4%. DWP has provided commentary on the reasons for this increase over time on pages 45 to 46 of the performance report.

Figure 4

Estimated levels of Official Error underpayments and Unfulfilled Eligibility as a percentage of total benefit expenditure, for benefits measured in 2023-24

Disability Living Allowance was reviewed this year for the first time since 2004-05, and shows the highest level of Unfulfilled Eligibility of any benefit measured



Notes

- 1 All data points are the Department for Work & Pensions’ (DWP’s) central estimates. DWP publishes its estimates for fraud and error in the benefit system annually as National Statistics. Unfulfilled Eligibility figures are now published in a separate statistical release.
- 2 Rates shown are the estimated underpayment of each benefit expressed as a proportion of total expenditure on that benefit.
- 3 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

23 DWP's statistics suggest that over one quarter of DLA claimants are receiving less benefit than they are entitled to. The most common reason was that a claimant's medical condition worsened, but they did not inform DWP. DLA is paid at lower, middle and higher rates; excluding the higher rate claimants (who cannot be underpaid) suggests 30% of the remaining claimants are not receiving their full entitlement. As shown in Figure 4, levels of Unfulfilled Eligibility are significantly higher for disability benefits (DLA and PIP) than for working or pension-age benefits.

Underpayments of State Pension

24 I have previously reported on two categories of historical underpayments of State Pension caused by Official Error:

- married pensioners, widows and people who have reached age 80 who were underpaid because their payment did not include an additional entitlement.
- women who did not have periods of Home Responsibilities Protection added to their National Insurance record while they were claiming Child Benefit, which would have reduced the number of qualifying years they needed for a full basic State Pension.

25 DWP has provided an update on progress with the exercises to correct both of these issues on pages 128 to 131 of its performance report. It also discloses its latest estimate of the cost to rectify these underpayments in Note 17 to the accounts.

26 These underpayments were caused by historic errors which built up over time, resulting in large underpayments for individual pensioners. DWP's quality control mechanisms did not pick up these errors for many years. I therefore recommended last year that DWP develop an 'early warning system' using root cause analysis of individual detected errors to help pick up systemic issues without needing a critical mass of detected errors to direct its efforts. It should also encourage frontline staff to report large or unusual underpayments and consider whether enhanced underpayment reporting capabilities can be incorporated into future IT updates. DWP is currently piloting a new quality model which includes root cause analysis of errors and processes to determine which errors have an impact on payment accuracy. It has not yet made a decision on rolling this out more widely.

27 The underpayments relating to Home Responsibilities Protection affect people (mostly women) who received Child Benefit before 2000 and whose National Insurance record was not updated to reflect periods of HRP they were entitled to. HMRC is responsible for the accuracy of National Insurance records but is dependent on DWP to provide accurate information on benefit entitlement. DWP and HMRC have worked over the past year to review the level of assurance over the integrity of the National Insurance system, including commissioning the Government Internal Audit Agency to review the governance and data transmission arrangements in both departments.

Changes to how DWP reports Claimant Error underpayments

28 From 2005-06 to 2022-23 DWP included in the fraud and error statistics an estimate of Claimant Error in the benefit system, split between whether the error results in an overpayment or underpayment of benefit. This year DWP has chosen to remove Claimant Error underpayments from the fraud and error statistics. As it explains on page 122 of the performance report and in note 19 to the accounts, it made this change because claimants are not legally entitled to a higher benefit payment until they notify DWP of a change in circumstance, or provide evidence to support their entitlement as required in legislation.

29 Claimant Error underpayments are now published by DWP as a separate statistical series under the title “Unfulfilled Eligibility in the benefit system”. DWP told us that Claimant Error overpayments will continue to be reported as fraud and error because it is responsible for identifying and recovering the related debt from claimants.

30 In 2011, we reported on how Claimant Errors – whether overpayments or underpayments – can occur: through complexity in the benefit claims process, claimants not realising they need to report changes in their circumstances and claimants failing to report changes correctly. We also set out how we would expect DWP to develop an understanding of these errors and translate them into changes within the business that could help reduce the occurrence of Claimant Error.⁵

31 Since 2007-08, underpayments from all sources have been included in the qualification of my opinion over the regularity of benefit expenditure, reflecting DWP’s responsibility to administer the benefit system effectively to ensure claimants receive the amounts they are entitled to. DWP’s choice to reclassify Claimant Error underpayments has been accompanied by specific representations to me asserting that unfulfilled eligibility should no longer be included within the scope of my regularity opinion. I have asked DWP to bring forward additional evidence so that I can evaluate this revised position. I intend to do this as part of my audit of DWP’s 2024-25 annual report and accounts. At this time, I do not consider that I have sufficient appropriate evidence to change my opinion. I will continue working with DWP to reach a resolution on these matters.

⁵ Comptroller and Auditor General, *Reducing losses in the benefits system caused by customers’ mistakes*, Session 2010-11, HC 704, National Audit Office, January 2011. Available at: www.nao.org.uk/reports/reducing-losses-in-the-benefits-system-caused-by-customers-mistakes

DWP's plans to reduce fraud and error and report on progress

DWP's current plan to tackle fraud and error

32 The Department for Work & Pensions (DWP) set out its current plan to tackle fraud and error in its strategy *Fighting Fraud in the Welfare System* published in May 2022, and published a progress update against the plan in May 2024.⁶ Its performance report provides further details on the counter-fraud actions it is undertaking and their current progress. In my report last year, I described two initiatives from this plan in detail: the Targeted Case Reviews programme to verify around 8 million Universal Credit claims, and DWP's proposals to implement machine learning techniques to help it identify fraud.⁷

33 During 2023-24, Targeted Case Reviews delivered savings of £90 million, falling short of DWP's expected savings of £115 million. DWP attributes the shortfall to a decision it made in 2023 to partially outsource Targeted Case Reviews. DWP told us that this led to delays in scaling up the programme but that it expects to see performance move back to the forecast level during 2024. I recommended last year that DWP collect information on the quality of customer service in these reviews. DWP has not done this yet, but told us it plans to do so, saying that to date its priority has been to scale up delivery. As part of this DWP should consider any differences in customer experience where reviews are outsourced.

34 DWP has one machine learning model in operation, for new Universal Credit advance claims, and has several others in development. In December 2023 the Committee of Public Accounts (PAC) recommended that DWP consider the impact of machine learning techniques used to identify fraud on legitimate claims, and whether any specific groups of people were impacted. In the performance report, DWP has set out how it undertook this fairness impact assessment. DWP has not published the results of the fairness analysis to conceal from fraudsters how its model operates, but says that the results do not give any cause for concern when considered alongside the safeguards in place to protect claimants. DWP reports that there is little difference in payment timeliness between legitimate customers whose advances requests are referred by the model and legitimate customers whose requests are not referred, because referred cases are prioritised for review by agents.

⁶ Department for Work & Pensions, *Fighting Fraud in the Welfare System*, May 2022 and Department for Work & Pensions, *Fighting Fraud in the Welfare System: Going Further*, May 2024. Both available at: www.gov.uk/government/publications/fighting-fraud-in-the-welfare-system

⁷ Comptroller and Auditor General, *Report by the Comptroller and Auditor General: Department for Work & Pensions 2022-23*, National Audit Office, July 2023. Published in Department for Work & Pensions, *Annual Report and Accounts 2022-23*, Department for Work & Pensions, HC 1455, July 2023.

DWP's performance framework for reporting savings

35 In parallel with its counter-fraud plan, DWP has developed a framework to measure the impact of its counter-fraud activities by estimating the savings generated from the fraud and error it prevented. This approach is similar to how HMRC uses an expected compliance yield to measure the effectiveness of its tax compliance and enforcement activities. DWP sets out the savings it estimates it has achieved on page 108 to 109 of the performance report, where it reports savings of £1.35 billion against a target of £1.3 billion.

36 This estimate represents the additional funding DWP would have needed if it had not undertaken counter-fraud activities and is made up of expected recoveries of debts and prevented future overpayments. Of the £1.35 billion, £540 million was generated by the Enhanced Review Team, a team of experienced counter-fraud officers to which staff can refer suspicious Universal Credit claims for investigation.

37 DWP also estimates additional savings of £17 billion from its frontline administrative processes not specifically designed to tackle fraud, such as functional health assessments to check whether claimants are eligible for disability benefits. The methodology for estimating these wider savings is less robust and DWP therefore has a lower level of confidence in these estimates.

DWP's forecasts for fraud and error

38 DWP has published its fraud and error forecast for overpayments of Universal Credit on page 120 of the performance report. It produces this as part of its forecasts for benefit expenditure, and they are incorporated into the Office for Budgetary Responsibility's fiscal forecasts published alongside the Budget. DWP does not produce forecasts for underpayments.

39 The forecasts shows that DWP no longer expects Universal Credit fraud and error to return to the levels seen before the significant increase during the COVID-19 pandemic, which it says is due to an increasing propensity for fraud in society. DWP has assumed a 5% increase in fraudulent behaviour each year in its forecasting. It told us it cannot directly use its fraud and error statistics to assess whether this is an accurate assumption for the increase in propensity to commit fraud, but in its performance report has performed a variance analysis of the statistics against the forecast, in response to a PAC recommendation (pages 119 to 122).

40 The PAC has said it is not convinced that the increasing propensity for fraud in society must inevitably lead to increasing losses to the taxpayer.⁸ DWP should use these forecasts, alongside the savings measure outlined above, to demonstrate its plans to tackle fraud are sufficiently ambitious to reduce overpayments regardless of the level of fraud entering the system. It should present its efforts in the context of changes in the wider economy, demonstrating where overall fraud and error movements are attributable to the savings achieved as a result of its actions or whether they are influenced by external factors. As DWP's confidence in its ability to accurately forecast fraud and error grows it should look to develop this forecast into a target against which its performance can be assessed, as recommended by the PAC.

Developing DWP's future strategy

41 In my speech to Parliament in January 2024, I set out five areas where I consider there to be significant opportunity for the government to use public money more efficiently, including reducing fraud and error losses.⁹

42 The Department for Work & Pensions' (DWP's) latest forecasts suggest that the rate of overpayments will not decrease significantly from the current levels, which remain higher than before the COVID-19 pandemic. At the same time, the latest estimates show that Unfulfilled Eligibility has reached a record high. This is particularly the case for disability benefits where DWP's latest estimate suggests that over one quarter of DLA claimants are paid less than their circumstances suggest they are entitled to.

43 DWP's *Fighting Fraud in the Welfare System* plan was developed in response to the surge in fraud experienced during the COVID-19 pandemic. The plan's focus on fraud means that it lacks the full detail of a comprehensive fraud and error strategy. For example, it does not include any actions to reduce levels of Official Error, Claimant Error, or Unfulfilled Eligibility.

44 Historically, DWP's fraud and error strategies have been closely aligned to spending review cycles, where strategic priorities or outcomes are set and funding is provided to progress initiatives. These initiatives are generally divided into prevention, detection and correction activities, and were often linked to expected monetary savings or fraud and error reductions expressed as targets for both overpayments and underpayments. The fraud and error statistics discussed in this report were originally developed as a strategic performance measure linked to a fraud and error reduction strategy as part of Spending Review 2004. The link between Spending Reviews, formal targets and performance has weakened over time and since 2017-18, DWP has had no target for the level of fraud and error it aims to achieve. Both the Committee of Public Accounts (PAC) and the National Audit Office (NAO) have repeatedly recommended that DWP sets such a target.

⁸ Committee of Public Accounts, *Progress in Implementing Universal Credit*, Twenty-Ninth Report of Session 2023-24, HC 458, April 2024

⁹ Transcript available at: www.nao.org.uk/insights/improving-productivity-could-release-tens-of-billions-for-government-priorities

45 DWP is reviewing its strategic approach to addressing fraud, error and debt with an emphasis on preventing fraud and error. This review needs to build on the principles set out in the NAO's Fraud and Error Audit Framework (the Framework).¹⁰ DWP will need to iterate its approach over time to understand what controls are working to prevent and detect fraud and error, and its future strategy will need to encompass Fraud, Claimant Error, Unfulfilled Eligibility and Official Error – whether these result in overpayments or underpayments.

46 Applying the principles of the NAO's Framework is essential for DWP to demonstrate that it is operating a cost-effective control environment that takes all reasonable actions to secure outcomes in accordance with Parliament's intent. If DWP can show that it is properly assessing the risk, designing and implementing controls accordingly, measuring the impact of those controls, and reassessing its strategy quickly enough to iterate its approach and react to new risks and opportunities, then it can show that whatever fraud and error remains is the lowest level that it can reasonably be.

47 I made a set of recommendations in 2020 following an in-depth assessment of DWP's approach to fraud and error against the NAO Framework.¹¹ These recommendations remain relevant and I continue to monitor progress against them. DWP is implementing its current plan and developing its next strategy, therefore I have made no new recommendations this year.

48 In determining whether the level of fraud and error is material to the financial statements, I consider whether DWP has:

- demonstrated that it has a cost-effective control environment to prevent fraud and error through both overpayments and underpayments;
- ensured transparent reporting of fraud and error; and
- engaged Parliament on the fraud and error risk in its expenditure, for instance through fraud and error impact assessments to disclose the nature of the risk as expenditure is authorised.

49 As I and my predecessors have reported before, DWP continues to face a significant challenge in ensuring that all claimants receive the support they are entitled to. By moving towards the establishment of a cost-effective control environment that is not resource constrained, DWP will be able to ultimately demonstrate that it has done all that is reasonable to realise Parliament's intent for an efficient means-tested social security system.

¹⁰ Full details of the Fraud and Error Audit Framework can be found in National Audit Office, *Good practice guidance: Fraud and Error*, March 2021. Available at: www.nao.org.uk/insights/good-practice-guidance-fraud-and-error

¹¹ The recommendations were published as an annex to Comptroller and Auditor General, *Report by the Comptroller and Auditor General: Department for Work & Pensions 2020-21*, National Audit Office, July 2021. Published in Department for Work & Pensions, *Annual Report and Accounts 2020-21*, Department for Work & Pensions, HC 422, July 2021.

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National Audit Office

Design and Production by NAO Communications Team
DP Ref: 013152-001

£10.00

ISBN: 978-1-78604-573-7