

Chapter 32

Department of Social Protection
Regularity of Social Welfare Payments

Regularity of Social Welfare Payments

32.1 The Department of Social Protection (the Department) is required to ensure that

- expenditure it incurs has been applied for the purposes for which the money was made available by Dáil Éireann, and
- its financial transactions conform with the authorities under which they purport to have been carried out.

Financial transactions are considered to be 'regular' when both of these conditions are satisfied.

32.2 Previous annual reports drew attention to evidence that there is a persistent problem of social welfare payments being made that are in excess of the entitlements due to claimants under the terms of various welfare schemes.

Chapter Focus

The evidence in relation to the incidence of excess payment of social welfare was examined with a view to establishing the overall scale of the problem, and the implications for the regularity of expenditure reported in the accounts of the Vote for Social and Family Affairs and of the Social Insurance Fund. The examination also reviewed the adequacy of the measures used by the Department in relation to its performance in managing the risks of excess payment, and the effectiveness of its control activity.

Irregular Welfare Payments

32.3 Welfare payments in excess of claimants' entitlements arise for a variety of reasons. The main factors identified as leading to excess payments are

- **fraud** — where the claimant intentionally provides incomplete or inaccurate information in order to receive benefits
- **claimant error** — which arises when the claimant has provided inaccurate or incomplete information, or failed to report a relevant change in circumstances, but there is no fraudulent intent on the claimant's part
- **departmental or administrative error** — where benefits are paid incorrectly due to inaction, delay or mistakes made by the Department and its staff.

Underpayment

32.4 While departmental errors can result in a welfare claimant being paid too much, they may also result in claimants being paid less than they are entitled. Where claimants (or their representatives) have a good understanding of what they should receive, they are (rightly) likely to challenge such underpayments or appeal the claim award decision, until the correct amount is paid. Nevertheless, cases do arise where claimants submit all the required information, but end up receiving less than they should.

Excess Payment and Overpayment

32.5 It is useful to distinguish the underlying level of excess payments within the social protection schemes from the level of detected and recorded overpayments.

- Fraud and error survey work helps establish the underlying level of irregular payments in a scheme.
- Detected excess payments may lead to the entitlement being adjusted from a current date and, where sufficient information exists, to overpayments being listed for recovery.

32.6 Where new information relevant to a current claim comes to light, the Department may formally determine that the claimant does not have an entitlement to the amount he/she is currently being paid i.e. the current payment is excessive. This normally results in the payment being terminated or the payment level being reduced to the appropriate level, with immediate effect.

32.7 An overpayment arises where, in line with Part 11 of the Social Welfare Consolidation Act 2005 (the 2005 Act), a revised decision is made by a deciding officer, resulting in a retrospective reduction in a claimant's entitlement. Overpayments are recorded only following formal decisions in line with the 2005 Act.

32.8 In many cases where payments are reduced or terminated following a review, the Department does not record an overpayment debt. In cases of claimant or departmental error, the deciding officer reviewing the case may determine the effective date of a revised decision to be a current date, rather than a retrospective date, in which case no overpayment legally arises. In other cases, there may be no effective way of establishing the date the claimant's entitlement changed.

32.9 In 2009, the Department recorded overpayment debts totalling around €67 million — around €47 million related to Vote-funded payments and around €20 million related to Social Insurance Fund schemes.

Reporting Control Activity Performance

32.10 The Department reports on the performance of its control activity, primarily in terms of

- case review activity levels, generally measured by the number of claims reviewed each year²³²
- estimates of the level of excess expenditure prevented from being incurred in the future, because excess payment cases were detected — these are referred to by the Department as control savings.

²³² Control activity also includes inspection of selected employers to assess compliance with Pay Related Social Insurance (PRSI) scheme requirements. In 2009, around 1,500 such inspections were undertaken.

2009 Review Levels

32.11 The Department reports that it recorded having carried out around 750,000 claim reviews across both Vote and Fund based schemes in 2009²³³. This includes both reviews arising when claimants provide new information, and where the Department itself selects cases for review.

32.12 The results of a case review may be to confirm the current payment, to adjust the payment level (up or down, depending on the circumstances) or to suspend or terminate the payment. The Department does not monitor or report the review results. It has stated that because of the volume of claims processed and system complexities, it is not possible to identify the number of claims terminated, or with a reduced level of payment, as a result of control activity.

Control Savings

32.13 The Department quantifies the level of control savings achieved by multiplying the value of (mainly weekly) payments terminated or reduced by pre-set multiplier factors, which vary from scheme to scheme. These multipliers are based on the assumption that, had the excess payment not been detected as a result of control activity, it would probably have continued for at least a set future period. In general, the multiplier period is set at 52 weeks, but in some cases, the multiplier period is up to 136 weeks.

32.14 The Department has estimated that the 2009 control activity resulted in savings totalling around €484 million. The Accounting Officer stated that while the Department undertakes over 750,000 control reviews annually, it is not possible to report on the number of cases generating savings due to review processing and software limitations.

32.15 The Department has stated that control savings multipliers are internationally recognised and used. It regards the annual control savings figure as an internal performance indicator tool used by senior management to assess the performance of control measures on a year-on-year basis and as long as the calculation of such savings is consistent, then management can benchmark control effectiveness. It has commenced a review of the usefulness of the control savings estimate as a measure of its performance in carrying out control work.

Fraud and Error Surveys

32.16 Special fraud and error surveys undertaken periodically by the Department indicate that the scale of the excess payment problem varies across schemes. The extent of the irregular payment is influenced by the entitlement conditions set for schemes, the circumstances of the target populations and the processes used by the Department to assess claims and to exercise control over ongoing payments. In general, fraud and error is found to be higher for means tested schemes than for schemes where entitlement is based primarily on claimants' social insurance contribution record.

32.17 The two most recent fraud and error surveys undertaken by the Department focused on

- the State Pension (Contributory) and State Pension (Transition) schemes²³⁴, both of which are paid out of the Social Insurance Fund
- the Jobseekers' Allowance scheme, which is paid out of the Vote.

²³³ The Department considers that further claim reviews were undertaken but not recorded because of work pressures.

²³⁴ These schemes were assessed as part of a single survey.

Contributory Pension Schemes Fraud and Error Survey

32.18 The State Pension (Contributory) is paid to a person aged 66 and over who has a sufficient social insurance record. In general, this is a life-long payment that only ceases when the claimant dies. The State Pension (Transition) is also based on a claimant's social insurance record, but is payable only for a year, between the ages of 65 and 66, provided the recipient is either fully retired, or working and receiving less than €38 per week income from employment.

32.19 At the end of 2009, there were around 265,000 State Pension (Contributory) recipients and around 8,400 State Pension (Transition) recipients. Many of the pensioners received related secondary allowances and benefits. Overall expenditure in 2009 was €3.5 billion.

32.20 In carrying out the fraud and error survey of the schemes, the Department randomly selected a total of 1,035 cases in payment in March 2008 for review. The sample was checked for bias against key population parameters such as geographical location, method of payment, secondary allowance entitlement, dependents, and was found to be representative of the population of claims as a whole.

32.21 Departmental staff carried out desk/documentary assessments of the sample cases either where the claimant had no secondary allowances in payment (21% of cases) or where the claimant had an address outside Ireland (13.6% of cases). In foreign-residence cases, certificates of eligibility for completion by the claimant and a witness were issued.²³⁵ The remaining 65% of cases were referred to local social welfare inspectors for investigation and assessment.

32.22 Assessments were completed in 989 of the selected cases i.e. 96% of those sampled. Assessments not completed were due mainly to

- 21 cases not returned on time by social welfare inspectors
- 15 cases where no Departmental file was locatable and where it was not possible to fully reconstruct the claimants' details
- six cases where the inspector reported the claimant was too ill to be interviewed²³⁶.

32.23 The main findings of the completed assessments were

- just over 94% of claimants were in receipt of the correct payment amounts and secondary allowances
- 3.3% of claimants were receiving more than they were entitled to and had their payments reduced or terminated — the total value of the resulting payment reductions or terminations was 1.1% of the overall amount paid to the sample of cases²³⁷
- 2.2% of claimants were not receiving all the payments or allowances to which they were entitled, and so had their payments increased — the increases added 0.3% to the total amount paid weekly to the sample claimants.

²³⁵ In cases where the certificate was returned undelivered, payment was stopped. In some cases, where the claimant had moved and not notified the Department of the new address, payment was restored after the claimant contacted the Department and completed the certificate.

²³⁶ Reviews were ongoing in the remaining cases when the report was being compiled.

²³⁷ Included in this category were cases suspended because their whereabouts was not known. These accounted for 0.9% of all cases assessed.

32.24 Only one of the excess payment cases was found to have involved a deliberate fraud. This was where a family member had continued to draw a pension for more than two years following the death of the pensioner. Overpayments totalling in excess of €30,000 were recorded, and the case has been referred for prosecution and recovery of the overpayment.

International Comparison – UK Retirement Pension

The UK Department of Work and Pensions administers a similar insurance-based Retirement Pension scheme. A fraud and error survey undertaken in relation to that scheme in 2005/2006 found that

- the loss to the Department of Work and Pensions due to excess payment of Retirement Pensions was 0.1% of expenditure
- the level of underpayment of Retirement Pensions entitlement found was 0.3% of expenditure^a.

The estimated percentage of excess payment of contributory pensions by the Department of Social Protection, at 1.1%, is significantly higher than the 0.1% estimated for the UK Retirement Pension scheme.

Note:

- a Department of Work and Pensions (UK), *Fraud and Error in the Benefit System: April 2008 to March 2009*, Tables 2.1 and 2.2. Payments in excess of entitlement in this publication are referred to as overpayments.

Jobseekers' Allowance Fraud and Error Survey

32.25 The Jobseekers' Allowance scheme provides payments for unemployed people. Claimants are required to be available for and looking for work, and are subject to a means test. Payments under the scheme, which may continue indefinitely while the scheme conditions are satisfied, are borne on the Department's Vote. In contrast, payments under the social insurance-funded Jobseekers' Benefit scheme — payable for a maximum of 9 or 12 months, depending on social insurance contributions — are not subject to means testing.

32.26 At end 2009, the total number of recipients of Jobseekers' Allowance was just over 203,000. Expenditure in 2009 under the scheme totalled over €2 billion.

32.27 One of the first fraud and error surveys undertaken by the Department (in 2003) examined samples of Jobseekers' Allowance and Jobseekers' Benefit payments.²³⁸ It found that an estimated 15.8% of the Allowance cases examined were receiving more than they were entitled to, compared to just 1.8% of Benefit cases found to be in overpayment. The financial impact of the overpayments was not recorded as part of the survey.

32.28 The Department undertook a second fraud and error survey of Jobseekers' Allowance based on a random sample of 1,000 cases in payment in October 2009. The final report on the results of the survey (September 2010) indicated that assessments by Social Welfare Investigators as to whether an increased or reduced rate should have been paid to a claimant in a particular week had been completed in 1,000 of the selected cases.

²³⁸

At that time, the schemes were referred to as Unemployment Assistance and Unemployment Benefit.

32.29 The main findings reported in the September 2010 report were that

- almost 84% of the Jobseekers' Allowance claims examined were found to be at the correct level of payment
- in 11% of the cases examined, it was found that claimants were being paid more than they were entitled to and their payments were reduced to the correct level or terminated — this resulted in a reduction of 4.1% in overall expenditure
- in 4.1% of the cases examined, claimants were found to be underpaid relative to what they were entitled to — the resulting increases in payment added 0.8% to total expenditure.

32.30 The reasons for adjustment of claim payments in 16% of Jobseekers' Allowance cases were also recorded. This analysis indicated that

- suspected fraud was identified in 3% of the cases examined
- claimant error was found to have resulted in incorrect payments in 8.6% of cases
- departmental error was identified in 4.1% of the cases examined. This resulted in excess payments in 2.9% of cases reviewed and underpayments in 1.2% of cases.

International Comparison — Jobseekers' Allowance

The UK Department of Work and Pensions also administers a scheme called the Jobseekers' Allowance. Unlike the Irish scheme, the UK scheme comprehends both social insurance-based and means-tested entitlements. UK claims selected at random are reviewed on a rolling basis to estimate the incidence of fraud and error. The latest report on the results of the survey found that the UK Department's loss due to payments in excess of entitlement was 5.4% of scheme expenditure (compared to 4.1% in the Irish survey). The level of underpayment of entitlements found in UK cases amounted to 0.4% of scheme expenditure (compared to 0.8% in the Irish survey).

The main difference between the Irish and UK survey results was in the level of excess payments attributed to departmental error (referred to as official error in the UK survey). This was found to account for excess payments totalling 2.4% for UK scheme expenditure, compared to just 0.6% in the Irish survey. The estimated financial impact of underpayments resulting from administrative errors was the same in both jurisdictions, at 0.2% of overall expenditure.

Interpretation of Survey Results

32.31 The estimates produced in fraud and error surveys are subject to sampling error. In any sampling exercise, the estimates derived from the sample may differ from the results that would emerge if the whole population from which the sample is drawn was examined. This is usually assessed by expressing the level of error (within a defined degree of divergence) in terms of a specified confidence level.

32.32 The UK Department of Work and Pensions produces its fraud and error estimates to a 95% confidence level. These take account of both statistical sampling error and some other estimation uncertainties e.g. because assumptions have to be made to account for incomplete or imperfect data, or because current year estimates incorporate survey results from different time periods. On this basis, it reports a central estimate for fraud and error of 2.2% across all its welfare expenditure schemes for the year 2008/2009. The associated 95% confidence range is from 1.9% to 2.6% excess expenditure.

32.33 The reports on fraud and error surveys completed to date by the Department do not present confidence limits or a confidence range for the estimates. However, the Department has stated that the margin of error for its survey results may be of the order of 1% (i.e. the central estimate value $\pm 1\%$). This contrasts with the margin of error of $\pm 0.3\%$ of the UK Department of Work and Pensions confidence limits. The Department stated that the variance reflects the different approaches taken to fraud and error surveys. Whereas the Department of Work and Pensions undertakes surveys with large sample sizes annually, the Department of Social Protection uses smaller sample sizes less regularly and on single schemes at a time.

Estimate of Overall Level of Excess Payment

32.34 In the course of presentation of evidence at a meeting of the Committee of Public Accounts on 25 February 2010, the Accounting Officer for the Department stated that it had estimated that the risk of irregular payments due to fraud or error amounted to an average of 3% of the Department's total annual welfare expenditure, across both the Vote and Social Insurance Fund. This estimate was based on averaging the financial results of the fraud and error surveys undertaken by the Department, weighted using the 2008 expenditure levels.

32.35 Using the same methodology, the average excess payment for the surveyed Vote-funded schemes in 2009 is estimated at 4%. In contrast, the average overpayment for insurance-funded schemes surveyed is estimated to be 1%. See Figure 153.

32.36 Together, the Vote-funded schemes that have been subjected to fraud and error surveys in the period 2004 to 2009 if updated using current values would now account for 76% of the overall expenditure on scheme payments of €10.4 billion under the Vote in 2009. Vote-funded schemes that have not yet been subject to fraud and error surveys include Supplementary Welfare Allowance²³⁹, Carer's Allowance and Farm Assist. These are means-tested schemes, on which a total of €1.6 billion was spent in 2009. Free scheme benefits accounted for a further €345 million, and employment support services accounted for €193 million.

²³⁹

A fraud and error survey of Supplementary Welfare Allowance rent supplement cases, which is administered through the Health Service Executive, was carried out in four regions. However, because there was a high variance in results between the region, the Department considers the survey to be unreliable.

Figure 153 Estimated excess payments in welfare entitlements, by scheme and source of funds, 2009

	Year ^a	Scheme Cost	Estimated excess payment in 2009	
		2009	%	€m
€m				
Vote-funded schemes				
Child Benefit	2004	2,495	1.8%	45
Family Income Supplement	2005	167	3.3%	6
Disability Allowance	2005	1,143	7.0%	80
State Pension (non-contributory)	2007	1,001	2.1%	21
One-Parent Family Payment	2007	1,121	7.3%	82
Jobseekers Allowance	2009	2,005	4.1%	82
Total for Vote schemes surveyed		7,932	4.0%	316
Social Insurance Fund schemes				
Illness Benefit	2006	920	0.4%	4
State Pension (Contributory/Transition)	2009	3,472	1.1%	38
Total for Fund schemes surveyed		4,392	1.0%	42
Total for all schemes surveyed		12,324	2.9%	358

Source: Department of Social Protection methodology, updated by Office of the Comptroller and Auditor General

Note:

a Base year for fraud and error survey.

32.37 The insurance-funded schemes surveyed accounted for 46% of insurance scheme expenditure totalling €9.5 billion in 2009. Major schemes not yet subjected to fraud and error surveys include Jobseekers' Benefit²⁴⁰, Contributory Widows' Pension, Invalidity Pension and Maternity Benefit.

32.38 In the absence of systematic fraud and error surveys, the level of excess payment that arises on the non-surveyed schemes is uncertain. The Department has stated that the remaining schemes could be expected to be relatively low risk based on the results of other surveys, with the possible exception of Supplementary Welfare Allowance payments (€1 billion in 2009).

32.39 The approach adopted by the UK Department of Work and Pensions in arriving at an overall estimate of the level of excess payments across all welfare schemes is pragmatic. Based on the survey results for schemes with similar structures and conditions, it applies assumed excess payment rates for expenditure under un-surveyed schemes.

32.40 In the absence of systematic comparisons between surveyed and un-surveyed Vote-funded schemes, a more conservative approach is to assume that excess payments under the Supplementary Welfare Allowance scheme amount to 2% of scheme expenditure (i.e. about half the rate for the surveyed schemes), and that excess payments under other un-surveyed schemes amount to 1% of scheme expenditure. On that basis, the average excess payment rate across all Vote-funded welfare schemes would be 3.4%. Applying the Department's margin of error to that estimate suggests the overall excess payment rate is in the range 2.4% to 4.4% of overall scheme expenditure. In cash terms, this is equivalent to excess payment in the range €246 million to €455 million.

²⁴⁰ Jobseekers' Benefit cases were included in the first fraud and error survey undertaken by the Department in 2003. This found that around 1.8% of the cases surveyed were being paid the incorrect rate. However, the financial impact of the changes was not recorded.

32.41 The lack of survey results in relation to welfare schemes paid for from the Social Insurance Fund makes estimation of the overall excess payment level for the Fund more uncertain. For the schemes that have been surveyed, the average excess payment rate (1%) implies excess payment of €42 million. A conservative assumption of excess payment of 0.1% for all other schemes would result in an overall excess payment rate for Fund scheme expenditure of around 0.5%, equivalent to around €47 million.

Conclusion on Regularity of Welfare Expenditure

The evidence from the fraud and error surveys that have been carried out by the Department indicates that there is a significant problem of excess, and therefore irregular, payment in relation to many of the welfare payment schemes it operates. While the scale of the problem is evidently greater for Vote-funded schemes, the estimated level of irregular payments under the social insurance funded State Pension (Contributory) and State Pension (Transition) schemes is also material.

There is wide variation in the level of irregular payments between Vote-funded schemes, but the consistent materiality of the level of the problem across the surveyed schemes suggests that the situation is likely to be similar in un-surveyed Vote-funded schemes, many of which are means-tested.

Using conservative assumptions about excess payment rates for the non-surveyed schemes, the average rate across all Vote-funded schemes is estimated to be 3.4% of 2009 scheme expenditure. Using the Department's estimated margin of error, the overall rate of such irregular payments would therefore be in the range 2.4% to 4.4% of overall scheme expenditure. While the Department detected a significant number of welfare claims where it found that payments were in excess of entitlements, it does not record the financial impact of the consequential payment reductions or claim terminations. Overpayments are not recorded in all such cases and, therefore, do not represent a reliable measure of the financial impact of the irregular payments in a year.

I am required, under section 3 (5) of the Comptroller and Auditor General (Amendment) Act 1993, to refer in my audit certificate on an appropriation account to any material case in which

- a Department has failed to apply expenditure recorded in the account for the purpose or purposes for which the appropriations made by the Oireachtas were intended, or
- transactions recorded in the account do not conform to the authority under which they purport to have been carried out.

I have prepared this chapter in order to outline the likely range of payment in excess of entitlement included in the charge to the Vote. I have concluded that, while the charge to the Appropriation Account properly presents the payments that have been made in the year, the extent to which those payments are regular depends on the degree to which the overall levels of error found in surveys have been mitigated by

- subsequent control enhancements in delivery systems
- data matching exercises
- changes in the economic environment.

Accounting Officer's Views

32.42 The Accounting Officer has stated that she and all the staff in the Department take very seriously their role in providing a robust control environment designed to ensure that all monies voted to, and collected and disbursed by, the Department are properly paid and accounted for, and that the Department's customers are paid all monies properly due to them.

Irregular Payments

32.43 She has stated that payments are considered to be irregular where evidence is available to a deciding officer to indicate that the conditions of the scheme are not being met or the rate of the payment is incorrect, given the particular circumstances of the customer. Overpayments are by definition irregular payments. They are the only instances where it can be proven conclusively that a payment has been incorrectly paid. Unless and until there is evidence to prove that claimants do not have an entitlement to payment, a payment cannot be assumed to be irregular.

32.44 In her view, fraud and error surveys estimate the risk of irregularity but cannot determine the extent or fact of irregularity. This can only be achieved through the formal assessment and calculation of overpayments. In accordance with Part 11 of the Social Welfare Consolidation Act 2005, an overpayment will arise where a revised decision is made by a deciding officer on a claimant's entitlement resulting in a retrospective reduction in their entitlement. An overpayment can only be recorded in accordance with statutory provisions. On that basis, she considers that overpayments are the best and most conclusive evidence of irregularity.

Fraud and Error Surveys

32.45 She stated that the purpose of a fraud and error survey is to identify the level of risk associated with particular schemes and areas with a view to designing processes and control measures specifically targeted to minimise the level of future risk. They are not designed to identify overpayments. In this regard

- some of the persons who have their payment terminated following review may have the payment reinstated on appeal at a later date or
- as is common with all surveys of this nature, they involve a margin of error.

Reliance on Historical Surveys

32.46 The Accounting Officer has pointed out that applying historical survey results will not provide relevant and reliable information in respect of the 2009 financial year. In Figure 153, 42% of the computation of excess payments for Vote schemes is based on an extrapolation made on foot of surveys carried out in 2004 and 2005, and 74% is based on information two and more years old. Only 26% of the extrapolated results are from a 2009 survey.

32.47 The Accounting Officer's view is that the nature and substance of the control strategy adopted by the Department and the associated processes has been fundamentally developed and progressively improved over the past seven years since the first fraud and error survey was undertaken within the Department. The process improvements and advanced application of technology to monitor, match and check scheme payments with other available data has given rise to enhanced control activities and valuable new means by which claim entitlement is validated. As a consequence, the levels of risk estimated in earlier fraud and error surveys cannot be assumed to remain valid today as reflecting the current position.

32.48 Furthermore, the economic climate has turned since many of these surveys were first conducted. While engagement in the labour force was high in 2007 and earnings were buoyant, we have witnessed a significant turn in the tide with rising levels of unemployment, increased numbers on reduced hours of work and lower earnings levels. The surveys identified changes in means/earnings as high risk but it may be the case in follow-on surveys that there would not be as many changed cases because the potential for increases in unreported earnings is not as great in the current economic climate.

32.49 She has pointed out that a control review policy has been implemented to target risks identified across all schemes paid from voted expenditure. Up to date surveys are required to establish current risks and associated outturn costs. It is considered that many schemes would now have lower levels of revision to payment because risks have already been identified and targeted.

Factoring in Final Outturns of Surveys

32.50 The Accounting Officer has stated that she is aware that surveys need to be repeated to identify current risks and associated costs of fraud and error. She has indicated that the next round of surveys will build on the knowledge and expertise gained over the period on scheme-specific outcomes. As the approach taken in terms of scale and scope of surveys is resource intensive particularly in terms of investigative resources, she also stated that, in the context of ensuring continuity of service delivery, the desired frequency of surveying will only be achieved if variable approaches to such surveys can be deployed.

32.51 An example of the requirement for this is highlighted in the survey undertaken on the Disability Allowance scheme four years ago. In general terms, the rate of successful appeals is of the order of 48%. However, in the Disability Allowance scheme, there is a higher appeal rate and the results of these appeals were not factored into the results of the survey findings, given the methodology adopted. The survey results are based on 59 terminations calculated at the end of the survey. However, 24 claims were subsequently reinstated and four claimants moved to other schemes. Some 27 were not on a social welfare payment. The outcome suggests that the actual risk is much less than 7% of the annual cost of the scheme. The Accounting Officer's view is that these learnings are important in terms of developing the survey methodology, while bearing in mind the survey objectives.

32.52 The Department proposes that future fraud and error surveys will include an additional component that after, say, six months, follows up all cases that are not deemed to be receiving the correct amounts. The overall methodology will be discussed in advance with the Office of the Comptroller and Auditor General.

Conclusion

The Department's control activities are targeted at schemes and claimants with perceived higher risks of excess payment. Adjustments in payments and other benefits are made in a substantial number of cases each year, and where overpayment debts are recorded, they are pursued for recovery. However, since overpayments are not recorded in a substantial proportion of review cases where claim entitlements are reduced or terminated, 'recorded overpayments' is not an adequate measure of the level of irregular payments. Furthermore, all excess payments are not detected.

Periodic fraud and error surveys, based on random rather than targeted samples of claims, are potentially a useful way of identifying the scale of the underlying problem and of tracking the Department's performance over time in reducing the level of excess payment. The surveys can also help the Department to identify the key factors that give rise to significant excess payments, and help it to target control activity more effectively on higher risk areas.

The Department's stated policy is to carry out fraud and errors surveys of the perceived highest risk schemes every two years. In 2008 and 2009, only one such survey was carried out each year. Some major expenditure schemes have not been subjected to this type of survey, and the latest survey results in relation to some schemes go as far back as 2004. More frequent surveys are necessary to inform departmental administration and control activity, and to demonstrate the discharge of its accountability for the regularity of its payments.

While reliance on older survey results is not ideal and is unlikely to accurately reflect the current position, it would not be appropriate to ignore them in the absence of more recent results. Furthermore, other available evidence tends to confirm the persistence of excess payments. This is the case in relation to the State Pension (Non Contributory) and One Parent Family Payment schemes, as outlined in Chapter 34 and Chapter 35 respectively.

A key principle for ensuring reliable fraud and error surveys is that every case reviewed should be fully tested for all possible breaches of scheme conditions. In practice, this usually requires the re-application of all the checks and tests — including interviews, home visits, re-certification of means, or medical reviews, as appropriate — that would apply if the claim was being submitted anew, with a fresh determination by a deciding officer. A subsequent high rate of successful appeals of fraud and error outcomes would be indicative of a defective survey process.

The Accounting Officer reports that almost half of the claims terminated following review for the Disability Allowance survey were subsequently reinstated to payment on appeal. If the fraud and error rate estimated for that scheme was only half the level reported and the unsurveyed schemes error rates were conservatively estimated, the central estimate for the overall excess payment rate for Vote-funded schemes would be 3% (rather than 3.4%.) At that lower estimated level, the level of irregular payments is still material.

The Department should draw up a medium-term programme for the conduct of reviews based on random samples across all its major schemes. The survey programme should be incorporated into the Department's control strategy, and professional statistical oversight and quality control of the surveys should be provided for. The Department should also consider structuring its control activity reporting so as to address the three key drivers of irregular payments i.e. fraud, client error and departmental error. The optimal response to each of these is likely to be different. The key targets for control activity should be expressed in terms of a targeted reduction in each of these areas.