

Report by the Comptroller and Auditor General

Introduction

1. The Department for Communities (the Department) is responsible for housing, urban regeneration, community development, social security and child support. The annual budget for the Department is approximately £7 billion.
2. I am required under the Government Resources and Accounts Act (Northern Ireland) 2001 to report my opinion as to whether the financial statements give a true and fair view. I am also required to report my opinion on regularity, that is, whether in all material respects the expenditure and income have been applied to the purposes intended by the Northern Ireland Assembly and the financial transactions conform to the authorities that govern them.
3. This Report reviews the results of my 2018-19 audit of the Department's accounts and sets out the reasons why I am qualifying my regularity audit opinion.
4. The Department administers £5.5 billion¹ of benefits directly. Housing benefits of £0.6 million are administered by the Northern Ireland Housing Executive (the Housing Executive) and Land and Property Services (LPS). Benefit payments are susceptible to deliberate fraud by claimants. They are also susceptible to unintended error by claimants and the Department.
5. The Department's estimate of the overall level of overpayments in 2018-19 was £92.3 million, which represents 1.5 per cent of total annual benefit expenditure (2017-18: £91.4 million or 1.5 per cent). The Department's estimate of the overall level of underpayments due to official error in 2018-19 was £30.5 million, which represents 0.5 per cent of total annual benefit expenditure (2017-18: £16.9 million or 0.3 per cent).
6. When considering qualifying my audit opinion on the regularity of benefits expenditure due to these significant levels of estimated overpayments and underpayments, I exclude State Pension expenditure. This is because the estimated level of error is much lower for this benefit than in other benefits (£1.1 million of overpayments and £3.6 million of underpayments) in an expenditure of £2.3 billion, see paragraphs 1.35 to 1.37).
7. I have qualified my opinion on the regularity of the benefits expenditure of £3.8 billion, excluding State Pension, due to estimated overpayments of £91.2 million and underpayments of £26.9 million. Further detail is set out in Part 1 of this Report.
8. The Affordable Warmth Scheme addresses fuel poverty in the private sector. The aim of the Scheme is to help alleviate fuel poverty in targeted vulnerable households in the owner-occupied and private rented sector. Expenditure on this scheme amounted to approximately £65.2 million over the years 2015-16 to 2018-19. The Department of Finance (DoF) approved the original business case for this Scheme in September 2014 subject to the condition that no significant changes would be made to the project. When substantial changes were made in 2015-16, the Department should have consulted with DoF. The Department sought retrospective approval for the expenditure on this Scheme from DoF in November 2018 and were advised that £56.5 million of expenditure incurred between 2015-16 and mid-September

¹ These figures are from Note 23 to the accounts as the Department measures the level of estimated fraud and error in benefits expenditure on a calendar year basis. The financial statements disclose overall benefits expenditure for 2018-19 of £6.7 billion, which are on a financial year basis.

2018 was irregular. Of the £14.5 million spent on the Scheme in 2018-19, £6 million was irregular. I have not qualified my regularity opinion this year, as the irregular expenditure of £6 million is not material to the Department's 2018-19 accounts. However, I am concerned at the level of the irregular expenditure of £56.5 million on this Scheme since 2015-16. Particularly, as the Scheme was set up to meet a Programme for Government target that should have required greater scrutiny. Further detail is set out in Part 2 of this Report.

9. The Department sponsors 15 arm's length bodies, one of which is Sport NI. I intend to publish a report on the adequacy of the governance, leadership and Departmental oversight of Sport NI shortly.

10. My Report sets out:

- the reasons and context for my qualified regularity audit opinion;
- the trends in and reasons for the estimated level of fraud and error;
- other benefits issues; and
- background on the irregular expenditure in respect of the Affordable Warmth Scheme.

Part 1 Benefits expenditure

Qualified opinion due to estimated levels of fraud and error in benefits expenditure (excluding State Pension)

Key Points:

- In 2018-19, the Department's total benefit expenditure was £6.1 billion, £2.3 billion of this related to State Pension and £654 million for Housing Benefit.
- The overpayment rate for **all** benefits due to estimated fraud and error is 1.5 per cent, in line with the previous year.
- The underpayment rate due to official error for **all** benefits increased to 0.5 per cent in 2018-19 from 0.3 per cent in 2017-18.
- My audit opinion continues to be qualified due to the material level of estimated fraud and error in benefit expenditure, excluding State Pension.

Background

- 1.1 The criteria used to determine entitlement to each benefit, and the method used to calculate the amount due to be paid, are set out in legislation. The Department relies on claimants' accurate and timely notification of changes of circumstances and the complexity of benefits can cause confusion and genuine error, especially for those with means-tested entitlements.
- 1.2 The Department analyses over and underpayments of benefits into the following categories:
 - **Customer Fraud**, which arises when customers deliberately seek to mislead organisations which administer benefits, to claim money to which they are not entitled;
 - **Customer Error**, which arises when customers make inadvertent mistakes with no fraudulent intent; and
 - **Official Error**, which arises when a benefit is paid incorrectly due to inaction, delay or a mistaken assessment by the Department or organisation administering the benefit. Official error can result in both over and underpayments.
- 1.3 Where fraud or error has resulted in an over or underpayment of benefit to an individual who is either not entitled to that benefit, or is paid at a rate that differs from that specified in the legislation, the payment does not conform with the Northern Ireland Assembly's intention. I consider overpayments arising from fraud, official error or customer error and underpayments arising from official error, to be irregular. Underpayments due to customer error are not irregular as customers can decide not to claim benefits. Overpayments of benefits increase costs for taxpayers and reduce public resources available for other purposes. Underpayments mean individuals are not getting the support they are entitled to receive.

- 1.4 The Department's Standards Assurance Unit (SAU) regularly monitors and provides estimates of the levels of fraud and error within the benefits processed by the Department, the Housing Executive and LPS as outlined in Note 23 to the accounts. In order to facilitate the timetable for the production of the accounts, the Department's testing of payment accuracy is reported on a calendar year basis, not on a financial year basis. I am satisfied that this approach is reasonable and that the results produced by the SAU are a reliable estimate of the total fraud and error in the benefits system.
- 1.5 The Department estimates total fraud and error by combining the results from its financial accuracy monitoring which provides a measure of official error and the results of benefit reviews that provide a measure of customer fraud and error.
- 1.6 The estimates are based on a random sample of the total benefit caseload and are therefore subject to statistical uncertainties. This uncertainty is quantified by the estimation of 95 per cent confidence levels surrounding the estimate. These show that the Department is 95 per cent sure that the true value of fraud and error lies within these intervals.
- 1.7 I am satisfied with the results produced by SAU and note that, as is the case for any sampling methodology for fraud and error, other factors² may impact on the reported levels of fraud and error, for example:
- estimates derived from the sample may differ from what would be seen if the entire caseload was examined;
 - newest cases may be excluded from review because of the time taken to process these benefit claims; and
 - some incorrect payments may be unavoidable. The way of measuring the benefit may result in a case being treated as incorrect even where the claimant has promptly reported a change and there is only a short processing delay.

The Department highlighted that the sampling approach is utilised as it is not possible to test every benefit case for payment accuracy on an annual basis, as the costs of doing so would be disproportionate and not represent value for money. Accordingly, the Department applies a sampling methodology that attracts a confidence level of 95 per cent.

Estimated level of fraud and error in benefit expenditure

- 1.8 Benefits expenditure for 2018-19 and 2017-18 is analysed in **Figure 1**. The Department told me that nearly 70 per cent of the increase in overall benefit expenditure of £0.2 billion this year is due to benefit uprating³. I note there has also been a significant increase in expenditure on the Personal Independence Payment, which replaces Disability Living Allowance (DLA) for working-age claimants (see paragraph 1.24 for further detail) and Universal Credit (see paragraph 1.28 for further detail). Expenditure on DLA has decreased from £0.9 billion last year to £0.7 billion this year. I asked the Department why the level of expenditure on DLA continues to be significant, although decreasing, when PIP expenditure has increased from

² DWP Fraud and Error in the Benefit System: Background information and methodology, May 2018.

³ Social Security legislation requires the Secretary of State in DWP to undertake an annual review of benefits and pensions and to uprate certain disability benefits at least in line with process. The Department has no power to set different benefit rates for Northern Ireland.

£123 million to £470 million. The Department told me that DLA is still available for children under 16 years of age and claimants over pension age receiving DLA prior to May 2016, as long as they continue to meet the conditions for entitlement. In line with the legislation, DLA awards are either for a fixed period, at which point the award is reviewed or for an indefinite period with no review scheduled.

Figure 1: Analysis of benefit expenditure in 2018-19 and 2017-18

	2018-19	2017-18
	<i>£m</i>	
State Pension	2,328	2,256
Disability Living Allowance	689	946
Employment and Support Allowance	892	865
Housing Benefit (NIHE)	616	623
State Pension Credit	244	253
Attendance Allowance	203	200
Carer's Allowance	169	161
Income Support	127	141
Personal Independence Payment	470	123
Jobseeker's Allowance	84	106
Social Fund	62	58
Universal Credit	61	0 ⁴
Winter Fuel Payments	52	52
Bereavement Benefit	16	18
Housing Benefit (LPS)	38	38
Miscellaneous Benefits expenditure	15	15
Industrial Injuries Disablement Benefit	30	29
Other Expenditure (Non NIF)	13	13
Total benefits expenditure	6,109	5,897

Source: Department for Communities accounts, 2017-18 and 2018-19.

Note: These figures are from Note 23 and based on the calendar year not the financial year.

1.9 The Department estimates that:

- total overpayments due to fraud and error⁵ in 2018-19 remained at 1.5 per cent of total benefit expenditure (2017-18: 1.5 per cent)
- underpayments due to official error⁶ in 2018-19 increased to 0.5 per cent of total benefit expenditure (2017-18: 0.3 per cent).

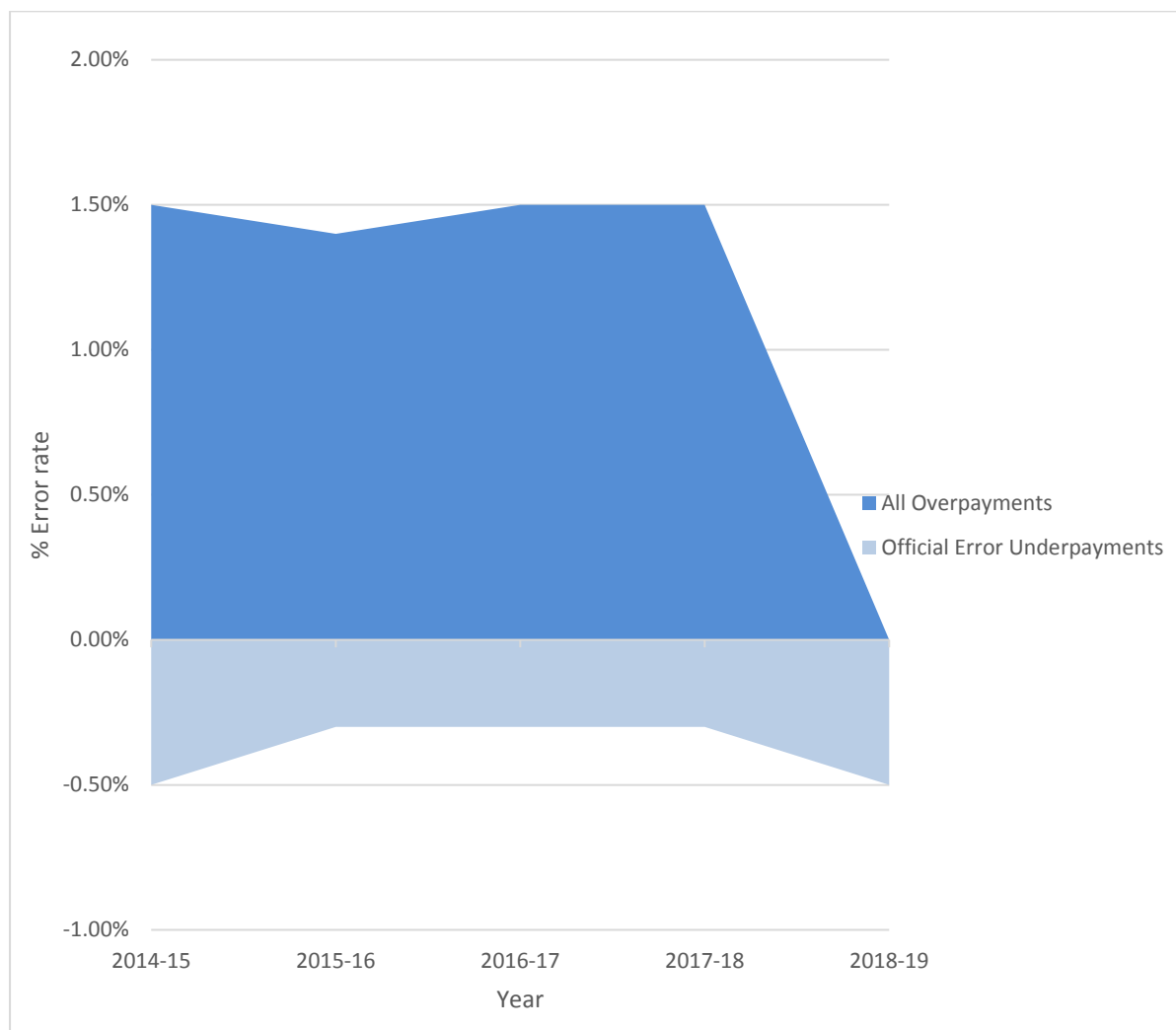
Figure 2 sets out the equivalent percentage error figures since 2014-15. This figure shows that the level of total overpayments and underpayments due to official error has been relatively stable since 2014-15.

⁴ The expenditure in 2017-18 was £300,000 but has been recorded as zero due to roundings.

⁵ Fraud and error figures quoted in this report are central estimates (or 'mid-points') within a 95% confidence interval. This range reflects the uncertainty within the Fraud and Error in the benefits system estimates.

⁶ Underpayments due to customer error are not irregular and are excluded from these figures; only underpayments arising from official error are considered irregular.

Figure 2: Estimated incorrect benefit payments as a percentage of total benefit expenditure for the five years ending 31 March 2019



Source: Department for Communities accounts, 2014-15 to 2018-19.

1.10 Estimated overpayments for 2018-19 are £92.3 million (2017-18: £91.4 million). SAU has estimated this figure lies within the range of £76 million and £112 million. Also, underpayments of benefits of £30.5 million (2017-18: £16.9 million) which SAU has estimated lies within the range of £23 million and £39 million. **Figure 3** shows the value of estimated fraud and error over the past five years.

Figure 3: Benefits expenditure and estimated fraud and error for the 5 years ending 2018-19

£millions	2018-19	2017-18	2016-17	2015-16	2014-15
Total expenditure	6,108	5,897	5,896	5,790	5,670
Total Est fraud and error	122.8	108.3	107.4	97.3	110.7
Overpayments	92.3	91.4	87.7	78.8	82.4
Underpayments⁷	30.5	16.9	19.7	18.5	28.3

Source: Department for Communities accounts, 2014-15 to 2018-19.

1.11 The Department does not pay all benefits directly to claimants. The Housing Executive pays housing benefit to tenants who are unemployed, on low income or claiming benefits to assist with their rent. This expenditure is included in both the Department's accounts and the Housing Executive's accounts. By legislation, housing benefit is paid to owner-occupiers by the DoF and Land and Property Services (LPS) carries this function out on DoF's behalf. LPS pays housing benefit to claimants who own their home and are entitled to apply for a rates rebate if they have low income and are suffering financial hardship. This expenditure is included in both the Department's accounts and the LPS Statement of Rate Levy Account.

Figure 4: Breakdown of expenditure paid out during 2018-19

£millions	Department		Housing Executive		LPS		Total	Total
	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
Amount paid directly	5,455	5,236	616	623	38	38	6,109	5,897
Estimated overpayments	65.4	64.2	22.4	22.9	4.5	4.3	92.3	91.4
% of total paid	1.2%	1.2%	3.6%	3.7%	11.8%	11.3%	1.5%	1.5%
Estimated underpayments (official error)	27.7	13.2	2.4	3.6	0.4	0.1	30.5	16.9
% of total paid	0.5%	0.3%	0.4%	0.6%	1.1%	0.3%	0.5%	0.3%

Source: Department for Communities accounts, 2017-18 and 2018-19.

⁷ Underpayments due to customer error are not viewed as irregular and are excluded from these figures; only underpayments arising from official error are considered irregular

- 1.12 **Figure 4** shows that the Department directly paid social security benefit claimants £5,455 million (89 per cent of total benefit expenditure) in 2018-19. The estimated level of overpayments in this expenditure was £65.4 million (1.2 per cent of benefit expenditure), an increase of £1.2 million (1.8 per cent) since last year. The estimated level of underpayments was £27.7 million (0.5 per cent of benefit expenditure) which is more than double the level last year.
- 1.13 Similarly, the Housing Executive paid housing benefit claimants £616 million (10 per cent of total benefit expenditure) in 2018-19 on behalf of the Department. The estimated level of overpayments within this expenditure was £22.4 million (3.6 per cent of housing benefit expenditure) which is broadly in line with last year. The estimated level of underpayments was £2.4 million (0.4 per cent of housing benefit expenditure) a decrease of £1.2 million (50 per cent) since last year.
- 1.14 LPS paid housing benefit claimants £38 million (one per cent of total benefit expenditure) in 2018-19 on behalf of the Department of Finance. The estimated level of overpayments due to fraud and error within these payments was £4.5 million (11.8 per cent of LPS housing benefit expenditure) an increase of £0.2 million (4.5 per cent) since last year. The estimated level of underpayments is estimated to be £0.4 million (1.1 per cent of LPS housing benefit expenditure) and is a considerable increase on the year before.
- 1.15 I asked why estimated underpayments have increased so significantly for payments made directly by the Department and LPS, whereas estimated underpayments have decreased for the Housing Executive. The Department has advised me it was disappointed with the increase in underpayments but reaffirmed its commitment to minimising official error, reflected through an extensive checking regime. The Department recognises the risk posed by Employment and Support Allowance (ESA) – now accounting for two-thirds of all official underpayments paid directly by the Department. The Department’s Benefit Security Board has been monitoring the position during the year and has already allocated extra error reduction funding to ESA to help support further accuracy improvement activity during the coming year. I intend to review progress in reducing official underpayments in ESA next year.

Benefit expenditure errors by type

- 1.16 Means-tested benefits such as State Pension Credit, Income Support, Jobseeker’s Allowance and Employment and Support Allowance tend to have the highest rates of customer fraud and error, as they require the claimant to provide complete and accurate information in order to establish entitlement to benefit. The Department has told me previously that one of the main reasons for customer error is the complexity of, and lack of understanding, of the benefit system by the claimant.
- 1.17 Official errors are those that are attributable to the actions or inactions of the Department. These errors can take time to identify, then correct, and as a result have a cumulative impact. The main reasons for official errors continue to be:
- incorrect recording of a claimant’s income;
 - incorrect application of complex benefit rates; and

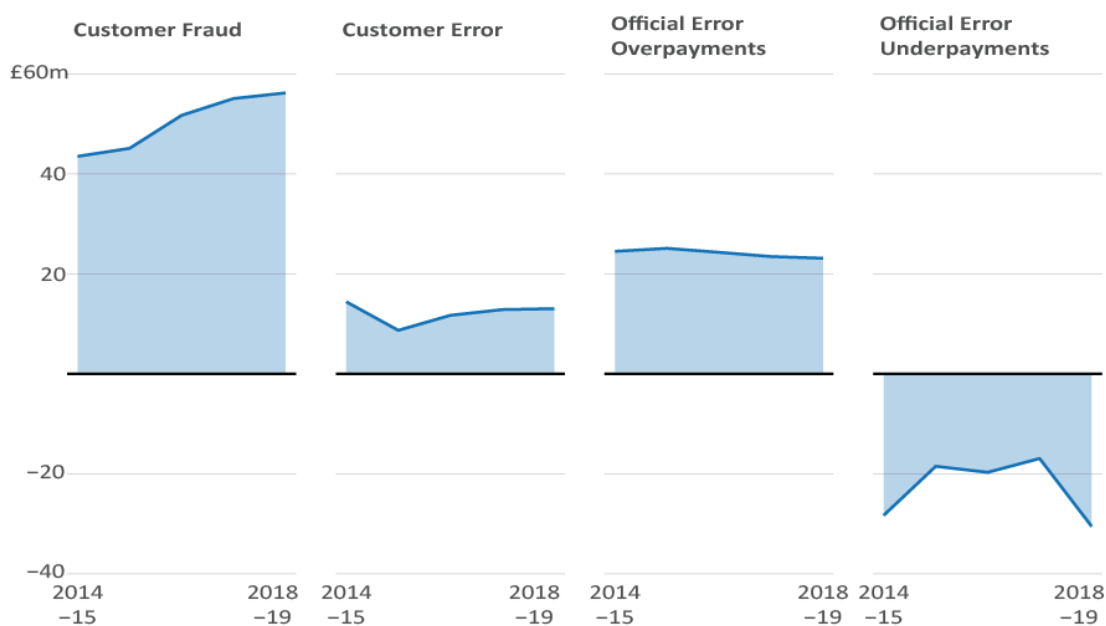
- errors in establishing the claimant’s status (for example their fitness for work, or living arrangements etc.).

1.18 **Figure 5** shows the level of estimated fraud and error in benefits expenditure for the last five years broken down by cause.

Figure 5: Benefit expenditure errors by type for the last five years

Benefit expenditure errors by type for the last five years

Customer fraud is the only type of error which has shown a consistent upward trend in the value of error detected



Source: Department for Communities accounts, 2014–15 to 2018–19

£ millions	2018-19	2017-18	2016-17	2015-16	2014-15
Official Error	23.1 (0.4%)	23.5 (0.4%)	24.3 (0.4%)	25.1 (0.4%)	24.5 (0.4%)
Customer Error	13 (0.2%)	12.8 (0.2%)	11.7 (0.2%)	8.7 (0.1%)	14.4 (0.3%)
Customer Fraud	56.2 (0.9%)	55.1 (0.9%)	51.7 (0.9%)	45.1 (0.8%)	43.5 (0.8%)
Total Overpayments	92.3 (1.5%)	91.4 (1.5%)	87.7 (1.5%)	78.9 (1.4%)	82.4 (1.5%)
Underpayments (Official Error)	-30.5 (0.5%)	-16.9 (0.3%)	-19.7 (0.3%)	-18.5 (0.3%)	-28.3 (0.5%)

Source: Department for Communities accounts, 2014-15 to 2018-19.

1.19 Customer fraud is estimated to have increased by £1.1 million to £56.2 million, while remaining at 0.9 percent of total benefit expenditure. The Department acknowledges that,

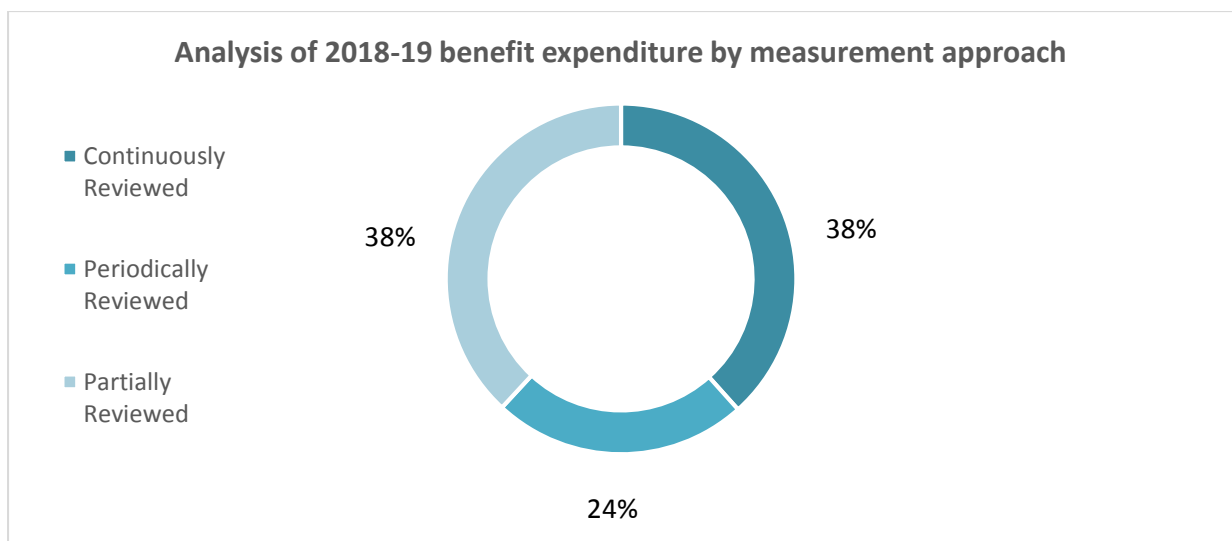
despite the relatively low level of customer fraud as a percentage of overall expenditure, this represents a significant amount of money.

- 1.20 Estimated overpayments due to official error have decreased slightly to £23.1 million. The significant increase in underpayments due to official error is explained in paragraph 1.15.

The Department’s approach to measuring fraud and error in benefits

- 1.21 The Department does not examine all benefits for fraud and error every year. From 2018, it measures fraud and error continuously for five benefits representing 38 per cent of total benefits expenditure, to support annual estimates.
- 1.22 State Pension is reviewed partially as although it is subject to an annual review for official error, the estimate for the level of customer fraud and error is based on the 2009 benefits review when customer error was estimated to be 0.2 per cent and customer fraud was estimated to be zero per cent.
- 1.23 A number of benefits are measured periodically for which estimated official error rates have been calculated using results of prior year financial accuracy reviews. Previous benefits reviews are used to provide an estimate where customer fraud and error has been measured in the past. Where benefits have never been measured the estimated level of fraud and error is based on what is known about measured benefits (known as proxy values). The measurement approach by percentage of benefits is shown in **Figure 6**.

Figure 6: Analysis of 2018-19 benefit expenditure by measurement approach



	£m		£m
Employment and Support Allowance (ESA)	892	Disability Living Allowance (DLA)	689
Housing Benefit (NIHE)	616	Attendance Allowance	203
Personal Independence Payment	470	Carer’s Allowance (CA)	169
State Pension Credit	244	Income Support (IS)	127
Jobseeker’s Allowance (JSA)	84	Social Fund	62
Housing Benefit (LPS)	38	Universal Credit	61
Continuously Reviewed (38%)	2,334	Other expenditure	126

		Periodically Reviewed (24%)⁸	1,437
State Pension (2009)	2,328	Total Benefits (100%)	
Partially Reviewed (38%)	2,328		6,109

Source: Department for Communities accounts, 2018-19.

Disability Living Allowance (DLA) has not been subject to a benefit review since 2008

- 1.24 In Northern Ireland DLA expenditure in 2018-19 was £689 million (2017-18: £946 million) 11 per cent of benefit expenditure (2017-18: 16 per cent). The reduction in expenditure follows the introduction of the new Personal Independence Payment (PIP) in June 2016. Since then, PIP has been replacing DLA for all new working-age claimants and existing DLA working-age claimants reporting a change in circumstances. The process of re-assessing existing working-age claimants started in December 2016 and is due to be completed in summer 2019.
- 1.25 Note 23 to the Department's accounts outlines cases where a gradual change in a DLA claimant's needs means their entitlement to benefits may have changed. The Department considers it unreasonable to expect the DLA claimant to know at which point that benefit change occurs and therefore it is likely that the Department will only become aware of this when the DLA claimant's benefit entitlement is subject to reassessment.
- 1.26 SAU last carried out a full benefit review of DLA in 2008. The Department has highlighted the finite nature of resources available for measurement and the need to continue directing measurement at those benefits with highest risk of customer fraud/error, specifically Jobseeker's Allowance, Employment and Support Allowance, and State Pension Credit.
- 1.27 I acknowledge that these DLA cases are legally and procedurally correct and that the number of DLA cases are reducing as claimants transfer to PIP. However, I am concerned by the amounts that could be involved in potential adjustments to DLA benefit due to changes in circumstances and the period since the last benefit review. The Department told me that potential adjustments are excluded from the reported fraud and error figures as these cases are not over and under payments; the benefit amount in payment to the claimant is correct and there is no irregularity.

Progress in reviewing fraud and error on new benefits

- 1.28 Universal Credit replaces Child and Working Tax Credits, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, Housing Benefit (working-age) and Income Support. It was rolled out across Northern Ireland between September 2017 and December 2018 for new claimants or existing claimants with a change in circumstances. The next stage, known as managed migration, is the transfer of existing claimants of any of the legacy benefits over to Universal Credit. This was to start in July 2019 but has been delayed following the Department of Work and Pensions' announcement that it would commence a pilot before starting managed migration. The Department told me that Northern Ireland is not part of the DWP pilot. However, on completion of the pilot, the move to Universal Credit is planned to start in late 2020.
- 1.29 Note 23 to the accounts discloses that Universal Credit has not yet been measured for customer fraud, customer error or official error. Estimates have been used for official error using current or

⁸ Note 23 discloses the dates of the previous financial accuracy exercises and benefit reviews used to provide estimates of fraud and error.

historic estimates for other benefits. Of the total expenditure of £61.3 million in 2017-18 the estimated level of fraud and error is:

- Overpayments due to official error of £0.9 million (1.5 per cent);
- Overpayments due to customer fraud of £2.2 million (3.7 per cent); and
- Underpayments due to official error of £0.7 million (1.2 per cent).

The Department told me that measurement of Universal Credit for official error, customer fraud and customer error will take place in 2019 and details of results will be available for publication in the Department's annual accounts in 2019-20.

Underpayments in benefits

Employment and Support Allowance

- 1.30 A 2018 National Audit Office (NAO) report⁹ found that errors had occurred in payments made by DWP when migrating claimants from Incapacity Benefit to ESA. These errors are additional to those identified by the Department through annual financial accuracy exercises and benefit review. Last year I reported¹⁰ that the Department's analysis estimated that just over 3,500 claimants might have been affected in Northern Ireland at a cost of £17.5 million. During 2018-19, a specialist team within the Department reviewed claims that migrated to ESA. This work was completed as planned on 1 April 2019. In total, the Department told me that it paid almost £19 million in arrears to just under 3,000 ESA claimants with average payments of £6,450.

Personal Independence Payment

- 1.31 In January 2018, DWP decided not to challenge a High Court ruling regarding PIP and started to reconsider around 1.6 million claims in GB to ensure that the claimant received the correct award. I reported⁹ earlier this year that the Department has followed DWP's approach to reviewing existing cases and estimated that 8,000 claimants were affected in Northern Ireland at a cost of £15 million. Since then the Department has told me that all PIP applications made prior to the 26 June 2018 are being reviewed (with the exception of those already receiving the maximum rate). As at 30 April 2019, the Department told me it had reviewed 30,165 out of 83,000 claims with around 600 payments made to qualifying customers. The total amount of additional payments to date is around £1.9 million with an average payment of £3,300. The Department expects to complete this exercise by 2020 and has estimated that remaining payments will cost around £7 million.

Universal Credit

- 1.32 In a new judgment on 3 May 2019, the High Court ruled that Universal Credit migration arrangements for those who previously received the severe disability premium and naturally migrated to universal credit before 16 January 2019 are unlawful. The Department has advised that DWP is considering this judgement and it is working closely with them to monitor the position.

Comparisons between Northern Ireland and Great Britain

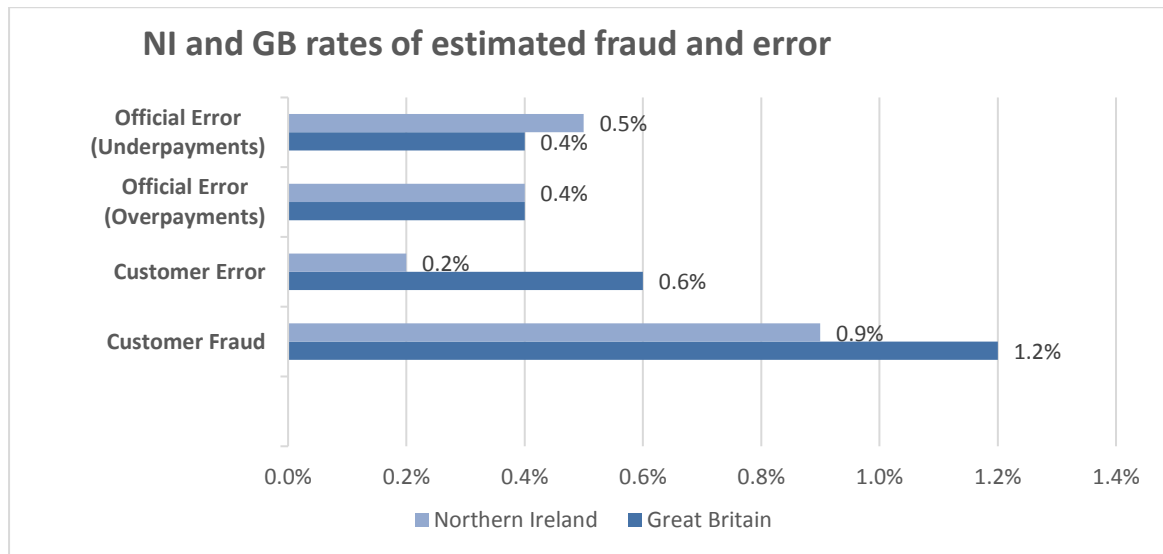
- 1.33 Since 2010, the Westminster Government has been implementing an extensive programme of welfare reforms involving changes to benefit rates, entitlements and administration of payments.

⁹ <https://www.nao.org.uk/press-release/investigation-into-errors-in-employment-and-support-allowance/>

¹⁰ Welfare Reforms in Northern Ireland, NIAO, 17 January 2019.

These reforms aim to simplify the benefits system, making it more affordable and create stronger financial incentives for individuals to move from benefits to employment. Key welfare reforms, proposed in 2010, were introduced in the rest of the UK from April 2012. However, the lack of political consensus delayed their introduction in Northern Ireland until 2016. As a result comparing the performance of the Department of Work and Pensions (DWP) in relation to estimated levels of fraud and error to that of the Department is less meaningful than it would have been due to this delay. However, the comparison does provide an indication of the Department's performance against that of the DWP in processing similar benefits in Great Britain. Key comparisons are set out in the **Figure 7**.

Figure 7: Northern Ireland and GB 2018-19



Source: Department for Communities accounts, 2018-19 and DWP: Fraud and Error 2018-19 Estimates

1.34 The estimated error rate for overpayments arising from official error for both Northern Ireland and Great Britain are in line with the rates for 2017-18 and are equivalent. Official error due to underpayments has increased from 0.3 per cent to 0.4 per cent for GB this year with a higher increase for Northern Ireland of 0.3 per cent to 0.5 per cent. For both customer fraud and error, Northern Ireland continues to have lower estimated rates of overpayments than Great Britain.

Estimated fraud and error in State Pension expenditure is insignificant

1.35 In 2018-19 State Pension expenditure amounted to £2.3 billion; 38 per cent of the Department's total annual benefit spend – see **Figure 8**. The Department estimates that the level of overpayments due to official error increased to £1.1 million from £0.2 million in 2017-18. State Pension underpayments due to official error increased substantially in monetary terms to £3.6 million from £1.9 million. The Department has found no evidence of fraud within State Pension payments and the estimated level of error within State Pension is not significant.

Figure 8: Estimated overpayments and underpayments within state pension compared with all other benefits.

	State Pension	All other benefits	Total
	£ million	£ million	£ million
Expenditure	2,328	3,781	6,109
Overpayments	1.1 (0%)	91.2 (1.5%)	92.3 (1.5%)
Underpayments	3.6 (0.2%)	26.9 (0.3%)	30.5 (0.5%)

Source: Department for Communities accounts 2018-19.

1.36 The level of estimated error in State Pension expenditure is not material to my audit opinion and I have excluded it from my regularity qualification.

The Department's progress in reducing fraud and error

1.37 I acknowledge the considerable effort and resources the Department has put into reducing the estimated levels of fraud and customer error, as outlined in the Corporate Governance section of its Annual Report and Note 23 to the accounts.

Conclusion

1.38 In considering my audit opinion on benefits, I refer to absolute figures derived from the Department's estimates. As explained in paragraph 1.7 there are a number of factors that may affect the reported levels of fraud and error. I acknowledge that 38 per cent of benefits are measured annually for fraud and error and that State Pension is measured annually for official error. Furthermore estimated levels of fraud and error in benefits reviewed periodically, which represents 24 per cent of total benefit expenditure, are a number of years old.

1.39 I have qualified my opinion on the regularity of the 2018-19 Departmental Resource Accounts benefits expenditure of £3.8 billion (excluding State Pension) due to the material level of fraud and error. This comprises overpayments of £91.2 million and underpayments of £26.9 million.

1.40 The estimated levels of fraud and error in housing benefit expenditure included in the Department's financial statements is material and forms part of the qualification. As this benefit is paid to claimants out of the Housing Executive's accounts and the LPS Statement of Rate Levy Account my regularity audit opinion on these accounts is also qualified in respect of housing benefit expenditure. I have also reported on this matter in these accounts.

Part 2 Irregular expenditure on the Affordable Warmth Scheme

- 2.1 The Affordable Warmth Scheme (previously the Warm Homes Scheme) is the Department’s Scheme for addressing fuel poverty in the private sector. The Housing Executive and District Councils deliver this Scheme across Northern Ireland on the Department’s behalf.
- 2.2 The then Department of Finance and Personnel, now DoF, approved the business case for the Scheme in September 2014 on the basis that the Programme for Government (PfG) target to assist 9,000 households per year (22,500 households in total) would be met. Approval was subject to the condition that there would be no substantial changes to the scope or scale of the project as described in the business case. Early, in the life of the new Scheme, the investment per household increased from an average of £1,400 in the Warm Homes Scheme to over £4,000 in the Affordable Warmth Scheme. DoF should have been notified of the substantial change to the project at this stage. As the PfG target would not be achievable within the available budget the then Minister for Social Development commissioned a comprehensive review of the Scheme which anticipated changes to its design and targets.
- 2.3 Despite being alerted by the Department’s Internal Audit in December 2016,¹¹ the Department did not seek retrospective approval for the change until November 2018. In the absence of a revised business case, DoF considered the expenditure to be irregular and refused to approve it retrospectively. From April 2015 to mid-September 2018, the expenditure was approximately £56.5 million. The irregular expenditure in 2018-19 is £6 million. See **Figure 9**.

Figure 9: Irregular Expenditure on the Affordable Warmth Scheme

	Irregular expenditure £m
2015-16	12
2016-17	20.5
2017-18	18
1 April 2018 – mid September 2018	6
Total	56.5

Source: Department for Communities

- 2.4 I have not qualified my regularity opinion as the irregular expenditure of £6 million this year is not material to the Department’s accounts. I am disappointed that irregular expenditure of £56.5 million has been incurred since 2015-16:

¹¹ Internal Audit Consultancy Review of the Affordable Warmth Scheme 2016-17.

- Particularly as it was to meet a PfG target that should have been subject to greater scrutiny;
- There were changes to the scope of the project within a year of DoF approval; and
- Internal Audit alerted the Department of this issue in December 2016.

Clearly, there was a breakdown in the Department's procedures resulting in the delay in requesting approval from DoF. This is compounded by the fact that recommendations to obtain the necessary approvals raised by Internal Audit in 2016 were not immediately acted upon. Internal Audit plays a key role in providing the Accounting Officer with independent and objective assurance. It is concerning that the Department's arrangements for implementing Internal Audit recommendations were not as robust as I would have expected given the significance of the matter raised.

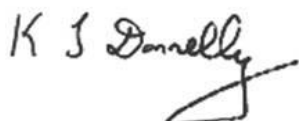
2.5 The Department has noted in the Corporate Governance section of its Annual Report that it intends to strengthen controls in this area.

Part 3 Conclusion

3.1 I have qualified my regularity opinion on the 2018-19 Departmental Resource Accounts due to material levels of fraud and error in benefit expenditure, excluding State Pension. State Pension continues to demonstrate a very low level of error, while overpayments in other benefits remained at 1.5 per cent of benefit expenditure.

3.2 Overpayments increase costs to the taxpayer and reduce public resources that could be made available for other purposes, and underpayments mean that individuals may not be getting the support that they are entitled to. The Department should continue in its efforts to prevent, detect and reduce the levels of over and underpayments within each benefit.

3.3 Issuing an audit qualification is a serious matter, and the fact that similar qualifications have been in place for a significant period does not lessen that seriousness. I consider that the overall value of fraud and error in benefit expenditure remains unacceptably high, and the qualification of my audit opinion reflects that.



KJ Donnelly
Comptroller and Auditor General
4 July 2019

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