Article

COUNTERING FRAUD AGAINST THE DEPARTMENT OF WORK AND PENSIONS: A CASE STUDY IN RISK MANAGEMENT

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Abstract

The paper examines the utility of using risk management approaches to countering fraud in the public sector. This will be done by examining how one major public sector organization, the Department of Work and Pensions (DWP), has sought to organize its response to fraud committed against it. It will be posited that while they can claim some success in this approach, the nature of fraud will make any firm conclusions a matter of continuing debate. A fact implicitly acknowledged by the DWP itself, with its recent emphasis on Customer Compliance as a method of reducing fraud, rather then relying solely on the post-1998 strategy. Also, that concentration on one part of the strategy had implications for others.

Keywords
fraud; risk management; strategic management; public services

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Introduction

The last decade has seen a revolution in how public sector organizations have viewed fraud as an issue and how they have organized their responses to it. Specifically, departments of state and their associated agencies have been required not only to report incidences of fraud committed against them, but also to put in place structures and procedures for its detection, investigation and prosecution. Through a mixture of documentary analysis and conducting interviews with key decision makers, this article will examine how and why one major government department, the Department of Work and Pensions (DWP), has changed its perspectives on fraud and attempted to adopt and adapt the principles of risk management techniques within a strategic management approach in its attempts to counter it. It will conclude that a crucial element of any strategic management approach is the ability of an organization to evaluate the degree to which it has been successful. Despite the rigorous nature of the way the DWP measures fraud, because of the problematic nature of fraud any estimates of success remain problematic. Moreover, the reliance on risk management techniques in deciding which cases of alleged fraud were investigated, shifted the emphasis from one stage of the strategy, "Keeping it Right", to "Putting it Right"; a decision that led to losses increasing elsewhere in the system.

Fraud is a generic term covering offences that involve some element of deception as part of an offence's *modus operendi* (Stephen, 1996; Law Commission, 2002). It was not until the passage of the Fraud Act (2006, effective from January 2007), that there was a specific offence of fraud in English law. Rather, provisions for defining and prosecution of fraud lay under the common law offence of conspiracy to defraud and by numerous acts including the various Theft Acts passed between 1968 and 1996. Serious financial frauds, or "City" based frauds, are covered by various Company Acts (e.g. the 1985 Company Act).

The DWP itself has its own legal definitions of fraudulent behaviour committed against it. These are when someone deliberately makes a false statement or representation to obtain benefit (The Social Security Administration Act, 1992) and where a claimant fails to disclose a change in their circumstances (Social Security Fraud Act, 2001).

The 2006 Fraud Act classifies fraud under the following criteria: false representation; fraud by wrongfully failing to disclose information that caused a breach of legal duty and fraud by an abuse of position.

Fraud and the public sector

Fraud committed against the public sector has become an increasingly important issue since the early 1990s due to a number of reasons. There has been an increasing recognition that there should be more transparency and accountability in how public monies should be spent and allocated; in an era when private sector practices were being increasingly adopted by the public sector (Harris, 1998; Andersen and Lawrie, 2002). For example, the publication, "Public Services for the Future" (HM Treasury, 1998), explicitly cited fraud as having a major impact on the Government's efficiency and productivity in delivering services.

In the area of welfare provision there were already long standing concerns about the connections between the "undeserving poor" who claim welfare, "scroungers", and fraud (Cook, 1989, 2006; Sainsbury, 2003). This was augmented after 1998 by the need for the public to accept a re-defining of the relationship between the Welfare State and the public. As part of this, the new Labour government saw the fight against fraud as crucial in such acceptance.

As the Prime Minister, Tony Blair stated:

> We made the task of tackling fraud one of our early priorities. This is because public support is vital for welfare reform, and public support is eroded by the failure to stop people defrauding the benefit system. (Blair in DSS/DWP, 1998, p iii)

This paper will concentrate on how the DWP put this into practice by developing a counter-fraud strategy, based on risk management approaches.

Strategic management

Strategic management essentially involves an examination of an organization's external and internal situation, whether this is acceptable, and if not, how things can be changed to achieve future goals (Hunger and Wheeler, 2001).

How this is done can vary depending on the individual organization, but the "building blocks" for a strategic management approach include:

- a mission statement for the organization;
- aims and objectives;
- planning and structures;
- evaluation and monitoring.

The degree to which strategic thinking and planning is formalized will be dependent upon factors such as the size of the organization and its complexity. The smaller the organization, the more likely it is to be informal and flexible. With organizations such as the NHS and DWP, the strategy is more likely to be conceived and implemented through formal structures and procedures.

Strategic management and government

The use of strategic thinking in central Government dates back to the adoption of private sector approaches in delivering public services from the early 1980s onwards (see e.g. Harris, 1998).

Specifically, the "New Public Management", with its emphasis on managerialism, aimed to introduce the principles of professional management into public sector service provision (Harris, 1998). This involved moving away from notions of direct authority, to one of indirect control as exercised through market forces and contracts, and subject to external audit and regulation.

Andersen and Lawrie (2002) in reviewing the literature on strategic management in the pubic sector, point to the unique challenges faced by the public sector and the consequent problems of implementing a strategic management plan. Public sector organizations in particular, face multiple stakeholders with potentially conflicting interests, not least from politicians with their stress on "value for money" (Sainsbury, 2003).

The strategic management approach to delivering public services came to the fore with the publication of *Modernising Britain* (1999), and *Public Services for the Future: Modernization, Reform, Accountability* (HM Treasury, 1998). *Modernising Britain* set out three main aims in improving public services. These were:

- to ensure that policy making was more "joined up" and "strategic";
- ensuring that in making policy, service users and not providers were the focus of attention;
- the delivery of high-quality and efficient services.

In this, the emphasis was to be on strategic planning rather than reacting to trends. *Public Services for the Future* (1999), spelt out how these were to be achieved; making specific reference to the settlement of spending plans being dependent on departments adopting a strategic management approach in delivering outputs.

Countering fraud in government and strategic management

At the same time governments were adopting such strategies, concerns about fraud committed against the public sector were increasing. In 1989, the Treasury report, *Government Accounting* was published, raising the issue for the first time (HM Treasury, 1989). This was amplified in the 1994 edition that outlined the responsibilities of individual Government Departments on preventing fraud. Thus:

> Departments should develop and maintain effective controls to prevent fraud and to ensure that if it does occur it will be detected promptly. If fraud does occur departments must carry out a vigorous and prompt investigation. They should take the appropriate legal and/or disciplinary action. In all cases where that would be justified, and they should make any necessary changes to systems and procedures to ensure that similar frauds will not happen again. (HM Treasury, 1994, para 37.1.2)

This was to be achieved through a risk management approach.

Risk management

The Royal society (1992) define risk management as:

> The making of decisions concerning risks and their subsequent implementation, and flows from risk estimation and risk evaluation. (Royal Society, 1992, p 3).

Risk management involves putting into place structures and measures to reduce or moderate the risks faced by an organization. This comprises a number of stages including assessing the risks against an organization, acting on the assessment and evaluating the results of any changes in policies and procedures. Having identified the hazard and estimated its occurrence and the consequences, an evaluation needs to be made as to whether the risk is tolerable to the organization, or whether there needs to be action taken to reduce or control it. The Treasury reinforces this, stressing that for public sector bodies reputation and political sensitivities should be a priority (HM Treasury, 2003, p 8).

In terms of fraud this can include revision of internal and external controls and procedures to reduce opportunity; and the Treasury in their annual reports on fraud in central government have consistently pointed to lax or insufficiently robust controls (HM Treasury, 2003, p 10). The last stage of the "Risk Cycle" is to monitor and assess how effective the measures have been and suggest any need for amendments.

Crime risk management

Using risk techniques is well established in the way the UK police seek to combat crime. Its essential characteristics include taking a proactive approach by identifying potential risks and controlling them through direct intervention (Nalla and Newman, 1990). Apart from intervention from the police, this has also put the onus on the private and public sector organizations to prevent crime being committed against them.

Another characteristic is the emphasis on intelligence-led policing, where data is collected and interpreted to inform risk management strategies.

Risk management and fraud

Taking a risk management approach to the control/reduction in instances of fraud is central to the Treasury's strategy in countering fraud. As it stated:

> The principles of managing the risk of fraud are the same as managing any other business risk. Fraud risk management practices should therefore be developed along the same lines as those risk frameworks and frameworks of internal control being developed to meet the requirements of corporate

governance and the Statement of Internal Control. (HM Treasury, 2003, p 9, para 6)

The 1997 report *Managing the Risk of Fraud: A Guide for Managers'* made it clear that the ultimate objective was to create an anti-fraud culture in departments and agencies. This was to be done by enunciating a department's mission statement, or "statement of commitment" to promote ethical business behaviour throughout the organization. From this they advocated that departments should formulate a policy statement on fraud that would ideally include clarification on:

- allocation of responsibilities for managing fraud;
- procedures staff should follow if a fraud is discovered;
- guidance on training for prevention and detection of fraud;
- reference to how organizations seek to deal with a fraudulent attack.

Later in the document they provided a generic policy statement, allocating responsibilities to managers to:

> Ensure that the opportunities for fraud are minimized. Separation of duties, effective procedures and checks should prevent and checks should prevent or deter fraud from occurring. (HM Treasury, 1997, p 6)

Departments and their agencies were now not only obliged to identify the nature and extent of fraud committed against them, but also to organize a proactive strategy to counter it. The 1997 Report was followed in 2003 by "*Managing the Risk of Fraud: Assurance, Control and Risk*" (HM Treasury, 2003), which outlined what managing the risk of fraud encompassed including:

- assessing the organization's overall vulnerability to fraud;
- identifying the areas most vulnerable to fraud;
- assigning ownership;
- evaluating the scale of fraud risk;
- responding to the risk of fraud;
- measuring the effectiveness of fraud risk strategy.

(HM Treasury, 2003, p 4)

By 2004, of the 103 Departments and agencies surveyed by the Treasury, 76, or 73%, stated that they had an anti-fraud policy (HM Treasury, 2004, Appendix B).

The moves towards a proactive approach in central government were replicated in the "front line", or operational agencies, such as the DWP.

Countering fraud in the DWP: The strategic approach

The DWP distributes approximately £124 billion in various benefits a year, approximately a quarter of government spending (Bourne, 2006). In broad terms across all benefits, there is likely to be fraud and error of around £3 billion (Bourne, 2006). The department publish more detailed figures each year for a number of benefits, notably Income Support and Job Seeker's Allowance, (JSA), where some £960 million was lost through fraud and error in 2004–2005 (DWP, 2006).

Anti-fraud strategies by the DWP can be traced back to the "*Report of the Social Security Committee on Abuse of Social Security Benefits*" (1973), also known as the "Fisher Report". This advocated a strategy of investigating fit and healthy claimants who were suspected of receiving non-declared earnings; the aim being to create a culture of deterrence through prosecutions. The 1980s saw an increase in fraud investigators, but also a change in emphasis away from prosecution to getting suspects to "sign off" or withdraw their claim (Cook, 1989).

At the same time a more structured approach was taken to investigating claimants not suffering from illness. However, such investigations were not only random in their nature but also attracted criticism for being "heavy handed", and using inappropriate' methods (Cook, 1989, p 139).

1998–2006: The strategic revolution

The period 1998–2006 saw a wholesale change in the way fraud was investigated, with the adoption of risk management principles within a strategic management framework.

The move towards a strategic management approach to countering fraud against the DWP began in the early 1990s with the creation of the Benefits Agency. This aimed to establish an accurate measurement of fraud, and design measures to reduce it. In 1998 they concluded a Public Sector Agreement with the Treasury, to reduce losses through error and fraud in Income Support and Job Seekers' Allowance, (JSA), by at least 30% by 2007, and 10% by March 2002. These targets were later revised in 2000 and 2002, 2004 and 2006.

In order to achieve these targets, an explicit mission statement was adopted:

> To minimise fraud in the social security system so as to maximise the resources available to meet need, and to enhance public confidence.

In doing this, they aimed to:

1. Develop an anti-fraud culture both within the social security system, and among the general public.

2. To design and operate policies and systems which minimize fraud.
3. Create an environment in which anti-fraud work can flourish.
4. To develop a highly skilled anti-fraud profession and professionalism among staff.

(Beating fraud is Everybody's Business, 1999)

This was underpinned by achieving a series of objectives. Principal among these was the introduction of three abiding objectives to reduce fraud: "Getting it right"; "Keeping it right"; and "Putting it right".

Getting it right involved aiming to pay the correct benefits payments from day one by strengthening procedures for interviewing claimants at benefit offices. Keeping it right was meant to ensure that any changes in a client's circumstances would be detected promptly and payments adjusted accordingly. Putting it right involved detecting when payments go wrong and correcting them promptly. This would involve investigation of cases of potential fraud and if necessary prosecuting or sanctioning fraudsters.

Together it was envisaged that these objectives would prevent fraud from entering the system and if it did, minimizing its impact. Prosecution of offenders was also designed to act as a deterrent to potential fraudsters. To achieve such objectives new systems and structures were introduced. Finally, there would be a continuous process of monitoring how successfully the new strategy was working. To do this a strategic risk management approach was adopted to detect and prosecute fraud. This was outlined in a series of seminal publications including *Organized Fraud* by Sir John Scampion, the *Informal Economy* by Lord Grabiner (2000), the Government green paper, *Beating Fraud is Everybody's Business* (1999) and the White Paper *Safeguarding Social Security* (2001).

The aim now would be to take a risk assessment approach, based on intelligence gathered from a variety of sources. These would identify likely cases for investigation by focused and professional investigators both in the BA/DWP and the Local Authorities. As Scampion stated:

> The strategic direction given to organised fraud should at least in part be determined by the risk identification carried out be an intelligence capability. That capability should be fully co-coordinated. It should cover the total anti fraud response – prevention and detection – and should be also directed by those responsible for overall strategy. (Scampion, 1999, para 2.8)

Identifying the estimating the risk: Measuring fraud and error 1993–2006

The process of identifying the risk of the fraud against the department posed by risk took two forms: the construction of methodologies to gauge the extent of the problem and the use of intelligence techniques to inform strategies to counter it.

The first concerted attempt to measure fraud was the Weekly Benefits Savings Scheme (WBSS), introduced by the Benefits Agency in 1993. This estimated the impact by multiplying the extent of fraud revealed as a result of an investigation by a factor of 32, on the assumption that the fraud had been happening for 32 weeks before detection. However this was criticized for a number of reasons, including that it was an entirely reactive approach to fraud measurement.

To gauge fraud more accurately, WBSS was replaced by a series of one off National Reviews on selected benefits. These sought to give a snapshot picture of the nature and scale of fraud. But these were also criticized as only covering two benefits and for being imprecise as to what constituted fraud (Sainsbury, 2000). From 1997 the need for more accurate measurements led to a scheme of monthly reviews in each of the 13 separate DWP areas.

These "Area Benefit Reviews" (ABRs), were designed to provide a rolling assessment of the amount of fraud by selecting a sample of 200 cases every month in each Area District. This meant that 31,200 cases were reviewed each year. These were then investigated with a mixture of initial interviews and follow-up investigations that could last up to six months and involved the Benefit Fraud Investigation Service (BFIS). The DWP claim a 95% confidence rate for this method (DWP, 2005, etc).

The degree to which this method has been successful is illustrated by a 2006 NAO report that commended the DWP's methodology when compared to other comparable countries:

> Its' (*the DWP*) system of rolling reviews of benefit payments on the basis of large samples measures fraud and error more comprehensively than the rest of the Countries. (NAO, 2006, p 5; para 8)

The second element of estimating fraud was the introduction of more sources of potential information and the use of IT systems and techniques such as data matching and data mining.

Delivering the objectives: Approaches and structures

The risk management approach was accompanied by new structures to support it along with an emphasis on a proactive, intelligence-led approach to assessing whether cases of reported, or suspected fraud should be referred for investigation. As the National Audit Report (2003) commented:

> The high volume of potential cases means that intelligence-led approach is required to ensure that the cases are chosen for investigation have the greatest chance of finding fraud, and preferably those of higher value. (NAO, 2003, p 33)

Structures and investigations

To support this a new structure was established that divided responsibility for fraud investigations between a numbers of levels.

At DWP Headquarters, The Fraud strategy Unit (FSU) was created to produce and oversee anti-fraud strategies for all benefits, based on analysing data collected from external and internal sources. Externally, the principal source was the newly created Benefit Hotline, where the general public could pass on information about suspected fraudsters. Within the DWP the principal sources was from the Counter Fraud Investigation Division (CFID), via the National Intelligence Unit (NIU) and from Operational Intelligence Units (OIUs), (see below).

Investigating allegations of fraud was the responsibility of the Counter Fraud Investigation Division (CFID). CFID operated within the Jobcentre Plus system, at a national, regional, and at the local level within local Job Centre Plus benefit offices. At the National level, there were six sectors: the professional standards unit; the National Intelligence Unit; the Matching Intelligence Unit; the Operations Branch; the Head of Profession Office and the Joint Working Unit (see Figure 1).

At the Regional level, CFID had dedicated teams operating in each of the 13 Job Centre Plus regions. At the local level investigators would operate with frontline benefit staff who, as part of administrating claims, would help identify possible incidences of fraud.

CFID investigations

CFID investigation activity was split into two distinct areas, the Counter Fraud Investigation Service (CFIS) and the Counter Fraud Investigation Division (Operations) (CFID Ops). CFIS investigated individuals' fraudulent benefit claims, while CFID Ops investigated organized, or "more serious" crimes against the Benefits system, (see diagram). Both were combined in 2006 to make up the Fraud Investigation Service (FIS).

Cases were referred for investigation by CFIS on a risk assessment process conducted by the National Intelligence Unit (NIU) and, at regional level, Operational intelligence Units (OIUs). Both were to be responsible for the development of the use of intelligence-led operations in investigating fraud. The NIU's main responsibilities were to provide the intelligence on trends in fraud for the FSU, and to transmit such strategies and policies to the area level via the OIUs.

The work of the OIU

The most immediate impact of the intelligence-led approach was in how allegations of fraud were assessed and investigated. This was done through the OIUs which

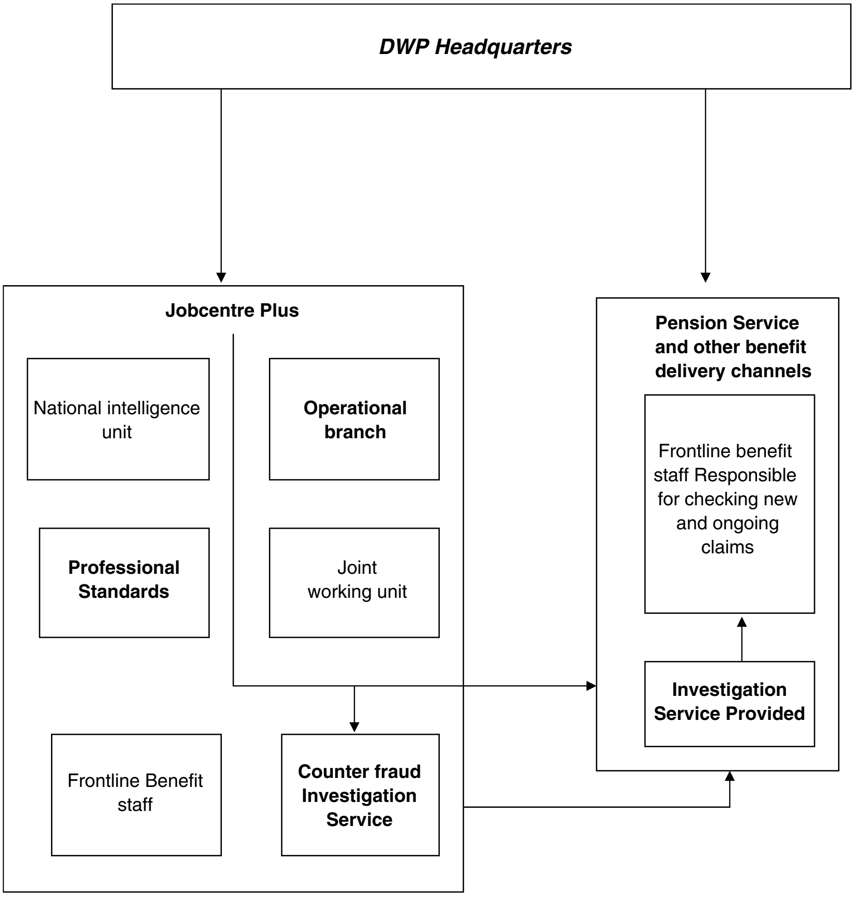

Figure 1 DWP organizational chart 1999–2006. Adapted from NAO, 2003.

received all allegations of fraud and assessed them by using a risk scoring system called FRISC, or Fraud Referral Intelligence Scorecard. This determined the likelihood of fraud being committed, on the basis of the quality of the evidence available, along with other factors including the profile of individual claimants and the benefits being claimed (White, 2006). Referrals that were considered to be likely to contain a high risk of fraud were then sent to counter-fraud investigators.

As the NAO summemd up:

> The National Intelligence Unit helps to ensure Departmental priorities in tackling fraud are reflected in the referrals chosen for further investigation, through reviewing their quality and tasking the Operational Intelligence Units. The Operational Intelligence Units are responsible for evaluating and analysing the quality of the intelligence, tasking individual investigators and supporting investigations. (NAO, 2003, p 33)

Evaluation: Has the risk management approach been a success?

Any risk management approach implies the need to evaluate the effect of any new measures and/or structures. In the case of the DWP, this has involved measuring the degree to which fraud in the system has been reduced.

The intelligence-led approach under the new strategy proved controversial, with for example the Department being charged with reducing the number of investigations undertaken as a result of referrals. For example, NAO report (2003) noted that between 1999 and 2001, the number of referrals fell from 888,000 in 1999–2000 to 667,000 cases in 2001–2002, a fall of 25%. Reasons for this included a more targeted policy from the DWP, and a general fall in the prevalence in fraud itself. Although in truth no one was entirely sure what the reasons really were (NAO, 2003, p 32).

However, while the number of cases referred for investigation fell by nearly 42% between 1999 and 2004, the number of successful outcomes of such investigations increased from 32% to over 41% in the same period. Most tellingly, the number of cases producing evidence strong enough to warrant prosecution remained approximately the same in absolute numbers; while the numbers of non-prosecutorial sanctions such as Administrative penalties and sanctions increased both absolutely, and as a proportion of the number of cases accepted, see Table 1.

This implies that the risk management approach has been effective. Additionally, the amount of fraud has fallen steadily since 1999, again both absolutely and as a proportion of all claims. Thus, the 2003 National Audit Office report, *Tackling Benefit Fraud* estimated that working from a 1997–1998 baseline figure, the DWP had reduced loss from error and fraud by 24% by 2002. Even given the likelihood of a diminishing rate of loss, they still concluded that annual losses would be reduced by £640 million by March 2006. By 2005 the DWP could state that the department had reduced fraud in JSA and IS by two thirds (DWP, 2005a, p 3). By 2006 the department could

Table 1 The number of cases investigated and outcomes 1999–2004

Fiscal year	*Cases accepted*	*Effective outcomes*[a]	*Prosecutions*	*Administrative penalties and sanctions*
1999/00	562,235	198,467	9,272	11,029
2000/01	442,100	182,569	11,584	15,555
2001/02	397,035	160,974	11,355	13,551
2002/03	337,221	145,232	9,396	14,273
2003/04	326,599	135,710	9,204	16,159

[a]Cases that result in a benefit adjustment.

claim that they had indeed exceeded expectations laid out in 1998 and refined in 2002 (White, 2006).

Thus, Table 2 illustrates this in terms of the “headline” benefits, Income support, Job Seekers Allowance, (JSA), and Pension Credit.

However, such assertions obscure the incompleteness and inadequacy of measurement methodologies and of the nature of welfare fraud. Factors that make any assertions about the degree to which the strategy has been successful a matter of debate.

Measuring fraud: “Catching the Wind”

Getting to grips with the extent of fraud will always be problematic because of several issues. As already noted, the very nature of the offence – involving deception and trickery – militates against any accurate measurement, as victims might not be aware of anything being amiss. Also, some fraud is not reported, even though victims might be aware (Higson, 1999). Another major reason has been the hitherto lack of single legal definition of fraud in the English Legal System. As the 2006 Fraud Review stated:

> The absence of a legal definition of fraud has seriously hampered the objective measurement of fraud. (Fraud Review, 2006, pp 22–23, para 2.4)

Rather, individual institutions have attempted to measure the fraud committed against them, each using a series of different definitions of fraudulent behaviour, resulting in there being no single “robust” methodology for fraud (Fraud Review, 2006, pp 22–23, paras 2.1–2.4). As with other organizations, measuring the degree of fraud committed against the DWP has continued to be problematic, with the DWP itself continuing to qualify its own statistics.

Problems over the accuracy of figures arise for a number of reasons. Firstly, the DWP do not measure potential fraud across all of the benefits it administers. Thus, Sainsbury (2000) points out that organized fraud against the system is not mentioned, nor IOP, or Instrument by Payment fraud. Also, until

Table 2 National estimates for overpayment: IS/JSA/Pension Credit 1999–2005

	Fraud £ (in million)	*Customer error (in million)*	*Official error (in million)*	*Total (in million)*
1999–2000	830	170	310	1320
2000–2001	780	160	310	1200
2001–2002	700	190	260	1150
2002–2003	620	180	290	1090
2003–2004	420	250	390	1110
2004–2005	360	230	380	960

(DWP, 2006).

comparatively recently detailed measurement was still confined to Income Support and JSA; the other benefits being subject to one off national reviews such as those in the late 1990s. As the PAC commented:

> The Department needs to supplement their estimates of fraud and error on Income Support and Jobseeker's Allowance, and their work to develop robust estimates for Housing Benefit, with a planned programme of reviews of other benefits. This will allow targets to be set for reducing fraud and error in all benefits and their performance to be measured. (PAC, 2002, para 1)

This has now been addressed but the lack of sufficient data before 2003–2004 on, for example, Housing Benefit means that it is difficult if not impossible to assess the effectiveness of the new structures and procedures over the period.

Secondly, the continued refinements in the measurement, while making for an improving accuracy of the extent of fraud, nonetheless have made comparisons over time difficult, if not meaningless, as the DWP themselves conceded in 2005 when commenting on the 2003–2004 reductions in fraud for fraud and error in JSA/IS:

> The figures for Apr 2003–Mar 2004 have been adjusted for data quality problems found. Previous figures have not been adjusted in this way, as there is not enough information available to do so. They (*the figures*) therefore are not all suitable for making reliable comparisons over time but give a reference of our best estimate of these overpayment figures in each year. (DWP, 2005)

Besides methodological issues, there is the problematic nature of fraud itself and the continuing problems the DWP has in accurately defining what constitutes fraud.

Measuring fraud: Is it fraud at all?

The problems associated with assessing the effectiveness of the measures can also be attributed to the problematic nature of fraud itself. As the Permanent Secretary at DWP in evidence to the public accounts committee admitted when assessing Income Support:

> Part of the trouble with income support is that it depends on self-declaration of means. The areas that are most difficult to police are income, savings and living together as man and wife. (Lomax, 2002, para 4)

This is evident in the department's concentration on "overpayment" and "incorrectness", as well as just fraudulent activity. Such "incorrectness" has been categorized as Departmental/Official Error; Claimant/ Customer Error; Suspicion of fraud and confirmed fraud.

Departmental error includes mistakes in benefit calculation, or failure to process information fully or correctly. Claimant error was defined as errors committed by claimants that were accidental, or without intent to defraud.

But suspicion of fraud can range from "mild" to "high" yet not counted in the figures because they fail the evidential test for prosecution (Sainsbury, 2000, 2003). Instead, while those cases that attracted a high level of suspicion were investigated, until 2006, the rest were disregarded (White, 2006).

Error and compliance: Diluting the risk management approach?

The problematic nature of benefit fraud led to a situation where while the DWP could claim that utilizing Risk Management techniques within the strategic framework had been effective and fraud was being steadily reduced, the category for error was either static, or in the case of customer error, increasing. Thus, by 2005 both official and customer error accounted for 60% of the overpayment figure (Bourne, 2006). The effect of targeting resources on the cases where evidence was strongest for fraud, or "Putting it Right", was to discard those cases that the FRISC system had deemed too weak to pursue. Consequently, the area of "keeping it right" by ensuring that changes in a claimant's circumstances were reflected in changes to benefit, was neglected. As they commented:

> Currently a large percentage of fraud referrals are overloaded or classified for no further action. These cases do not have specific allegations or evidence of incorrect benefit, but analysis has shown they are categories where it is highly likely that the customer has not declared a change. (DWP, 2005b, p 7)

The realization that such overpayments represented an increasing loss to the DWP led to the introduction of a system of "Compliance" and away from the principles of a risk and intelligence-led approach in assessing cases for intervention.

From 2006, any cases where the evidence was not considered strong enough to merit investigation but still had characteristics of fraud were to be referred to a compliance process. Claimants would be interviewed to remind them that any change in their circumstances should be reported promptly. They would then be asked to sign a statement acknowledging their responsibility and the consequences of their alleged actions. The threat being that if any such suspicious behaviour continued then they would be investigated. As the DWP put it:

- The key issue for 2005/06 is to transform the way in which we tackle fraud and error. There are three key elements to our *new* approach:
- Process Compliance to get claims right and keep them right.
- Customer Compliance to ensure that customers tell us on time about changes that affect their benefit.
- Criminal Investigation to sanction more complex cases of serious abuse (DWP, 2005b).

The early indications are that the compliance strategy has been successful in reducing "customer error" (DWP, 2005a; White, 2006), but using a compliance approach means that the principles of risk management are applied less rigorously.

Conclusion

Since the early 1990s, successive governments have increasingly recognized that fraud against the public sector to be an important issue. A number of factors have contributed to this, including the need to make the operation of local and central government more transparent and accountable. As regards the provision of welfare, politicians have seen the fight against fraud to be a crucial element in gaining public support for reform.

As a result, policies have been overhauled, introducing a proactive approach based on the risk management principles. Risks have been identified systematically, and structures and procedures introduced aimed at controlling and reducing the threat. One of the pioneers in this process has been the DWP, who introduced a comprehensive strategic management approach to the provision of welfare benefits and how fraud could be countered. Fraud would be reduced by targeting resources on those cases that posed the greatest risk of fraud occurring. Following the introduction of the new policy, there has been a dramatic reduction in the levels of fraud committed against the department, a vindication of the "putting it right" approach. However, its precise effect cannot as yet be certain due to methodological difficulties and the nature of fraud itself. What is known is that the new system led to a neglect of the "keeping it right" element of the strategy. To rectify this, there has been a change in emphasis in how cases of suspected fraud are handled, towards customer compliance. This has diluted the original risk approach. The DWP experience shows more needs to be done, not just in terms of increased resources in combating fraud, but also in appreciating the nature of fraud itself.

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