

# The National Fraud Initiative

Council members' briefing, May 2012



**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), local police bodies and other local public services in England, and oversees their work. The auditors we currently appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

## Introduction

**This briefing for elected members outlines the benefits from participating in the National Fraud Initiative (NFI), the Audit Commission's data matching exercise. It explains how the NFI helps councils fight fraud and sets out how the Commission plans to improve the NFI. It includes a checklist for members on page 9.**

### Fraud is a serious problem

- 1 In its recent *Annual Fraud Indicator*, the National Fraud Authority (NFA) estimates that fraud in the public sector costs £20.3 billion a year. This amounts to £390 for every adult in the UK. The cost of fraud to local government is estimated at £2.2 billion a year.
- 2 Councils need strong anti-fraud cultures and effective counter-fraud policies and procedures that stress the unacceptability of fraud and its serious consequences. Members have a key role in ensuring that their council checks regularly the effectiveness of its arrangements for preventing and detecting fraud.
- 3 The NFI<sup>i</sup> combats the threat of fraud by comparing information held by different organisations to identify potentially fraudulent claims and overpayments.
- 4 The key strength of the NFI is that it brings together a wide range of different organisations, working together in partnership to tackle fraud. Fraudsters will often target different organisations at the same time, using the same fraudulent identities.

### The Audit Commission runs the NFI to help detect fraud, overpayments and error

- 5 Since 1996, the Audit Commission has run the NFI data matching exercise every two years, helping to identify nearly £939 million of fraud, overpayments and error across England, Scotland, Wales and Northern Ireland<sup>ii</sup>. Of this total, £813 million has been detected in England.
- 6 We run the NFI in partnership with the public audit agencies in Northern Ireland, Scotland and Wales. Aggregate outcomes for bodies in Scotland,

- i The government has confirmed it intends to continue the NFI after the Audit Commission's abolition.
- ii Where applicable, amounts included in this report have been rounded to an integer, 0.5 and above were rounded up and under 0.5 rounded down.

Wales and Northern Ireland since they first started to run the NFI are £127 million.

**7** Some 1,300 participating organisations from across the public and private sectors provide data, and key data sets are provided by government departments and other national agencies.

**8** Participants include all local councils, police authorities, and fire and rescue authorities and local NHS bodies, who are required by law to provide data for the NFI. A number of other public sector and private sector bodies also participate on a voluntary basis.

**9** Table 1 shows examples of the data matches that we undertake and why. Where a match is found it indicates that there is an inconsistency that requires further investigation by the body. The investigation may detect instances of fraud, over or underpayments, and other errors. For example, payroll to housing benefit matches can identify employees who may be committing benefit fraud by not declaring their earnings; pension matches may identify a person as being listed as dead, but still in receipt of a pension.

**10** A match does not automatically mean there is a fraud. Often there is a straightforward explanation for a data match that prompts bodies to update their records and to improve their systems.

Table 1: **Examples of the data matches the NFI undertakes**

Data match	Possible fraud or error
Pension payments to records of deceased people.	Obtaining the pension payments of a dead person.
Housing benefit payments to payroll records.	Claiming housing benefit by failing to declare an income.
Payroll records to records of failed asylum seekers and records of expired visas.	Obtaining employment while not entitled to work in the UK.
Blue badges records to records of deceased people.	A blue badge being used by someone who is not the badge holder.
Housing benefit payments to records of housing tenancy.	Claiming housing benefit despite having a housing tenancy elsewhere.
Council tax records to electoral register.	A council taxpayer gets single person discount (SPD) because the person is living with other countable adults, which means the council taxpayer does not qualify for a discount.
Payroll records to other payroll records.	An employee is working for one organisation while being on long-term sick leave at another.

Source: Audit Commission

## The NFI operates within a strong legal framework using secure web applications and systems

11 The NFI works within a strong legal framework, including the Data Protection Act 1998, which protects individuals' personal data.

12 Data matching exercises are carried out under statutory powers in Part IIA of the Audit Commission Act 1998, which contains important safeguards on the use and disclosure of data, including the requirement for a statutory *Code of Data Matching Practice*.

13 The Code helps ensure that all those involved in the NFI exercises comply with the law, especially the provisions of the Data Protection Act 1998. It sets out the expected data security and privacy standards that the Commission has always considered essential to the effectiveness of the NFI. It also promotes good practice.

14 The NFI's data matching systems and processes comply with all relevant government information security standards.

### Secure data transfer process

- Datasets are transferred by participants to the Audit Commission via a secure NFI website using an electronic transfer process which encrypts data on upload.
- All the matches are provided back to participants using the same secure tool.
- Access to the tool and NFI matches is controlled by secure password, and strict controls exist to ensure access is only provided to authorised individuals.

## The NFI has helped participants find record levels of fraud, overpayment and error

15 Since we last reported in May 2010, the NFI has identified fraud, overpayments and errors in England totalling almost £229 million. This represents a 25 per cent increase on the total for the previous reporting period (£183 million)<sup>i</sup>.

16 The total comprises outcomes already delivered of £91 million and estimated outcomes of £137 million. These estimated outcomes represent expenditure that would have been incurred in future years had the fraud or errors gone undetected.

17 The main categories of fraud identified by the NFI in England since May 2010 continue to relate to pensions (£90 million), council tax (£50 million) and housing benefit (£31 million).

<sup>i</sup> For national reporting purposes, outcomes are collated at two-yearly intervals as at 31 March. Outcomes submitted by participants after this date are included in subsequent reports.

### **The exercise also produced other significant results**

- 164 employees were dismissed or asked to resign because they had no right to work in the UK.
- 235 properties were recovered for social housing.
- 321 false applications were removed from housing waiting lists following a pilot with London borough councils.
- 731 people were prosecuted.
- 31,937 blue badges and 51,548 concessionary travel permits were cancelled.

## **Making the most of the NFI**

**18** Data matching showing little or no fraud and error assures councils about the effectiveness of their control arrangements. It also strengthens the evidence for their Annual Governance Statement. It can identify fraud, and therefore fraud risks, which the council was unaware of; and help identify fraud against other NFI participants.

**19** The NFI's full potential is only realised if the bodies that take part (a) supply all the required data on time; and (b) undertake appropriate follow-up investigations of the matches promptly and thoroughly.

**20** The more effectively councils follow up their NFI matches, the more benefits they get.

**21** For each exercise we consider how well councils use the NFI taking into account the views of the external auditor. While most councils have sound arrangements in place for managing the NFI and for investigating data matches, there is still scope to do better.

- The NFI matches are not seen by some councils as a valuable source of intelligence and therefore they are not being given appropriate priority.
- Not all councils are making use of the tools within the web application to help them identify high-priority matches linked to local risks.
- Some councils are using alternative matching services from commercial providers before they have followed up their NFI matches.

## **Role of members**

**22** Councils that have the most successful counter-fraud strategies are generally those where there is strong support at a senior level, led by elected members, chief executives and directors of finance. These councils also have an effective anti-fraud culture in place, so employees have a clear understanding of the role they can play in tackling fraud.

**23** We welcome increased engagement by elected members in the NFI. A checklist has been included on page 9, which contains a series of questions that members can put to the director of finance/NFI senior responsible officer. The responses will help members understand how the NFI is being used within their organisation and importantly identify if the benefits of participation are being maximised.

## Looking to the future

**24** Following the announcement, in August 2010, of its intention to abolish the Audit Commission, the government has confirmed it intends to continue the NFI. The Commission will work closely with the Department for Communities and Local Government and other stakeholders to secure the most appropriate home for the NFI.

**25** While the Commission retains oversight of the NFI it will continue to develop the NFI to address emerging fraud risks, with an increasing focus on fraud prevention.

### Real-time and flexible data matching

**26** The NFI launched a real-time service in September 2011, marking an important shift from fraud detection to fraud prevention.

**27** The Commission has consulted councils on how the real-time service should be expanded to help them target fraud prevention – for example, to identify the anomalies that may signal fraud before an application for a benefit or service is approved. The new service will offer a flexible range of options, including real-time and flexible batch data matching, and councils will be able to decide locally on the data they want to supply for matching.

**28** These new approaches to real-time and flexible batch matching could help councils identify potential fraud in a wide range of areas. These could include:

- housing waiting lists – by submitting details of an individual near or at the top of the list for matching against the NFI datasets to confirm the individual is not ineligible for social housing before offering a tenancy;
- housing benefit – by submitting benefit claimant details for matching against the Metropolitan Police’s Amberhill information on known stolen/false identities before awarding benefit; and
- blue badges – by submitting applications for matching against deceased person records before issuing the badge.

**29** These flexible services could be used by councils to deliver many of the recommendations made by NFA in its *Fighting Fraud Locally* strategy.

### New fraud risks

**30** In the Audit Commission’s annual survey of detected fraud in local government, councils have reported significant new fraud risks from the move to personal budgets in social services. In response, we are looking to develop a pilot data match in this area as part of the NFI 2012/13.

### Widening the NFI for other purposes

**31** We believe the NFI could secure even better outcomes if it were extended to cover non-fraud purposes, as the legislation already allows any Secretary of State to do. These other purposes are defined as being to assist in the:

- prevention and detection of crime other than fraud:



- apprehension and prosecution of offenders; and
- recovery of debt owing to public bodies.

### **Want to find out more about the NFI?**

**32** To find out more about the NFI, go to our web page, where you will find a copy of the May 2012 national report as well as other useful information.

[www.audit-commission.gov.uk/fraud/nfi/](http://www.audit-commission.gov.uk/fraud/nfi/)



Table 2: **The NFI – A checklist for members**

Question	Answers/action required
<p><b>The NFI in our council</b></p> <ul style="list-style-type: none"> <li>■ What is the role/post of the senior responsible officer accountable for the NFI in our council?</li> <li>■ Do we have a lead elected member for counter-fraud activity, including the NFI?</li> <li>■ What role does our audit committee play?</li> <li>■ How are other elected members or non-executive members kept informed of the NFI?</li> <li>■ What governance arrangements do we have in place to ensure the organisation achieves the best possible outcomes from the NFI?</li> <li>■ Who decides and monitors this approach?</li> <li>■ How is the NFI reflected in the governance training and development provided for officers and board/elected members?</li> </ul>	
<p><b>Maximising results</b></p> <ul style="list-style-type: none"> <li>■ What resources do we invest in the NFI?</li> <li>■ What were our outcomes from the most recent NFI?</li> <li>■ Are we ensuring we maximise the benefits of the NFI – for example, following up data matches promptly, recovering funds and prosecuting where possible?</li> <li>■ What assurances have we drawn about the effectiveness of internal controls and the risks faced by the organisation?</li> <li>■ What changes have we made as a result?</li> <li>■ Do those responsible for the NFI in the council feel they get appropriate support from other managers in the council when investigating matches?</li> </ul>	
<p><b>Broadening our council’s engagement with the NFI</b></p> <ul style="list-style-type: none"> <li>■ Are we taking advantage of the opportunity to suggest and participate in NFI pilot data matching?</li> <li>■ Have we considered how we could use the new flexible batch and real-time matching services?</li> </ul>	
<p><b>Data Security</b></p> <ul style="list-style-type: none"> <li>■ What is our strategy/policy for data security?</li> <li>■ Is there any specific reference to the NFI data security in the strategy</li> </ul>	
<p><b>The NFI fit with wider counter-fraud policies</b></p> <ul style="list-style-type: none"> <li>■ How does the NFI influence the focus of our counter-fraud work?</li> <li>■ Does our counter-fraud policy include reference to the council’s participation in the NFI?</li> <li>■ Do we publicise the outcomes from the NFI?</li> <li>■ How does the NFI influence how and what we communicate to the public about our approach to counter-fraud?</li> <li>■ Are the outcomes from the NFI used to inform our wider decision making – for example, internal audit risk assessments, data quality improvement work or anti-fraud and corruption policy?</li> </ul>	