

Subject: National Fraud Initiative

Status: For publication

Report to: Audit and Accounts Committee

Date: 29th June 2010

Report of: Head of Internal Audit

Portfolio

Holder: Finance and Resources

Key Decision: No

1. PURPOSE OF REPORT

- 1.1 To provide a summary of the 2008/09 National Fraud Initiative (NFI) exercise completed in January 2010 and an overview of the forthcoming exercise to be undertaken by the internal audit service in this area during 2010/11.

2. CORPORATE PRIORITIES

- 2.1 The matters discussed in this report impact directly on the following corporate priorities and associated corporate objective.

3. RISK ASSESSMENT IMPLICATIONS

- 3.1 All the issues raised and the recommendation(s) in this report involve risk considerations as set out below:
- Failure to submit or provide relevant data sets may lead to fines or penalties being imposed by the Audit Commission;
 - Inappropriate investigation of data matches may potentially lead to financial loss to the authority or funds owed to the authority not being recovered accordingly; and
 - Failure to take appropriate and timely action may result in the Audit Commission undertaking the inspections and investigations potentially resulting in increased fees.

4. BACKGROUND AND OPTIONS

- 4.1 Internal Audit works closely with the council's external auditor, the Audit Commission, to support its work wherever possible. We therefore support the Audit Commission's work proactively to identify potentially fraudulent transactions, known as the National Fraud Initiative (NFI).
- 4.2 The NFI is a data matching exercise, which began in 1996. It is designed to help participating bodies to detect fraudulent and erroneous payments. The testing relevant to Rossendale Borough Council (RBC) is primarily directed towards reducing the level of housing benefit, but testing also addresses other areas including payroll, creditors, market trader licences and, taxi driver licences. During 2008 this exercise was extended to include insurance claims, personal licences to supply alcohol and concessionary travel passes.
- 4.3 Lancashire County Council (LCC) is responsible for processing applications and issuing concessionary travel passes. Whilst LCC is responsible for submitting the data to the Audit Commission, RBC is responsible for investigating any resulting matches.
- 4.4 In addition, matches are produced with respect to procurement. The Audit Commission uses the payroll and creditors data submitted by RBC and matches it with data from Companies House to ascertain whether there are any employees of the council that are registered with a company that the council has trades with. Whilst four matches appeared in the results, satisfactory explanations were found for all of the matches. There were no issues of concern.
- 4.5 A number of match reports are produced by the Audit Commission for each category of data. The table below indicates the category of data, the number of reports for each category and the number of matches for each category of data.

<u>Rossendale Borough Council</u> <u>2008/09 NFI Exercise - Analysis of Reports/Matches</u>		
<u>Category of Data</u>	<u>No. of Match Reports</u>	<u>No. of Matches</u>
Housing Benefit	26	726
Payroll	2	5
Concessionary Travel Passes	1	261
Insurance Claimants	4	7
Creditors	6	233
Procurement	2	4
Council Tax	2	549
Market Trader Licences	0	0
Taxi Driver Licences	0	0
Personal Licences to Supply Alcohol	0	0
Total	43	1,785

- 4.6 Prior to 2008, the NFI exercise was carried out every two years. Since 2008 the exercise has been extended to include data matching between council tax data and the electoral roll within individual authorities. This new requirement has been dovetailed into the two year cycle so that there is now an exercise every year but with different data sets alternating between years.
- 4.7 The 2008/09 NFI exercise identified and made total savings of £25,133.62 for Rossendale Borough Council. The areas of savings are illustrated in the table below:

<u>Rossendale Borough Council</u> <u>2008/09 NFI Exercise - Savings Identified</u>				
<u>Category of Matches</u>	<u>Number of Matches</u>	<u>No of frauds</u>	<u>No of Errors</u>	<u>Total Savings £</u>
Housing Benefit Claimants	22	0	1	2,324.22
Duplicate Creditor Payments	135	0	1	1,136.23
Council Tax Single Person Discount	460	10	43	18,496.52
Council Tax Rising 18s	89	0	13	3,176.65
Totals	706	10	58	25,133.62

- 4.8 The table suggests that there are significant numbers of matches and yet not many frauds or errors. The matches provide quality data for investigation but in many instances there are valid reasons for a particular match to be reported which becomes evident as part of the investigation process.
- 4.9 As can be seen in the table, 10 cases of 'fraud' associated with council tax single person discounts were identified amounting to £3,130.75. This is where the householder has claimed a 25% single person discount on their council tax for the sole occupancy of a dwelling, whilst there has been more than one person in the property aged 18 or over. The reason why these have been categorised as frauds is that the householder has failed to respond to letters from the council.
- 4.10 The results categorised as 'errors' for all of the matches in the table, are where overpayments have been made, but there has been a reasonable explanation as to why the error has occurred as opposed to an intention to purposefully defraud the council. For example, a householder may have neglected to inform the council that their single person discount is no longer applicable, but they have agreed to pay any overpayment when they have been contacted.
- 4.11 Action has been taken to recover the overpayments in all of the cases identified in the table, by either increasing monthly payments, decreasing benefits or the raising of bills.

- 4.12 In addition to the monetary savings, 261 concessionary travel passes were cancelled in respect of residents in the Rossendale borough.
- 4.13 Nationally, an estimated £215 million in fraud, overpayments and errors was detected in 2008/09. Since the initiative started in 1996, the programme has helped detect £664m. The figure for 2008/09 represents a 54 per cent increase on the figure of £140 million identified in the 2006/07 NFI exercise, reflecting well on the bodies that followed up effectively the matches given to them. Key outcomes from the 2008/09 exercise include:
- Pension frauds and overpayments amounting to £78 million;
 - £56 million of council tax single person discount that was fraudulently or wrongfully received;
 - 181 employees were dismissed or asked to resign because they had no right to work in the UK;
 - 269 people were prosecuted;
 - 21,534 concessionary travel permits and 16,535 blue badges were cancelled;
 - 97 properties were recovered for social housing.
- 4.14 Council tax data (October 2009) and electoral roll data (December 2009) was submitted to the Audit Commission for matching purposes and the associated results from this data were obtained in March 2010. Details of the matches are contained in the table below:

<u>Rossendale Borough Council</u>	
<u>2009/10 NFI Exercise - Council Tax/Electoral Roll Matches</u>	
<u>Category of Matches</u>	<u>No. of Matches</u>
Council Tax Single Person Discount	320
Council Tax Rising 18s	107
Total	427

These matches are currently under review and the results of the investigations will be reported in due course.

- 4.15 The processing of data by the Audit Commission in a data matching exercise is carried out with statutory authority. It does not require the consent of the individuals concerned under the Data Protection Act 1998. However, we as a public body holding personal data have a duty to inform those individuals that their data will be used for data matching purposes.
- 4.16 The 2010/11 NFI exercise for general matches, referred to in paragraph 4.2 above, has now commenced. We will be shortly beginning the process of issuing fair processing notices, as required under the Data Protection Act 1998 for the use of personal data in the matching exercise and the collation of data for submission to the Audit Commission in October 2010.
- 4.17 Further information about the process and the timetable of events in respect of the NFI exercise is set out in Appendix A.

COMMENTS FROM STATUTORY OFFICERS:

5. SECTION 151 OFFICER

5.1 Financial implications are noted in the report.

6. MONITORING OFFICER

6.1 "The council is required by law to protect public funds. It may share information which it has acquired with other bodies responsible for auditing or administering public funds in order to protect and detect fraud.

The use of data in this way is carried out under powers granted by the Audit Commission Act 1998; the consent of individuals affected is not required under the Data Protection Acts."

7. HEAD OF PEOPLE AND POLICY (ON BEHALF OF THE HEAD OF PAID SERVICE)

7.1 No HR implications.

8. CONCLUSION

8.1 The National Fraud Initiative is a mandatory exercise and therefore Rossendale Borough Council is required to fulfill the requirements of this exercise by submitting relevant data sets for data matching purposes and undertaking testing on matches identified. We can confirm that all necessary data requirements have been submitted to the Audit Commission within the specified timescales and action is now being taken to investigate data matches highlighted as part of the NFI exercise.

9. RECOMMENDATION(S)

9.1 The Committee is invited to consider the report.

10. CONSULTATION CARRIED OUT

10.1 N/A

11. EQUALITY IMPACT ASSESSMENT

Is an Equality Impact Assessment required No

Is an Equality Impact Assessment attached No

12. BIODIVERSITY IMPACT ASSESSMENT

Is a Biodiversity Impact Assessment required No

Is a Biodiversity Impact Assessment attached No

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Background Papers	
Document	Place of Inspection
National Fraud Initiative 2008/09 Handbook: Local Government	Andrew Fox 01772 534920 Andrew.Fox@lancashire.gov.uk
Statutory Code of Data Matching Practice	Andrew Fox 01772 534920 Andrew.Fox@lancashire.gov.uk