

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

1.	Meeting:	Audit Committee
2.	Date:	19th November 2014
3.	Title:	National Fraud Initiative
4.	Directorate:	Environment and Development Services

5. Summary

This report contains a summary of the recently produced report “The National Fraud Initiative 2012/13”. It outlines the benefits from participating in the NFI and 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.

Rotherham Council continues to participate in and benefit from the NFI by highlighting and stopping fraud and demonstrating the Council’s zero tolerance approach to fraud.

6. Recommendations

The Audit Committee is asked to:

- **note the publication of “The National Fraud Initiative 2012/13” report**
- **support the Council’s participation in NFI exercises as part of its arrangements for managing the risk of fraud.**

7. Proposals and Details

7.1 Background

In its recent Annual Fraud Indicator, the National Fraud Authority (NFA) estimates that fraud in the public sector costs £20.6 billion a year. This amounts to £420 for every adult in the UK.

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.

The National Fraud Initiative (NFI) combats the threat of fraud by comparing information held by different organisations to identify potential fraud.

The key strength of the NFI is that it brings together data from 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.

7.2 The Audit Commission's National Fraud Initiative

Since 1996, the Audit Commission has run the NFI data matching exercise every two years, helping to identify nearly £1.17 billion of fraud, overpayments and error in England, Scotland, Wales and Northern Ireland. Of this total, £1.02 billion has been detected in England.

Due to the forthcoming abolition of the Audit Commission, NFI work scheduled for beyond March 2015 will now be delivered by the Cabinet Office.

Some 1,300 participating organisations from across the public and private sectors provide data to the NFI.

Participants include all local authorities, police, fire and rescue authorities and 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.

Table 1 shows examples of the data matches undertaken 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 deceased, but still in receipt of a pension.

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 tax payer gets council tax single person discount but the person is living with other countable adults, and so 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.

7.3 Data Protection.

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

Data matching exercises are carried out under statutory powers in Part 2A 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.

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.

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

7.4 NFI results

Since the last NFI report in May 2012, the NFI has identified fraud, overpayment and error in England totalling £203 million. This represents an 11 per cent decrease on the total for the previous reporting period (£229 million) but compared to the pattern of outcomes over time £203 million is still a significant outcome.

The total comprises saving of £144 million for 2012/13 and £59 million of outcomes not previously reported from earlier exercises. These estimated outcomes represent expenditure that would have been incurred in future years had the fraud or errors gone undetected.

The main categories of fraud identified by the NFI in England since May 2010 continue to relate to pensions (£74 million), council tax (£39 million) and housing benefit (£33 million).

The exercise also produced other significant results:

- 120 employees were dismissed or asked to resign because they had no right to work in the UK.
- 86 properties were recovered for social housing.
- 571 people were prosecuted
- 2,394 false applications were removed from housing waiting lists
- 21,396 blue badges and 78,443 concessionary travel permits were cancelled.

7.5 Future arrangements

The future transfer of the Commission's data matching powers, and therefore the NFI, to the Cabinet Office was secured when the Local Audit and Accountability Act received Royal Assent on 31st January 2014. The transfer of the data matching powers and the Commission's NFI team is expected to take place on 1st April 2015. In the short term the main objective is to make the transition as smooth as possible. The fact that the NFI web application is delivered by a third party under a contract, which will also transfer to the Cabinet Office, will help ensure that the day to day experience of taking part in the NFI is unaffected by this transition.

Discussions are also on-going about the longer term strategy for the NFI. These will focus on ensuring the NFI team:

- Continue to develop the successful batch data matches through two yearly matching and the flexible data matching service to offer more flexibility and respond quickly to new risks;
- Continue to work on fraud prevention matching through the development of real-time data matching services;
- Extend the data matching purposes at the earliest opportunity to enable the NFI to offer services to a broader range of organisations and sectors; and
- Maximise the opportunities presented by the transfer to the Cabinet Office. For example, better integration of central government departments and their data, and understanding how the NFI can contribute to, and benefit from, the Counter Fraud Checking Service currently being developed by the Cabinet Office.

7.6 Rotherham Compared

Compared to its nearest CIPFA neighbours Rotherham Council's total recovery was below average for the 2012/13 NFI; the average being around £50,000. This reflects the strong internal financial control arrangements in place at Rotherham Council which are tested periodically by Internal Audit.

Further to this the Council also take part in a separate data matching exercise with regards to Council Tax which is performed externally by a company called 'Datatank'. The total debit applied to Council Tax accounts following this exercise in 2012/13 was £563k, with an overall recovery rate of 97.5%.

7.7 Rotherham Council's response

Rotherham Council has proactively participated in all NFI exercises run by the Audit Commission since 1996. Internal Audit and the Benefits Fraud Investigation Team investigate data matches on a risk assessed basis (targeting the matches that look most likely to involve fraud). The approach has enabled the Council to implement a range of preventative measures over time and as a result lower levels of fraud are identified over time as more robust control processes are applied to prevent fraud in the first place.

Further to the results published by the NFI for 2012/13 Rotherham Council will:

- Ensure that resources are used efficiently in the investigation of data matches through the targeting of specific high risk areas
- Work collaboratively with colleagues at Doncaster MBC Internal Audit to share intelligence and best practice on the use of NFI data
- Explore the option of real time data matching which uses NFI techniques to generate, and make available, high quality data matches immediately
- Consider the use of other counter fraud initiatives in addition to the NFI data matching, similar to the one currently performed by 'Datatank'
- Consider a business case for the development of a corporate counter fraud function

8. Finance.

The cost to RMBC of participating in the NFI 2014/15 exercise is £4,000.

9. Risks and Uncertainties

Failure to participate in the NFI could expose the Council to increased risks of fraud & corruption. Also, the NFI is a mandatory exercise for Councils.

10. Policy and Performance Agenda Implications

Continued participation in the NFI will contribute towards good governance.

11. Background Papers and Consultation.

A copy of the report has been sent electronically to Audit Committee Members.
The report has been attached at Appendix A.

Contact Names:

Colin Earl, Director of Audit and Asset Management, ext. 22033

Marc Bicknell, Chief Auditor, ext. 23297