

REPORT TO: Audit Committee	DATE 21 September 2010	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources		<i>The National Fraud Initiative 2010-11 (NFI 2010/11)</i>		
ORIGINATING OFFICER(S): Tony Qayum, Head of Audit Services		<i>Ward(s) Affected: N/A</i>		

1. Introduction

- 1.1 This report provides the Audit Committee with the background and evolution of the London Fraud Initiative into the National Fraud Initiative (NFI) and launch of the current NFI 2010-11 which have been managed by the Audit Commission.

2. Recommendations

- 2.1 The Audit Committee is asked to note the contents of this report.

3. Background

- 3.1 The NFI compares different sets of data, for example payroll and benefit records, against other records held by the same, or another organisation, bringing to light potentially fraudulent claims and payments. Where a match is found, this means there may be an inconsistency that needs investigation.
- 3.2 The NFI is managed by the Audit Commission and the NFI aims to help prevent and detect fraud and is one of the key ways in which the Audit Commission fulfils its responsibility to promote economy, efficiency and effectiveness in the use of public money.
- 3.3 The Audit Commission processes the NFI data under its statutory powers, which are set out in Part 2A of the Audit Commission Act (1998). These powers put data matching on a statutory footing for local government and NHS bodies, as well as allowing the Audit Commission to extend the NFI to central government and private sector organisations that wish to take part

- 3.4 The London Borough of Tower Hamlets has been participating in the National Fraud Initiative (previously known as the London Fraud Initiative) since 1994.
- 3.5 The Serious Crime Act 2007 (SCA) gave the Audit Commission new powers to enable the benefits of NFI to be extended to central government and the private sector. The Serious Crime Act 2007 inserted a new Part 2A into the Audit Commission Act 1998 (ACA).
- 3.6 The SCA imposed a new regulatory regime alongside existing fair processing and other compliance requirements of the Data Protection Act 1998. Any person or body conducting or participating in the Commission's data matching exercises must by law, have regard to a statutory Code of Data Matching Practice.
- 3.7 The exercises have evolved over time and the Commission has extended its partners to all Local Authorities in England, Wales, Scotland, and Northern Ireland and pension details from the Health, Police, and Fire Services. To date the National Fraud Initiative has successfully detected fraud and overpayments totalling over £600 million since 1996. A copy of the 2008/09 NFI report is attached as Appendix A.

4. Statutory Framework and Code of Data Matching Practice 2008

- 4.1 The Commission conducts data matching exercises under its new statutory powers in the Audit Commission Act 1998, Part 2A. The Legislation requires the Commission to prepare a code of practice to govern its data matching exercises, and to consult over it before approving and laying it before Parliament. The Code of data matching practice 2008 was finalised, published, and laid before Parliament on 21 July 2008. The 2008 Code replaced the previous Code published by the Commission in May 2006. A copy of the 45 page Code can be found on the Audit Commission website on the following link <http://www.audit-commission.gov.uk/SiteCollectionDocuments/Downloads/CodeDMPFinalJuly08.pdf>
- 4.2 The Commission may carry out data matching exercises for the purpose of assisting in the prevention and detection of fraud, as part of an audit or otherwise. The Commission may require certain bodies to provide data for data matching exercises. Currently these are all the bodies to which it appoints auditors or which it inspects other than registered social landlords. Other bodies may participate in its data matching exercises on a voluntary basis where the Commission considers it appropriate. Where they do so, the statute states that there is no breach of confidentiality and generally removes other restrictions in providing the data to the Commission. The requirements of the Data Protection Act 1998 continue to apply.
- 4.3 The processing of data by the 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 the Data

Protection Act 1998 normally requires participants to inform individuals that their data will be processed. Unless an exemption applies, for data processing to be fair, the first data protection principle requires data controllers to inform individuals whose data is to be processed of:

- the identity of the data controller;
- the purpose or purposes for which the data may be processed; and
- any further information that is necessary to enable the processing to be fair.

4.4 The Audit Commission's code of practice requires that the Director of Finance or equivalent senior named officer will act as Senior Responsible Officer for NFI purposes. The Director of Finance, or equivalent senior named officer acting as 'senior responsible officer' for NFI, has key responsibilities to ensure the statutory requirements for bodies participating in NFI are met, as follows:

- nominate a key contact
- ensure the key contact has access to the matches (via the secure NFI software) when they become available (January 2011)
- ensure that the key contact fulfils all data protection requirements

4.5 Key Contact role - The key contact will be responsible for:

- nomination of appropriate users to upload data submissions. This should be the person with the most knowledge of the system in question
- nominating appropriate dataset contacts
- ensuring that the data formats guidance and data specifications are adhered to
- fulfilling data protection requirements. The key contact should be in direct communication with their organisation's data protection officer or person with equivalent responsibility
- nominating appropriate users that will investigate the matches and act as point of contact for other bodies
- coordinating and monitoring the overall exercise
- providing feedback on the outcomes of the exercise

Participants should submit a declaration confirming compliance with the fair processing notification requirements (Fair processing compliance return).

4.6 Data submission - The user responsible for submission of the data should ensure that data:

- meets the specifications
- is in the correct format
- is submitted by the specified method (in other words, the data file upload facility (DFU))
- is received by the required deadline(s)

- 4.7 A secure Data File Upload (DFU) facility is available within the NFI software from the link on the home page or the left hand menu. This enables you to upload your data quickly and easily. A password can also be added to this data. This is the only acceptable method of providing data for NFI.
- 4.8 The code also requires the external auditor to 'provide reasonable assurance' that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error.
- 4.9 Therefore, the code advises, where there is a significant number of over or underpayments identified using a data matching technique may give the auditor reason to believe that there has been a material misstatement of the accounts. This may lead to audit recommendations to improve the systems of internal control.
- 4.10 In preparation for the new code of Practice , Internal Audit have undertaken a detailed examination of the follow up made by services on the output of the last NFI to ensure all reports have been thoroughly reviewed and where necessary followed up.
- 4.11 Data matching in the NFI involves comparing sets of data, such as the payroll or benefits records of a body, against other records held by the same or another body to see how far they match. This allows potentially fraudulent claims and payments to be identified. Where no match is found, the data matching process will have no material impact on those concerned. Where a match is found, it indicates that there is an inconsistency that requires further investigation. In the NFI, participating bodies receive a report of matches that they should follow-up, and investigate where appropriate, to detect instances of fraud, over- or under-payments and other errors, to take remedial action and update their records accordingly.
- 4.12 The purpose of this Code is to help ensure that the Commission and its staff, auditors and all persons and bodies involved in data matching exercises comply with the law, especially the provisions of the Data Protection Act 1998, and to promote good practice in data matching. It includes guidance on the notification process for letting individuals know why their data is matched and by whom, the standards that apply and where to find further information.
- 4.13 Layered notices –
- The Information Commissioner recommends a layered approach to fair processing notices. Usually there are three layers: summary notice, condensed text and full text. Taken together, the three layers comprise the fair processing notice. Participants should decide the content and means of issue of fair processing notices for themselves.

5. National Fraud Initiative 2010/11

- 5.1 In accordance with the Code of Data matching Practice 2008 the Key Contact has been notified to the Audit Commission and the role at Tower Hamlets has been incorporated within the role of the NFI Co-ordinator. The main functions of this role in addition to those specified in Item 4.5 are -
- to ensure that the data has been obtained fairly so that it can be released for the exercise and submit the certificate of fair processing compliance
 - ensure that the data complies with the required formats and submitted to the Commission on time
 - Manage the output data on Audit Commissions web site and act as local administrator to the site to manage enrolment and training of investigators
 - Co-ordinate the Authority's results and liaise with the Commission
 - Provide advice, training and assistance to investigators
 - Carry out initial investigations that concern potential employee irregularity
- 5.2 A time table for the current NFI 2010/11 is attached as appendix B of this report with the following key deadlines-
- 27th September – Submission of Fair processing Compliance return
 - 4th October - Data extraction date
 - 4th October (or ASAP)- Data to be supplied to the Commission
 - 25th January 2011 – Output data expected from the Audit Commission
- 5.3 As previously advised the NFI is a national data matching exercise of data from Authority's key financial systems to identify potential fraud or error. For the NFI 2010/11 all Local Authorities are required to provide the mandatory data :-
- Payroll
 - Pensions
 - Trade creditors' payment history and Trade creditors' standing data
 - Housing
 - Housing benefits² **
 - Council tax (not required until 2011)
 - Electoral register (not required until 2011)
 - Students eligible for a loan³**
 - Private supported care home residents
 - Transport passes and permits (including residents' parking, blue badges and concessionary travel)
 - Insurance claimants
 - Licences - Market trader/operator, Taxi driver and (new) Personal licences to supply alcohol

(NB some data sets ** will be obtained from other sources i.e Benefits Department for Work and Pensions and Students data to be provided by Student Loan Company (SLC).

5.4 Whilst participation in the NFI's is mandatory all participants need to ensure that all information to be released for the NFI is fair processing compliant under the Data Protection Act 1998.

5.5 Tower Hamlets achieves fair processing compliance in two processes :-

- The fair processing statement is included in all key data collecting applications held by the Authority. All applications advise the applicants that the Authority has a duty to protect the public purse, and that as part of the declaration signed by applicants they understand that the Authority has this duty and that it will take steps to recover or redress abuse and share information with other Authorities or agencies for the prevention and detection of crime. This is consistent with the Authority's Anti Fraud and Corruption Strategy.
- In addition data subjects are notified of the Authority's participation in the current NFI's by a range of processes. These are detailed in the next part of this report under consultation processes.

5.6 A layered processing of notifications has been used in the past accordance with the code of Data Matching practice 2008 and this is currently in progress at time of writing the report, with the following :-

- First Layer to advise the data subjects that LBTH is taking part in the next national fraud initiative and the name of the officer at LBTH who should be contacted should you require more details and what it may mean to you
- So far we have achieved compliance with fair processing on Council Tax (annual council tax statement in march 2010) and Pensioners via their annual newsletter in April 2010,
- employees should be notified with week commencing 23rd August 2010, Schools (including school governors) in early September after summer recess.
- Articles are also to be released in the Members bulletins, Managers briefing and staff newsletter before the deadline
- Tenants notifications will be made via local free publication "East End Life" press release this will also include translated articles for other local newsletters
- Second layer is a summary of what the NFI is about and who to contact at the Authority and provide link of the Audit Commission site for detailed information, this has been achieved by a summary outline of the exercise and who to contact for more information being publicised on the Council's web site on the following link www.towerhamlets.gov.uk/nfi
- Third layer is the detailed information held on the Audit Commission web site. <http://www.audit-commission.gov.uk/nfi/Pages/default.aspx>

6. National Fraud Initiative 2008/09

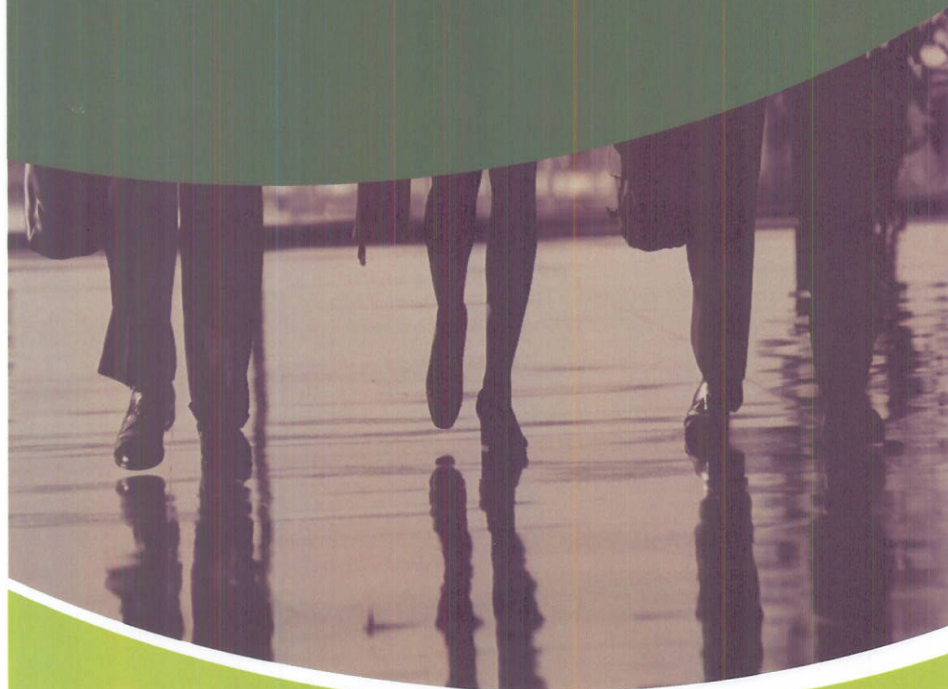
- 6.1 The NFI 2008/09 is being finalised. The detailed outcomes of the work carried out and the results are included the Annual Anti Fraud Report 2009/10 which is elsewhere on the agenda.

APPENDIX A

See attached page

The National Fraud Initiative 2008/09

Summary of our national report published in May 2010



The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Summary

Fraud is a serious and growing problem for the nation.

- Fraud costs the UK £30 billion each year according to the National Fraud Authority.
- Tackling fraud should be a top priority for all organisations.

The Audit Commission runs the National Fraud Initiative (NFI) to help detect fraud, overpayments and error.

- The NFI is a data matching exercise, using sophisticated computer techniques, which matches data within and between organisations.
- Our latest exercise in 2008/09 processed 8,000 datasets from 1,300 organisations.

The NFI 2008/09 found record levels of fraud, overpayments and error.

- Data matching identified fraud, overpayments and error of £215 million across the UK, up 54 per cent from our previous exercise in 2006/07.
- This means that since its launch in 1996, the NFI matches have enabled the detection of fraud, overpayments and error totalling £664 million (Figure 1).ⁱ
- The Commission's exercise in England identified £183 million of fraud, overpayments and error. This comprises £90 million of savings already delivered as recorded by participating bodies and estimated savings of £93 million.

i The figures used throughout this report for fraud detections, overpayments and recoveries include both already delivered and estimated outcomes. Estimates are included where it is reasonable to assume that fraud, overpayments and error would have continued undetected without NFI data matching. A more detailed explanation is included at Appendix 2.

- The NFI helped to uncover pension frauds and overpayments amounting to £78 million, and £56 million of council tax single person discount that was fraudulently or wrongfully received.

The NFI 2008/09 produced other successful outcomes.

- 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.

Most organisations taking part in the NFI perform well but some are not doing enough.

- The £215 million of fraud, overpayments and errors detected reflects well on the efforts of most public bodies and other participants in the NFI 2008/09, who followed up effectively their data matches.
- The NFI is regarded as a periodic exercise, and is not linked to routine corporate counter-fraud arrangements.
- Elected members, non-executives and senior management are often unaware of the NFI.
- A small number of organisations had significant failings in the way they managed the NFI, for example, not submitting the data required or failing to follow up council tax matches effectively.

Changes to the law in 2007, which allowed the NFI to extend to other organisations, have had success.

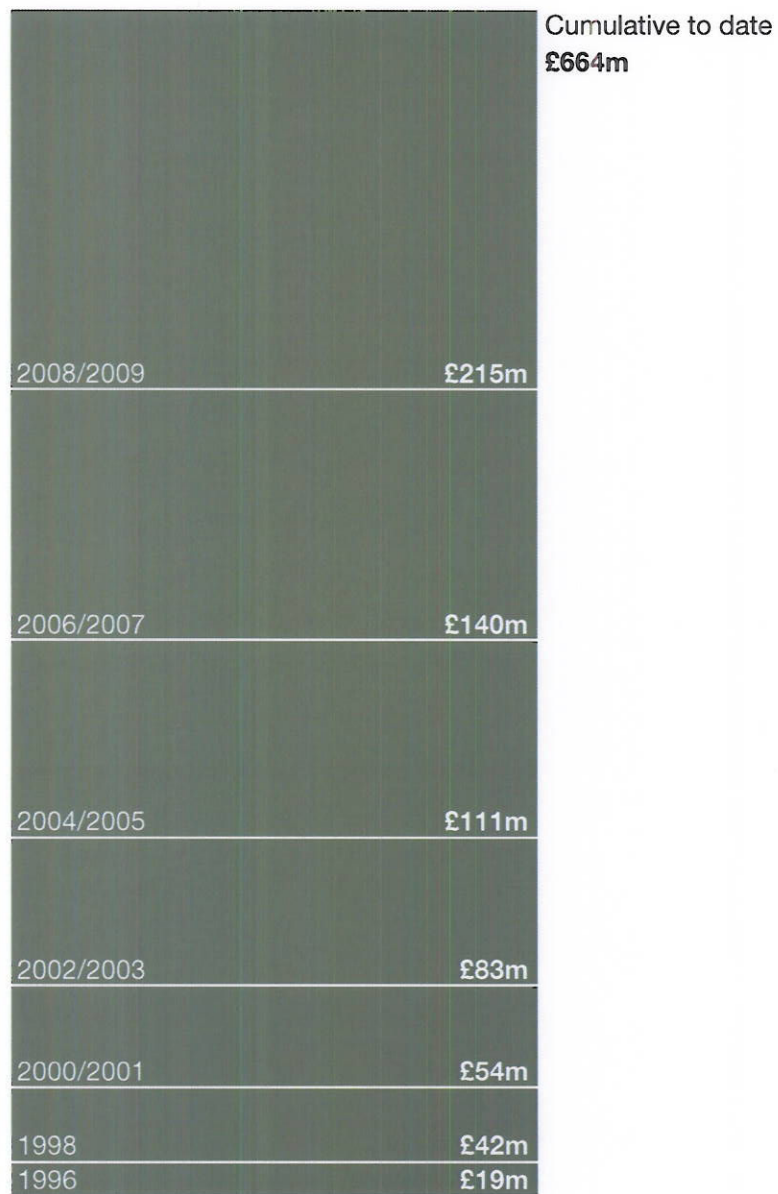
- Local public bodies in Northern Ireland, Scotlandⁱ and Wales took part in the NFI 2008/09 on an extended basis and found frauds and overpayments of over £31 million (Figure 2).
- Almost 100 private sector companies and pension schemes are reaping the rewards of joining the NFI.

The recommendations of the previous government's *Fraud Review* in 2006 have not been implemented effectively.

- No government department, and only one government agency, took part in the NFI 2008/09.
- The previous government did not introduce the necessary Orders to extend the NFI to areas other than fraud, as provided for by the Serious Crime Act 2007.

i Audit Scotland did not benefit from the changes to the law in 2007. Although Scottish public bodies continued to participate as part of statutory audits there were additional restrictions on how the data could be used, for example, no cross-border matching was permitted.

Figure 1: Savings identified by the NFI as reported to the Audit Commission by participants



Source: Audit Commission 2010

Recommendations

Local government should:

- ensure that all data sets are submitted to the Commission on time;
- prioritise data matches and follow them up promptly and rigorously;
- promote awareness of the NFI among senior management and outside the finance directorate;
- engage elected members and non-executives more effectively in the NFI, for example, by nominating a lead member and through regular reporting;
- ensure that the NFI is integral to the overall corporate arrangements put in place for tackling fraud;
- improve their expertise when investigating immigration fraud to bring cases to a successful conclusion;
- recover previous years' discounts when council tax single person discount has been wrongly awarded; and
- improve communications between different departments, so that information about deceased persons is passed promptly to all those having contact with local residents.

Pension funds should:

- prioritise and investigate promptly those data matches where pensions appear to be paid to deceased persons.

The UK Border Agency should:

- share its expertise with councils and other organisations in helping them to tackle immigration fraud.

The government should:

- exercise the existing statutory power to require government departments and their arm's-length bodies to take part in the NFI; and
- lay the Order to extend the NFI to areas other than fraud such as arrears recovery.

Housing associations should:

- take part in future NFI exercises to show their commitment to fighting fraud.

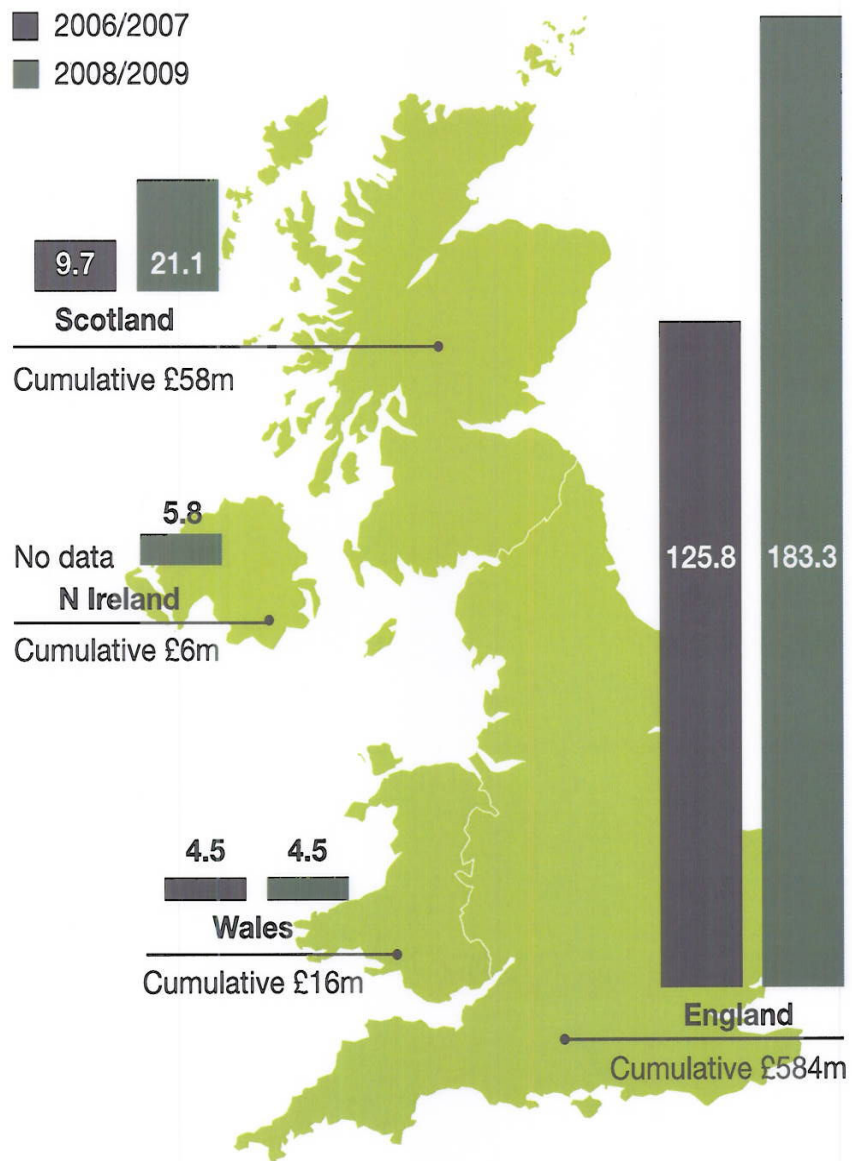
The Tenants Services Authority should:

- continue to encourage all housing associations to take part in the NFI.

The Audit Commission will develop the NFI by:

- addressing new and emerging fraud risks, such as false claims for empty property discounts, abuse of blue badges (multiple badges) and incorrectly enhanced injury pension payments to retired police officers and firefighters;
- involving a wider range and larger number of organisations in future exercises; and
- placing greater emphasis on fraud prevention, such as including housing waiting list data to prevent persons not entitled to social housing from obtaining a tenancy.

Figure 2: **Successfully detected fraud, overpayments and errors (£m)**
 Cumulative total over period of NFI (1996-2010) £664m



Source: Audit Commission 2010

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Both these documents are available on our website.

We welcome your feedback. If you have any comments on this report, are intending to implement any of the recommendations, or are planning to follow up any of the case studies, please email: nationalstudies@audit-commission.gov.uk

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Timetable

A timetable, from collection of data through to distribution of matches, is set out below.

2010/11 timetable			
Activity	Who	How	Timing
Issue the data specifications for each data set	NFI Team (AC)	The data specifications are now permanently available on the NFI web page. An email link will also be sent to all Key Contacts as a reminder.	By Wednesday, 31 March 2010
Confirm users to be rolled over to 10/11 web application	Key Contact	Key Contact will be required to confirm which 2008/09 users will require access to 10/11 web application.	By 28 May 2010
Confirm contact details for the 2010/11 exercise	Director of Finance / Key Contact	New participants: The Director of Finance (or Senior responsible Officer) for your organisation should nominate an appropriate Key Contact by email to nfiqueries@audit-commission.gov.uk . Existing participants: Director of Finance (or Senior responsible Officer) will be required to confirm Key Contacts. Key Contacts will be required to confirm users.	From Wednesday, 16 June 2010 onwards
Force a password reset for the 2010/11 web application	NFI Team (AC)	The first time users log on to 2010/11 web application they will be forced to change their password.	From Wednesday, 16 June 2010 onwards
Issue the instructions to bodies participating in NFI 2010/11	NFI Team (AC)	The instructions are now permanently available on the NFI web page. An email link will also be sent to Directors of Finance and 2010/11 Key Contacts as a reminder.	By Friday, 25 June 2010
Check the list of expected data sets	NFI Key Contact	Log in to the 2010/2011 web application and check the list of expected datasets is accurate for your particular organisation (select 'DFU' from the Home page). Submit any changes to the list by Monday 2 August 2010.	By Monday 2 August 2010

2010/11 timetable

Activity	Who	How	Timing
Confirm who the web application users will be	NFI Key Contact	Key Contacts should ensure the person(s) responsible for uploading data has a user account on the web application. Users responsible for reviewing matches can also access the training modules in preparation for the 28 January 2011 release.	By Monday, 1 September 2010 and when changes occur
The fair processing compliance returns are submitted	Key contact	Submissions are made via the NFI website (external site) . Submission guidance can be found within the help menu labelled 'Form 3 - Fair processing compliance return'.	By Monday, 27 September 2010
The data is extracted from the participant systems in accordance with the data specifications	Key contact / User (data upload)	There is a separate data specification for each data set collected. These specifications can be accessed from the detailed.	Monday, 4 October 2010
The live data is uploaded to the NFI web application	Key contact / User (data upload)	The data is uploaded within the web application via the 'Data file upload' function.	From Monday, 4 October 2010*
The 2010/11 exercise matches are available	NFI Team (AC)	An email link will also be sent to Directors of Finance and 2010/11 Key Contacts as a reminder informing them that the matches are available.	From Tuesday, 25 January 2011

* A series of reminders will be issued from 11 October 2010.