

## **APPENDIX 3**

### **1. Background**

- 1.1 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.
- 1.2 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.
- 1.3 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
- 1.4 The London Borough of Tower Hamlets has been participating in the National Fraud Initiative (previously known as the London Fraud Initiative) since 1994.
- 1.5 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).
- 1.6 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.
- 1.7 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 £939 million since 1996. A copy of the 2010/11 NFI National report is attached as Appendix A.

### **2. Statutory Framework and Code of Data Matching Practice 2008**

- 2.1 The Commission conducts data matching exercises under its 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. A copy of the 45 page Code can be found on the Audit Commission website on the following link [www.audit-commission.gov.uk/nfi](http://www.audit-commission.gov.uk/nfi)

2.2 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 requires 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.

2.3 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.

2.4 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) as soon as they become available.
- ensure that the key contact fulfils all data protection requirements

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

- nomination of appropriate users to upload data submissions
- 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
- Ensuring outcomes from investigations are recorded on the web application promptly and accurately

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

- 2.6 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)
- 2.7 A secure Data File Upload (DFU) facility is available within the NFI software.. This enables the data to be uploaded quickly and easily.
- 2.8 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.
- 2.9 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.
- 2.10 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.
- 2.11 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.
- 2.12 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.

### **3. National Fraud Initiative 2012/13**

3.1 In accordance with the Code of Data matching Practice 2008 the Key Contact has been notified to the Audit Commission. 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

3.2 A time table for the forthcoming NFI 2012/13 has the following deadlines:

- 28<sup>th</sup> September 12 - Submission of Fair processing Compliance return
- 8<sup>th</sup> October 12- Data extraction date
- 8<sup>th</sup> October onwards - Data to supplied to the Commission
- 29<sup>th</sup> January 2013 – Output data expected from the Audit Commission

3.3 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 2012/13 all Local Authorities are required to provide the mandatory data :-

- Payroll
- Pensions
- Trade creditors' payment history and Trade creditors' standing data
- Housing
- Housing benefits<sup>2</sup> \*\*
- Council tax (not required until 2013)
- Electoral register (not required until 2013)
- Students eligible for a loan<sup>3</sup> \*\*
- 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).

3.4 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.

3.5 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.

3.6 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 more details be required.
- So far we have achieved compliance with fair processing on Council Tax (annual Council Tax Statement in March 2012) and Pensioners via their annual newsletter in April 2012.
- Employees will be notified (including school governors) in early September after the summer recess.
- Articles are also to be released in the Members bulletins and Managers Briefing 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](http://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>

- 3.7 This year a new Flexible Matching Service (FMS) has been introduced by the Commission, which is designed to compliment the two year mandatory batch data matching service.
- 3.8 This new service allows participants to submit new data and also allowing a re performance of the existing NFI matches at a time the authority chooses.
- 3.9 There is also the option for a group of authorities or participating organisations to arrange a match to their chosen risk area, in order to target their specific needs.
- 3.10 There are additional fees for this service, which will depend on the volume of data submitted. Where less than 1,000 records are submitted the results are expected to be available within the hour. The cost is £300.00 per dataset.

## APPENDIX A

See attached page

## Appendix B

### Timetable for NFI 2012-13

Activity	Who	How	Timing
Issue the data specifications for each data set	NFI Team (AC)	The <a href="#">data specifications</a> are now permanently available on the NFI web page. An email link will also be sent to all Key Contacts as a reminder.	By Friday, 30 March 2012
Confirm contact details for the 2012/13 exercise	Director of Finance / Key Contact	<b>New participants:</b> The Director of Finance (or Senior responsible Officer) for your organisation should nominate an appropriate Key Contact by email to <a href="mailto:nfiqueries@audit-commission.gov.uk">nfiqueries@audit-commission.gov.uk</a> . <b>Existing participants:</b> Director of Finance (or Senior responsible Officer) will be required to confirm Key Contacts. Key Contacts will be required to confirm users.	From 18 June 2012 onwards
Force a password reset for the 2012/13 web application	NFI Team (AC)	The first time users log on to 2012/13 web application they will be forced to change their password.	From 18 June 2012 onwards
Issue the instructions to bodies participating in NFI 2012/13	NFI Team (AC)	The instructions and final data specifications are now permanently available on the NFI web page. An email link will also be sent to Directors of Finance and 2012/13 Key Contacts as a reminder.	By Friday, 29 June 2012
Check the list of expected data sets	NFI Key Contact	Log in to the 2012/2013 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 Friday 3 August 2012.	By 3 August 2012
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 2013 release.	By 3 September 2012 and when changes occur
The fair processing compliance returns are submitted	Key contact	Submissions are made via the <a href="#">NFI website (external site)</a> . Submission guidance can be found within the help menu labelled 'Form 3 - Fair processing compliance return'.	By 28 September 2012
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 <a href="#">detailed data specifications</a> .	Monday, 8 October 2012
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 8 October 2012*
The 2012/13 exercise	NFI Team	An email link will also be sent to Directors of Finance and	From Tuesday,

matches are available	(AC)	2012/13 Key Contacts as a reminder informing them that the matches are available.	29 January 2013
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\* A series of reminders will be issued from 15 October 2012.