

The National Fraud Initiative

National report

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.

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Summary and recommendations

Summary

This report focuses on the outcomes from the National Fraud Initiative (NFI), the Audit Commission's data matching exercise to help prevent and detect fraud, overpayments and errors.



The National Fraud Initiative continues to play a key role in the fight against fraud.

The success of the NFI is founded on well-established partnerships.

- The NFI involves the public audit agencies in other parts of the UK – Audit Scotland, the Auditor General for Wales and the Northern Ireland Audit Office.
- The NFI matches data provided by some 1,300 participating organisations from across the public and private sectors against data provided by other participants, and key data sets provided by government departments and other national agencies.
- The organisations that participate in the NFI are responsible for following up and investigating the matches, and identifying frauds and overpayments.

£229m
of fraud,
overpayments
and errors
identified by the
NFI in England
since May 2010

The NFI continues to play a key role in the fight against fraud.

- Since our last report in May 2010 the NFI in England has identified almost £229 million of fraud, overpayments and errors.ⁱ ⁱⁱ This is made up of £139 million for 2010/11 plus £90 million of outcomes not previously reported from earlier exercises.ⁱⁱⁱ
- The NFI also identified £47 million of fraud, overpayments and error in Scotland, Wales and Northern Ireland, bringing total outcomes since the last report to £275 million.
- Since its launch in 1996, the NFI has enabled the participants to detect fraud, overpayments and errors totalling £939 million. This includes £127 million detected in Scotland, Wales and Northern Ireland.

The main categories of fraud identified by the NFI in England continue to relate to pensions, council tax and housing benefit.

- £98 million of pension fraud and overpayments.
- £50 million of fraudulent or wrongly received, council tax single person discount (SPD) payments.
- £31 million of housing benefit fraud and overpayments.

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.^{iv}
- 731 people were prosecuted.
- 31,937 blue badges and 51,548 concessionary travel passes were cancelled.

Most bodies have sound arrangements in place for managing the NFI and for investigating data matches, but there is still scope to do better.

- The NFI matches are not seen by some participants as a valuable source of intelligence and therefore they are not being given appropriate priority.
- Not all participants are making use of the tools within the web application to help them identify high-priority matches linked to local risks.

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 in Appendix 1.

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.

ⁱⁱⁱ 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.

^{iv} We are looking into the potential to roll this out in future to all social landlords.

- The more effectively participants follow up their NFI matches, the more benefits they can realise.
- Some participants are using alternative matching services from commercial providers before they have followed up their NFI matches.

Despite the government's strong focus on tackling fraud, central government is still not sharing in the benefits of the NFI.

- Although the Audit Commission's audited bodies are required to participate in the NFI, central government bodies can choose whether or not to do so.
- The Department for Communities and Local Government (DCLG) and the Highways Agency were the only central government bodies that took part in the NFI 2010/11 on this basis.

Only a few housing associations are using the NFI to tackle the problem of tenancy fraud.

- Despite clear evidence that the NFI is a powerful tool for detecting tenancy fraud and the increased focus on housing tenancy fraud over the last two years, fewer than 6 per cent of registered housing associations currently elect to take part in the NFI.

The NFI could secure even better outcomes if it were extended to cover non-fraud purposes.

- There is scope to increase the effectiveness of the NFI by extending it to cover purposes other than the detection and prevention of fraud – for example, the recovery of debt and arrears owing to public bodies, as provided for in Section 32H of the Audit Commission Act 1998.

The Commission will continue to develop the NFI to address emerging fraud risks, with an increasing focus on fraud prevention.

- DCLG has confirmed the government intends to continue the NFI after the Audit Commission's abolition. The Commission will continue to run the NFI until its data matching powers are transferred to a new organisation.
- The NFI launched a real-time service in September 2011, marking an important shift from fraud detection to fraud prevention.
- The Commission has consulted audited bodies 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 is approved.

Recommendations

All audited bodies should ensure they maximise the benefits of their participation in the NFI.ⁱ

In particular, they should:

- use the tools within the web application to help them identify high priority matches linked to local risks;
- use the tips for working smarter in Table 4; and
- follow up the NFI matches before using alternative matching services from other providers.

Local authorities should take steps to retain the capability to follow up matches not related to housing benefit, after the proposed Single Fraud Investigation Service (SFIS) is introduced.

The government should:

- require all central government departments and their arm's length bodies to take part in the NFI; and
- bring forward Orders to extend the Commission's data matching powers to non-fraud purposes.

DCLG and the Homes and Communities Agency should encourage all housing associations to take part in the NFI.

What the Audit Commission will do

The Audit Commission will:

- continue to develop the NFI to include a flexible range of data matching services to tackle emerging fraud threats and meet the needs of participants;
- work with the National Fraud Authority (NFA) to deploy the NFI to support the implementation of the *Fighting Fraud Locally* strategy for local government;
- work with other organisations such as the Cabinet Office and the Department for Work and Pensions (DWP) to extend the benefits of the NFI more widely; and
- work with the new owner of the NFI to ensure a smooth transfer of this function.

ⁱ Councils, NHS bodies (excluding NHS foundation trusts), local police bodies and other local public bodies in England specified in Schedule 2 of the Audit Commission Act 1998.

Chapter 1: Introduction

This chapter explains what we mean by fraud and the role the Audit Commission plays helping local public bodies to counter it.

1 Fraud is a crime – and not a victimless crime. In the public sector every pound lost through fraud is a pound taken from taxpayers and potentially deprives the users of essential services.

2 The NFA estimates that fraud costs the UK £73 billion each year (Ref. 1). Losses from public sector expenditure fraud are estimated to cost £20.3 billion a year. This amounts to £390 for every adult living in the UK.



Organisations need effective counter-fraud policies that stress the unacceptability of fraud.

3 Organisations need strong anti-fraud cultures and effective counter-fraud policies and procedures that stress the unacceptability of fraud and its serious consequences. They need to check regularly the effectiveness of their arrangements for preventing and detecting fraud.

4 By working together to fight fraud, public bodies can ensure that the time and money saved is available to spend on providing services and benefits to those in society that most need it.

5 The Audit Commission plays an important role in protecting the public purse against fraud. Since 1996, we have run the NFI data matching exercise every two years to help detect and prevent fraud.

6 Each year, our auditors review the fraud prevention and detection arrangements put in place by audited bodies such as councils, NHS trusts, local police bodies, and fire and rescue authorities. Nationally, we publish the results of our annual survey of detected fraud in local government in *Protecting the Public Purse: Local Government Fighting Fraud* (PPP 2011), which also includes guidance on best practice in tackling current fraud threats (Ref. 2).

7 This report is intended for elected members, non-executives and senior officers at our audited bodies. Government departments, other national organisations and the private sector will also find it of interest. Alongside this report we are also publishing a checklist for local authority elected members, as well as case studies of successful outcomes. More information is on our website at www.audit-commission.gov.uk/nfi

Chapter 2: The NFI

This chapter describes the NFI and shows how it helps protect the public purse.

8 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 often target different organisations at the same time, using the same fraudulent identities. The NFI combats this threat by comparing information held by different organisations to identify potentially fraudulent claims and overpayments.

9 We provide organisations that take part in the NFI with secure access to their matches, which they investigate. For example, when data matching identifies a person as being listed as dead but still in receipt of a pension, the relevant body will investigate and, if appropriate, stop pension payments.

10 Payroll matches can identify employees who have no right to work in the UK. They may also identify employees who may be committing benefit fraud against other participants. Table 1 shows more examples of the data matches that we undertake and why.

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

12 Data matching showing little or no fraud and error assures bodies about the effectiveness of their control arrangements. It also strengthens the evidence for the body's Annual Governance Statement.

The key strength of the NFI is bringing together a wide range of organisations, in partnership to tackle fraud

Table 1: **Examples of the data matches the NFI have undertaken**

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 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*

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

14 Data matching exercises are carried out under statutory powers in Part IIA of the Audit Commission Act 1998 (Ref. 3), which contains important safeguards on the use and disclosure of data, including the requirement for a statutory *Code of Data Matching Practice* (Ref. 4).ⁱ

15 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.

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

The NFI works within a strong legal framework, which protects individuals’ personal data

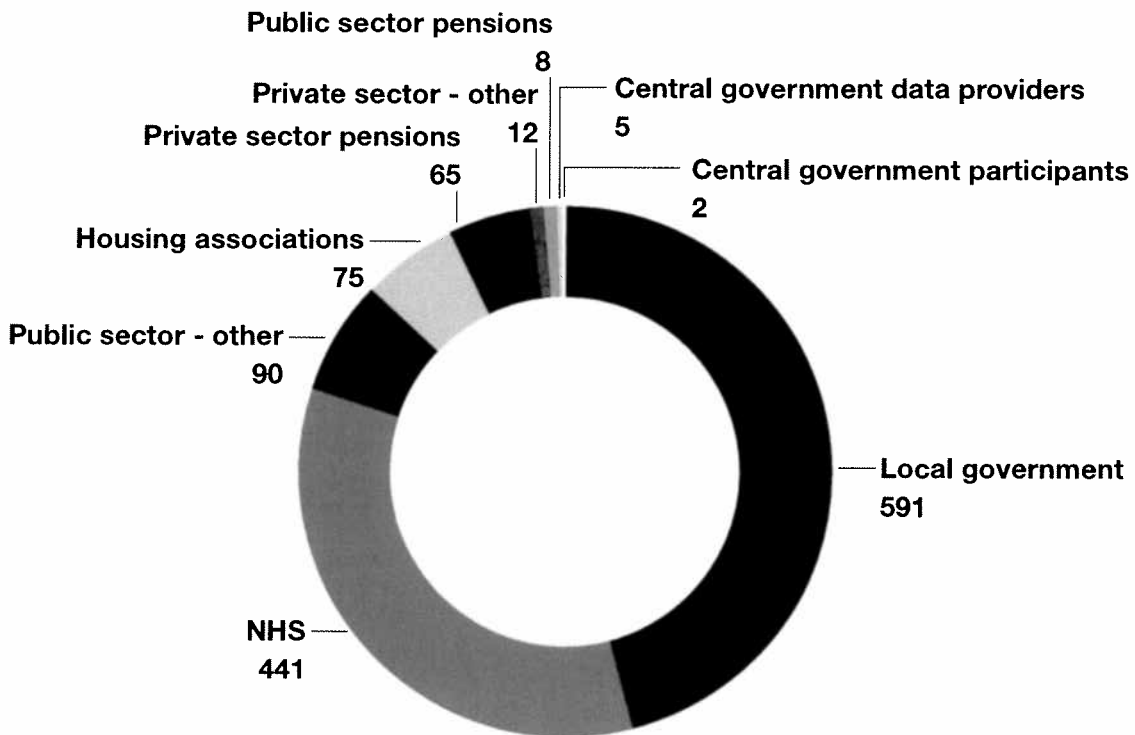
ⁱ The first such Code was laid before Parliament in July 2008, after extensive consultation, including with the Information Commissioner. The Code is available at www.audit-commission.gov.uk/datamatchingcode

17 The latest NFI exercise started in October 2010 and processed nearly 8,000 data sets from some 1,300 organisations, including 77 from the private sector (Figure 1). For the first time, all the firms providing audit services to the Commission included their employee data in the NFI exercise.

The latest NFI data matching exercise processed nearly 8,000 data sets from some 1,300 organisations

18 The participation of the private sector not only helps to detect illegal activity in the wider economy, but the data provided also helps to identify additional fraud against public bodies. For example, by matching private sector payroll records to housing benefit records, we may identify cases where benefit is being claimed fraudulently, because the claimant is working and not declaring their income. This wider information matching also helps detect fraudsters working across different sectors, sometimes using the same fraudulent identities.

Figure 1: **Types of organisation taking part in the NFI**



Source: Audit Commission

19 The NFI 2010/11 produced 4.6 million data matches – an average of 3,586 for each organisation. We rated 18 per cent of matches in need of urgent action, because they showed a high risk of fraud. Matches were investigated during 2011 and early 2012.

20 The success of the NFI depends on organisations investigating the matches. To help organisations with their investigations, we provide:

- a secure application that is easy to use and provides a full case management system for investigators;
- online training on the functionality available to assist investigators;
- prioritised reports highlighting the data matches that show a high chance of fraud;
- guidance, briefings and help desk support; and
- good practice examples of successful follow-up approaches – for example, a step-by-step guide to investigating council tax SPD matches, including proforma letters to send to those appearing in a match.

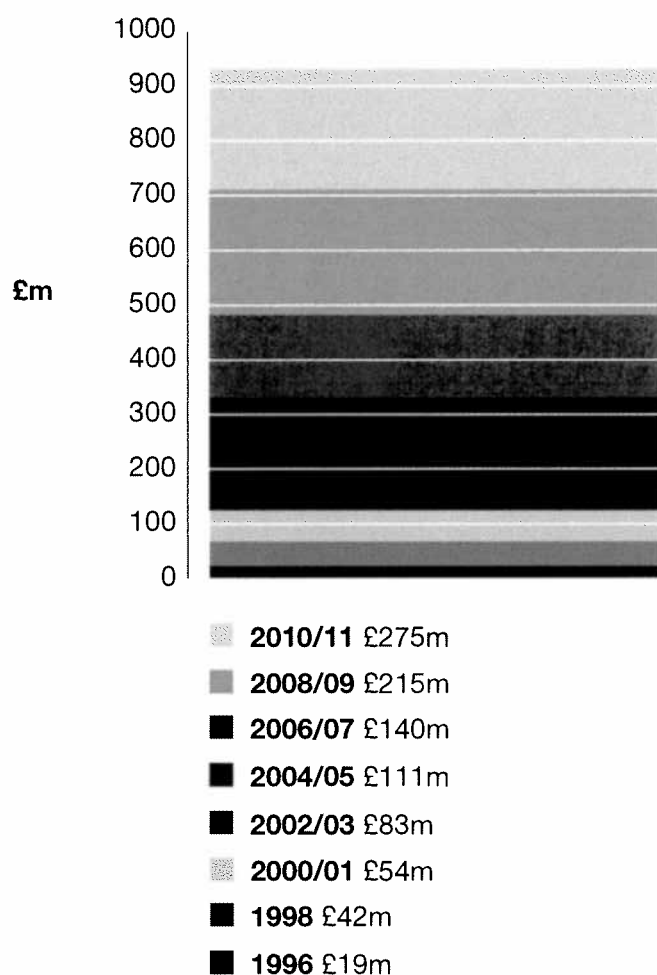
21 The NFI delivers good value for money for each participant, using economies of scale to secure maximum benefits at least cost. The total direct cost of running the 2010/11 exercise was £2.6 million, which we recover by charging fees to those who take part. For example, a London borough pays £4,150 and a mid-sized district council pays £2,200. The financial benefits resulting from the NFI are 106 times greater than the direct cost.

The financial benefits resulting from the NFI are 106 times greater than the direct cost

Chapter 3: The NFI across the UK

22 The Commission runs the NFI in partnership with the public audit agencies in other parts of the UK – Audit Scotland, the Auditor General for Wales and the Northern Ireland Audit Office. The NFI also involves other national bodies and government departments. The involvement of the public audit agencies and other national bodies is a key factor in the success of the NFI and serves the public interest in the fight against fraud.

Figure 2: **Outcomes identified by the NFI across the UK as reported to the Audit Commission by participants**



Source: Audit Commission

23 Each agency carries out data matching under its own powers, but uses the Audit Commission's existing systems, processes, and expertise. This delivers economies of scale, reduces the cost for organisations taking part and allows cross-border matching.

24 The total fraud, overpayments and errors detected across the UK since the NFI began amounts to £939 million (Figure 2).

25 In Scotland, investigation of data matches found fraud and overpayments of £20 million. In Wales, detected frauds and overpayments amounted to £6 million. In Northern Ireland frauds and overpayments totalled nearly £21 million. The figure for Northern Ireland includes £12 million outcomes not previously reported from work on the NFI 2008/09 unpaid domestic rates matches.ⁱ Aggregate outcomes for bodies in Scotland, Wales and Northern Ireland since they first started to run the NFI are £127 million (Figure 3).

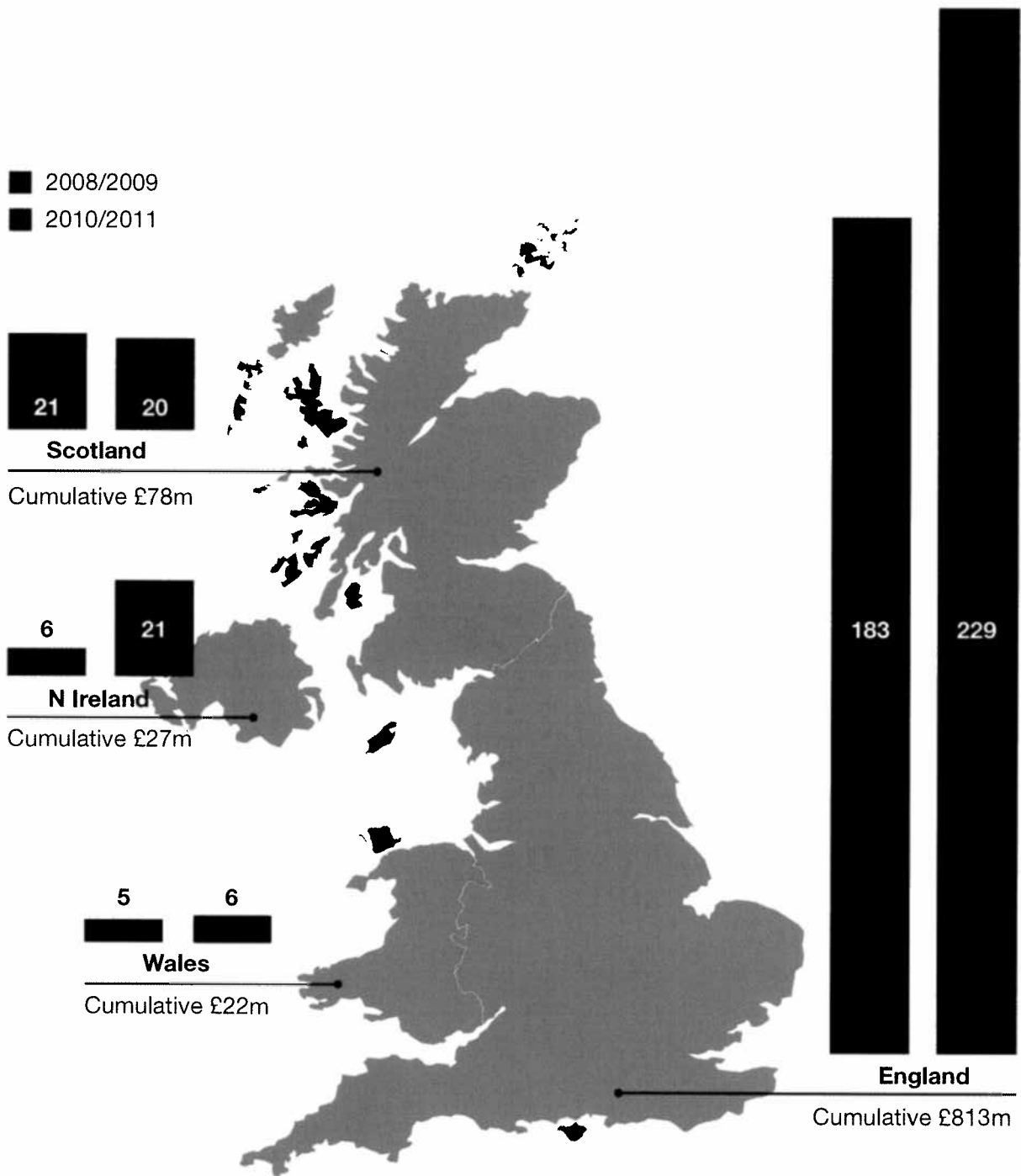
26 Each national audit agency reports on the NFI separately for their geographical areas.ⁱⁱ The rest of this report focuses on the outcomes for the NFI in England.

£939m
of fraud,
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and errors
detected in the
UK since the
start of the NFI

ⁱ Domestic rates are a property tax based on the valuation of a home. It is used to fund both local and regional services in Northern Ireland.

ⁱⁱ The NFI results in Scotland will be available at www.audit-scotland.gov.uk in Wales, at www.wao.gov.uk and in Northern Ireland, at www.niauditoffice.gov.uk

Figure 3: Cumulative total over period of NFI (1996-2012) £939 million



Source: Audit Commission

Chapter 4: Results of the NFI in England

This chapter sets out the results of the NFI in England since we reported in May 2010. It highlights the successes in tackling key risks (Table 2) and shows why organisations should take part in the NFI.

27 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).ⁱ

28 The total comprises outcomes already delivered of £91 million and estimated outcomes of £138 million (Appendix 1). These estimated outcomes represent expenditure that would have been incurred in future years had the fraud or errors gone undetected.

25%
**more fraud,
overpayments
and errors
were identified
by the NFI
since the May
2010 report**

ⁱ 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.

Table 2: **A comparison of cumulative outcomes by risk area**

Activity area	2008/09 £million	2010/11 £million	Percentage increase/ decrease
Pensioners – public sector	65	91	+40
Council tax SPD	56	50	-11
Housing benefit ⁱ	24	31	+29
Housing (including right to buy and recovered properties)	7	18	+157
Blue badges	8	16	+100
Payroll (including salary payments to illegal workers)	6	8	+33
Pensioners – private sector	13	7	-47
Trade creditors duplicate payments	3	5	+67
Private residential care homes	1	3	+200
Total	183	229	+25

Source: Audit Commission

29 Table 3 summarises the key results in England. As well as significant financial success, other results included:

- 235 properties were recovered for social housing;
- 246 members of staff were dismissed or resigned;
- 731 prosecutions; 564 administrative penalties; and 689 official cautions; and
- 31,937 blue badges and 51,548 concessionary travel passes were cancelled.

30 The rest of this chapter reports the results from some of the specific areas of the NFI data matching.

ⁱ The 2008/09 figures include an estimate for the value of sanctions applied. This estimate is not included in the 2010/11 figure.

Table 3: **Key results in England**

	England only	
Housing benefit fraud, error, overpayments	2008/09	2010/11
Local Government employees	938	1,513
Students	1,183	1,400
NHS employees	315	611
Immigration	49	36
Local Government pensioners	1,721	1,467
Housing benefit sanctions		
Successful prosecutions	269	636
Official cautions	441	689
Administrative penalties	308	564
Housing		
Properties recovered	97	235
Right to Buy wrongly awarded	16	7
Council Tax SPD incorrectly awarded	53,926	39,015
Mortality screening		
Pensioners	2,163	2,910
Residents in private care homes	52	389
Blue badges cancelled	16,535	31,937
Concessionary travel passes cancelled	21,534	51,548
Other		
Duplicate creditor payments	638	1,815
Total employees dismissed or resigned	256	246

Source: *Audit Commission*

Findings

Immigration fraud

31 The NFI matches data from the UK Border Agency (UKBA) about refused and expired visas; visas where there is no right to work; and failed asylum seeker applications, against data on housing benefit claims, payroll records and housing tenancy.

32 Employers have a statutory duty to satisfy themselves that a potential employee is entitled to work in the UK. Employers are liable for a penalty of up to £10,000 if they employ an illegal worker (Ref. 5).

33 We worked closely with UKBA to identify ways we could improve NFI 2010/11. In particular, we automated the way a body taking part in the NFI gets an immigration update, fully integrating it into the web application. This means organisations can access the most up to date information before action is taken.

34 Matching UKBA data led to:

- the dismissal or resignation of 164 employees from 74 organisations, including local authorities, NHS hospitals, primary care trusts and housing associations;
- councils identifying 36 housing benefit overpayments amounting to £0.37 million;
- the recovery of one property for use as social housing;
- one tenant awaiting deportation; and
- employers identifying £3 million of salary payments to illegal workers.

Matching UKBA data led to the dismissal or resignation of 164 employees from 74 organisations

35 Case study 1 provides an example of immigration fraud discovered because of NFI matches.

Case study 1

Moorfields Eye Hospital NHS Foundation Trust

A match between the trust's payroll records and UK visa data highlighted a hospital porter who had worked for the trust for six years, despite having had no right to work or stay in the UK since 2004.

The investigation revealed that the passport presented for pre-employment checks had included a forged stamp indicating he had indefinite leave to remain in the country. The porter was arrested at work in January 2011 and immediately suspended. He was dismissed the following month.

He pleaded guilty at court and was given a 15-month prison sentence. He will be deported after serving his sentence.

Source: Audit Commission

Housing benefits

36 The NFI matches housing benefit records against data sources that councils do not readily have access to, including NHS payroll, central government pensions, student loans and housing tenancy.



Matches may identify where a person is claiming a benefit that they are not entitled to.

37 Matches may identify where a person is claiming a benefit that they are not entitled to. For example, matches can identify employed people who are claiming they have no income. Case study 2 provides an example of a fraud case identified.

Case study 2

London Borough of Ealing

As a result of the investigation of a match between housing benefit and student loans records, a student was found to have committed housing benefit fraud for the second time. His failure to declare income from his student loan meant he was overpaid nearly £6,000 of housing benefit.

He was successfully prosecuted and given a six-month suspended prison sentence and ordered to carry out 200 hours of unpaid community work.

Source: Audit Commission

38 In July 2011, DWP reported that, in 2010/11, councils across England, Scotland and Wales paid out over £26.6 billion of housing and council tax benefit. The equivalent fraud losses are about £350 million each year (Ref. 6). Housing benefit and council tax benefit frauds were detected by councils more frequently than any other types of fraud.

39 Housing benefit continues to account for a significant proportion of the total fraud identified through the NFI.

40 Since our report in 2010, the NFI has helped to uncover additional benefit frauds and overpayments worth £31 million. Councils are taking action to recover about 69 per cent of the overpayments, including:

- £9 million where pensioners from the civil service, armed forces, teaching and the NHS claimed benefits without fully declaring their pension income; and
- almost 6,200 housing benefit cases, of which 25 per cent were proven fraud cases.ⁱ

41 Action taken against benefit fraudsters included 636 prosecutions, 564 administrative penalties and 689 cautions.

Housing benefit continues to account for a significant proportion of the total fraud identified through the NFI

ⁱ The other 75 per cent were classified as either suspected fraud, claimant or administrative error.

Pensions

42 The NFI matches pension information to data about deceased people, which is provided by DWP and the Disclosure of Death Registration Information from the General Registrar's Office. This is known as 'mortality screening'.

43 Frauds and overpayments of pension often occur when pensioners die, but relatives fail to tell the authorities of the death and continue to receive the payments.

44 Although we run mortality screening as part of every NFI, we continue to identify consistently high levels of fraud cases, indicating that new pension frauds are starting regularly.

45 Since our report in 2010, the NFI has identified an extra 2,910 cases where pensioners had died, but payments were continuing. Of these, 282 cases were identified by private sector pension schemes. Actual and estimated overpayments, totalling £98 million, were detected and prevented (Appendix 1).

46 The NFI also enables pension schemes to identify pensioners who have returned to work and may have wrongfully avoided pension decreases by not telling the pension scheme administrators. There were 116 such cases, involving overpayments of £0.73 million.

47 Pension data also enables councils to identify housing benefit fraud where a pension is not declared on a benefits claim. Case study 3 provides an example of a fraud case identified in this way.

£98m
of actual and
estimated
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of pensions
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since 2010

Case study 3

Tamworth Borough Council

A match between housing benefit and pensions records led to a joint investigation by Tamworth Borough Council and DWP into a housing benefit claimant who had failed to declare his NHS pension, to either the council or DWP, since 2002. The resulting overpayments totalled £54,000.

He was successfully prosecuted and sentenced to six months' imprisonment, suspended for nine months, and ordered to repay the £54,000.

Source: Audit Commission

Injury pensions

48 Retired police officers and firefighters can receive incapacity benefit or industrial injury and disablement benefit when they are injured at work. They may also be entitled to an enhanced occupational pension because of work-related injuries. Reductions in payment may be required when incapacity benefit, industrial injury, disablement benefit and enhanced occupational pension are received for the same injury.

49 In our May 2010 report, we set out details of a new data match designed to target the emerging risk that such pensioners were not declaring relevant state benefits and, as a result, injury pensions were being overpaid. Because of the success of the pilot match, it was included as a core mandatory data set for the NFI 2010/11 exercise.

50 Since we reported in 2010, 312 cases have been identified with overpayments totalling £4.48 million.

51 These outcomes could have been higher but many police and fire authorities had difficulties securing information from DWP that is needed to investigate these matches. We will work with DWP to agree a protocol on exchange of information, to help all bodies taking part in the NFI to identify more overpayments in this area.

Blue badges

52 Councils are responsible for awarding blue badges, which provide a range of parking concessions for people with severe mobility problems who have difficulty using public transport. About 1.7 million blue badges are used in England (Ref. 7). In London, this concession extends to the congestion charge.

53 Fraudsters are exploiting the scheme by forging badges and stealing badges from cars. Abuse also occurs when badges remain in use, or are renewed by people after the death of badge holders. In *PPP 2011* (Ref. 2) we reported that there is a black market for badges, which can change hands for as much as £500.

54 The NFI matches blue badge information to data about deceased people. Data matches have enabled councils to cancel a further 31,937 badges since we last reported. Case study 4 provides an example of a fraud case identified.

55 On 1 January 2012, the new Blue Badge Improvement Scheme procured by the Department of Transport as part of the Blue Badge Reform Programme was made available to local authorities (Ref. 8). The scheme, which is being phased in over the next three years, is designed to help to prevent fraud and enable more effective monitoring of cancelled, lost or stolen badges.

56 We support these new arrangements and will continue to undertake the deceased data matching to assist in identifying potential abuse of the badge scheme.

Case study 4

City of London Corporation

The investigation of a match between blue badge and deceased people records identified an individual who had fraudulently obtained disabled parking permits from the Corporation. He had completed renewal application forms under his mother's name, even though she had died almost a year before.

He admitted two charges of fraud by false representation. He was given a two year conditional discharge, and ordered to contribute £300 towards prosecution costs.

Source: Audit Commission

Payments to private residential care homes

57 The NFI matches information about private residential care home payments to data about the deceased, to identify where payments may be continuing for people who have died.ⁱ

58 In general, councils have good systems in place and are already aware of the deaths when they receive the NFI matches. But a significant number are not, and this highlights the value of the match.

59 Councils identified 389 cases where payments had continued to private residential care homes after a resident's death. Overpayments amounted to £3 million and in 95 per cent of cases the overpayment has been, or is being, recovered.

Social housing

60 Pressure on social housing is increasing and tenancy fraud has become a major problem. In its *Laying the Foundations Strategy* DCLG stated that there were 4.5 million individuals, or 1.8 million households, waiting for social housing (Ref. 9). *PPP 2011* (Ref. 2) estimated that registered social housing providers may have lost control of the allocation of at least 50,000 social housing properties in England, because of housing tenancy fraud.

ⁱ Where councils agree that a resident needs to move into a residential care home, they may pay part or all of the care home's fees.

61 Tenancy fraud should therefore be a key priority for councils and housing associations. The NFI helps fight this fraud by undertaking data matching to identify false housing applications and properties that are sublet unlawfully.

62 Since our report in 2010, social landlords were able to recover 235 properties from those in unlawful occupation, and reallocate the properties to genuine tenants. This brings a significant financial benefit because it avoids placing prospective tenants in expensive temporary accommodation.

63 This outcome is in part the result of an extra data matching exercise run in December 2009, supported by DCLG, specifically to address the problem of unlawful subletting. DCLG provided funding for all housing associations with over 1,000 properties to take part in this exercise.

64 Although the outcomes were positive, it was disappointing that only 92 of the 400 housing associations invited chose to take part.

65 Case study 5 provides an example of housing tenancy frauds identified through NFI data matching.

Case study 5

Affinity Sutton Housing Association

As part of a new strategic approach to targeting tenancy fraud, national affordable housing provider Affinity Sutton introduced a new neighbourhood auditor team in 2010. As a result of work undertaken by this team on the NFI matches they recovered a total of 12 properties. These homes, which are spread across the country, have been reallocated to families in genuine housing need.

In one case, the investigation of a match between tenancy and housing benefit records led to the recovery of a two-bedroom house in only two weeks. When a visit to the property by the auditor team confirmed that someone other than the tenant was in occupation, the neighbourhood auditor team contacted the tenant at the housing benefit address and recovered the keys.

Source: Audit Commission

Right to Buy

66 The NFI matches tenancy records against applications from tenants to buy their council property, at a discount, as part of the Right to Buy scheme. Matches may identify cases of false information on the application.

67 Seven cases were identified where Right to Buy applications had been wrongly awarded. In addition, councils stopped ten applications that were in progress. Outcomes were, in part, affected by the poor quality of the data provided by some organisations that led to some false matches being generated. These false matches made it more difficult to identify the genuine data matches that did highlight potential fraud.

68 In response to the consultation on the *Laying the Foundations Strategy* (Ref. 10) the Right to Buy discount cap in England was increased to £75,000 with effect from 2 April 2012. These changes are likely to make the Right to Buy scheme more attractive to fraudsters. It will be even more important that all social landlords invest resources in following up the Right to Buy matches provided by the NFI to identify potential abuse of the scheme.

69 We will work with councils and other social landlords to ensure that they maximise the benefits of following up these matches. We will provide more training on the purpose of the matches and we will advise those organisations that provided lower quality data for the NFI 2010/11 how the data can be improved for future exercises.

Payroll

70 There is always a risk that staff will commit fraud. However, in *PPP 2011* (Ref. 2), we reported that the number of frauds perpetrated by councils' own staff is low. In 2010/11 across the UK, there were 1,581 cases (1.3 per cent of total cases). The total value of these frauds was £19.5 million, which represents 10 per cent of the total value of frauds detected by councils.

71 The NFI matches payroll data provided by participants to help identify employee fraud. Matches may show that someone is working for one employer while on long-term sick leave from another.

72 Investigations following data matches have enabled employers to dismiss or seek resignation from 82 employees. Employers have recovered, or are recovering, over £0.34 million of overpayments. Six of the cases were so serious that they led to criminal prosecutions.

73 Our payroll to creditor payments matching was strengthened in 2010/11 to include bank account and address matches. Outcomes now total £123,000. Case study 6 gives an example of a typical outcome.

Case study 6

Payroll to creditor payments (employee fraud)

Matching an organisation's payroll records to its creditor payments records can identify employees with interests in companies trading with their employer. The investigation of such a match at an organisation in the North East of England revealed that a former senior accountant had set up a fictitious company and authorised two payments totalling more than £45,000 to the company over a period of six months.

The former employee has admitted to committing a number of offences and a prosecution case is being prepared.

Source: Audit Commission

Creditor payments

74 The NFI checks creditors' data to identify duplicate payments and wrongly calculated VAT. Apart from the financial benefits, these data matches also help to identify system improvements and weak internal controls.

75 Following a suggestion from the London Borough of Bromley we introduced additional matching rules for the 2010/11 exercise. The new match rules helped to identify duplicate payments where the creditor reference number was different. As a result the number of matches increased by 10 per cent and identified overpayments increased by 56 per cent.

76 Better quality matches helped identify overpayments of £4.7 million compared with £2.8 million in 2008/09. Seventy-eight per cent of the overpayments have been, or are being, recovered.

Council tax SPD

77 A third of households receive SPD and nationally this costs about £2 billion a year (Ref. 11). The NFI matches council tax records to the electoral register to identify individuals receiving the 25 per cent discount on the basis that they live alone, despite the electoral register suggesting that they live with other countable adults.ⁱ

ⁱ In certain circumstances, the discount may apply where another adult who meets specified conditions lives in a property. For example, where another adult living at a property is either severely mentally impaired, a student, an apprentice, a student nurse or a youth training trainee, they can be disregarded when counting the number of adults in the household and the SPD may still apply. Discounts awarded on this basis are excluded from the NFI matching.

78 Since our report in 2010, local authorities have identified an additional £50 million SPD awarded incorrectly. Most of these outcomes have been generated from the matches released in March 2010. Recovery action is being taken in 69 per cent of cases. The cumulative total since we started doing this match is £114 million and councils have stopped discounts in over 99,000 cases.

79 Access to matches from the NFI 2012 SPD exercise was given to councils on 20 February 2012. Outcomes from these matches will be included in our next report.

Pilot matching

Housing waiting lists

80 A pilot exercise on housing waiting lists at London borough councils was undertaken as part of the NFI 2008/09 exercise. The NFI matched housing waiting list data to identify people who were not entitled to social housing. This could have been, for example, because they had another social housing tenancy or they were not eligible for council housing because of their immigration status.

81 Since we reported in 2010, an extra 321 applicants have been removed from housing waiting lists. Following this success we plan to undertake an extended pilot in NFI 2012/13. This pilot will include a greater number, and a wider geographic range, of participants.

Operation Amberhill

82 The Metropolitan Police created the Amberhill database to record data seized in operations against organised groups that were mass producing false identity data. The false identity can be made up or stolen from real people. So far tens of thousands of items of false identity data have been seized.

83 With fraudsters operating across government departments and the public and private sectors, sharing intelligence on known frauds and fraudsters is critical to the fight against fraud.

84 In September 2011, we used the Amberhill database in a pilot that generated matches for over 200 participants. We issued clear guidance to ensure that participants recognised that the NFI match may link to the genuine individual whose identity had been stolen.

85 Following up these matches has identified a wide range of frauds against organisations taking part in the NFI where false documentation had been presented. These include :

- an employee in a position of trust who had worked for over five years with a false identity;
- an individual who fraudulently claimed housing benefit and council tax benefit in excess of £30,000 over a two-year period;
- an individual who had used multiple identities to claim housing benefit at multiple councils;
- tenancies that had been awarded on the basis of fraudulent applications, with investigations also revealing corruption in a housing tenancy team;
- the arrest and prosecution of a licensed Hackney Carriage taxi driver who used a counterfeit driver's licence; and
- an individual who had used a false identity to secure a concessionary travel pass and claim housing benefit.

86 In addition the pilot identified a number of individuals who were unaware that they had been the victim of identity theft. These included an elderly care home resident, a doctor and a local councillor.

87 Because of this success we plan to integrate this match, after taking into account the learning from the pilot, into future NFI exercises on a mandatory basis.

Serious Organised Crime Agency virtual office address

88 A virtual office address is a business, correspondence or administrative address provided as a business service to clients. Virtual offices are generally used to reduce traditional office costs while maintaining business professionalism, but may also be used by an individual to hide their genuine address.

89 In October 2011, we cross-matched the Serious Organised Crime Agency virtual office address data to NFI data sets where the individual would be expected to use a residential address – for example, housing benefit claims. Investigations are still ongoing, but the pilot has already identified:

- a sheltered housing address being used by an absconder from justice to forward correspondence to an address in Thailand; and
- individuals holding concessionary travel passes issued by authorities other than those in whose area they live – to gain travel benefits they're not entitled to.



Modern virtual offices are used to reduce the traditional costs of running a business, but they can also be used for criminal activity.

90 Following completion of the pilot we will undertake a full evaluation to determine whether, and if applicable how, to integrate this match into future NFI exercises.

Blue badges

91 Under the Department for Transport's blue badge scheme, only one blue badge should be issued per person, for personal use. However, councils contacted us expressing their concerns that people had obtained a blue badge from more than one council.

92 We therefore undertook a pilot data match. This included nearly 146 authorities in England and identified people with multiple badges. It has resulted in the cancellation of 76 badges. We are investigating the potential to integrate this match into future NFI exercises on a mandatory basis.

Chapter 5: How can organisations make better use of the NFI?

This chapter looks at how organisations can make better use of the NFI. It considers how the NFI is used at an operational level.

93 The total of £229 million fraud, overpayments and error is a good outcome but there are still a few areas where results could be even better. The NFI's full potential is only realised if the organisations that take part supply all the required data on time and undertake appropriate follow-up investigations of the matches promptly and thoroughly. For each exercise we consider how effectively organisations use the NFI.

Investigating matches promptly and thoroughly is essential to the success of the NFI

94 In this chapter, we:

- comment on the challenges currently facing the organisations taking part in the NFI;
- report how well public bodies perform operationally in supplying data for matching and investigating data matches; and
- look at specific areas where improvements could be made.

Current environment

95 The Audit Commission and Local Government Association report *Work in Progress: Meeting Local Needs with Lower Workforce Costs* (Ref. 12) sets the scene for some of the issues our participants are facing in terms of reductions in workforce budgets and *Tough Times: Councils' Responses to a Challenging Financial Climate* (Ref. 13) looks at the impact cuts in central government funding and reductions in other income are having on service spending.

96 In these circumstances it is important to recognise that organisations can make significant savings by reducing fraud. This can help protect both frontline jobs and services.

97 However, in the course of its regular visits to participating bodies, our NFI team has already noticed that counter fraud and benefit fraud investigation budgets and staffing numbers are being reduced. A number of the NFI key contacts at audited bodies have raised concerns that these reductions will, and in some cases have already, started to impact on the effectiveness of the follow-up arrangements for the NFI matches.

Welfare Reform Act

98 The government is proposing major welfare reforms as part of the *Welfare Reform Bill*.ⁱ The Bill is passing through Parliament at the time of writing. These changes include the transition to *Universal Credit* and the introduction of a *Single Fraud Investigation Service (SFIS)*. The changes will have a significant impact on councils' benefit services.

99 Universal Credit is likely to replace many existing means-tested benefits and tax credits for people of working age including housing benefit. The NFI will continue to match housing benefit data until Universal Credit replaces it fully. We want to match Universal Credit to all NFI data sets in future and will work with DWP to secure this.

100 The SFIS is planned to start in 2013. Local authority investigators will still be employed by their local authority, but they will work to SFIS policies and procedures. This interim arrangement will be reviewed in 2015 once longer-term decisions have been made about how Universal Credit will be managed. The Commission is committed to working with DWP to ensure SFIS gives appropriate priority to investigating existing and future NFI housing benefit matches.

101 Some councils also use housing benefit investigators to investigate other frauds. There is a risk that the introduction of SFIS may impact on the ability of these staff to investigate non-housing benefit fraud. It is important that this risk is addressed and that councils take steps to retain sufficient capability to investigate the NFI matches not related to housing benefit.

Operational issues

102 We asked the external auditors of mandatory NFI participants to assess the arrangements in place for taking part in the NFI and for following up data matches.

103 Auditors were satisfied that most bodies have sound arrangements in place for managing the NFI and for investigating data matches. However, they identified significant weaknesses at a few bodies. These included failing to:

- open all or many of the NFI reports;
- investigate data matches flagged as high risk;
- supply the required data sets for matching;
- follow up issues promptly; and
- meet deadlines.

104 Our NFI team followed up the auditors' assessments and gave support to organisations where that was necessary. Many of these bodies have now taken action to address these weaknesses.

ⁱ Subject to successful passage of the Welfare Reform Bill 2011 through Parliament.

105 Against this background, it is disappointing that Mendip District Council failed to provide data sets relating to residents' parking permits and market traders'.

106 Over the course of the NFI 2010/11 our NFI team monitored participants' progress and carried out a programme of visits to individual bodies. There were three key messages from these visits.

- Participants are not making use of the tools within the web application to help them identify high priority matches linked to local risks. This is an important step particularly if the number of staff working on investigations is limited.
- The NFI matches are not seen by some participants as a valuable source of intelligence and they are not given appropriate priority.
- Some councils are not maximising the benefit of the NFI before procuring similar data matching services from private sector providers.

Specific opportunities to improve

107 Some local public bodies are complying with the basic requirements of the NFI but could, and should, do more.

108 Many organisations have found ways to maximise the benefits of the NFI matches and work more efficiently (Table 4). This enables them to focus their limited resources effectively.

Table 4: **Maximising the benefits of the NFI**

Ways to maximise the benefits and work more efficiently

Ensure all users of the NFI web application watch the online training modules and read the guidance notes so they are aware of the latest time-saving enhancements. The NFI software is continuously being developed and many participants are missing these changes.

Schedule staff resources so time-critical matches such as students can be dealt with as soon as they are received.

Coordinate investigations across departments – SPD matches involving housing benefit, for example – to avoid duplication of effort and ensure all overpayments are identified.

Use the tools within the web application, such as the filter and sort options, to identify the matches that are the highest risk. Do not review every match in every report.

Employ data analysis software such as IDEA® to prioritise matches and use mail merge techniques to aid investigations.

Enter a report comment and report high-level outcomes where available, rather than entering this information against every match. This will save time and free up staff for the investigations.

Respond promptly to enquires from other organisations that take part in the NFI so investigations can be progressed quickly.

Use NFI outcomes and successful prosecutions as a deterrent measure by publicising them locally.

Look at the quality of the data supplied for the NFI before the next exercise. Better data quality will improve the quality of resulting matches.

Source: Audit Commission

Chapter 6: Looking to the future

This chapter looks at our plans to develop and enhance the NFI over the next two years, and the challenges that lie ahead.

109 Following the announcement, in August 2010, of its intention to abolish the Audit Commission, the government has confirmed it intends to continue the NFI. This was reaffirmed in January 2012, in the *Government Response to the Future of Local Audit Consultation (Ref. 14)*.

The government has confirmed it intends to continue the NFI

110 The Commission will work closely with DCLG and other stakeholders to secure the most appropriate home for the NFI. While the Commission retains oversight of the NFI, we will continue to run and develop it, to meet the needs of participants. Once the new organisation responsible for delivering the NFI is identified, we will work with them to ensure a smooth transfer.

111 The NFI aims to serve the public interest by:

- safeguarding public money against losses from fraud or misappropriation; and
- contributing effectively to the fight against fraud.

112 NFI 2012/13, which we will launch in June 2012, will meet these aims by:

- continuing with successful batch data matches and developing the service to offer more flexibility and meet new risks;
- putting more emphasis on fraud prevention through the development of real-time data matching services; and
- extending data matching for fraud purposes to a broader range of organisations and sectors.

113 At the same time, we will continue to seek to extend the remit of the NFI to allow data matching for purposes other than the detection and prevention of fraud for example, to help participants trace individuals who have outstanding debts or arrears.

Developing batch data matching to offer more flexibility and meet new risks

114 We will continue to run data matches every two years but, in addition, we will offer more frequent flexible data matching.

115 In 2011, we ran our pension mortality screening matching again on a voluntary basis. Pension funds welcomed this extra service. We will build on this by offering a service that gives a pension scheme the flexibility to determine when, and how often, this is undertaken.

116 We are also expanding this flexible approach to other areas of the NFI. In response to feedback from participants, the NFI will now allow participants, either individually or as part of a group, to elect to submit batch data for matching at any time. The data submitted, and the frequency of the matching, will be determined by the participants.

117 These flexible services could be used by councils to deliver many of the recommendations made by the NFA in its *Fighting Fraud Locally: the Local Government Fraud Strategy* (Ref. 15). We will be working closely with the NFA and other key stakeholders to deploy the NFI to support the implementation of the strategy across local government.

118 Alongside these new services, we continue to develop the NFI to meet new fraud risks. We will listen to the concerns raised by organisations about emerging challenges facing them. For example, in their responses to 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 (Ref. 2). In response, we are looking to develop a pilot data match in this area as part of the NFI 2012/13.

Alongside these new services, we continue to develop the NFI to meet new fraud risks

Increased emphasis on fraud prevention

119 In September 2011, the Commission launched the first NFI real-time data matching service. The launch of this service marks an important shift from fraud detection to fraud prevention. By matching data at the point of application, the NFI can help participants both in the private and public sector to prevent fraudulent applications from being successful.

120 Following consultationⁱ, we are expanding the NFI real-time data matching to cover audited bodies, private sector and other public sector participants.

ⁱ The consultation and summary of responses can be accessed on the Commission's [NFI consultation webpage](#)

121 There will be a menu of data matching options, each of which is recognised by the Commission as assisting in preventing and detecting fraud, and each participant will decide which options it wishes to use to target the actual fraud risks it faces. Mandatory participants will be given delegated authority to determine which data is submitted for matching. They will simply be required to record the basis of their decisions on the NFI web application for the NFI team to review prior to matching the data. Private sector and other public sector participants will, as now, be able to participate on a voluntary basis.

122 The proposed approach could help participants identify potential fraud in a wide range of areas. These include:

- housing waiting list – 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 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.

Extending the coverage of the NFI

Central government

123 We welcome the support that some government departments give to the NFI by providing data about claimants, deceased people and immigration status. We also welcomed the decision by DCLG to become the first central government department to take part in the NFI by submitting its payroll data for matching.

DCLG was the first central government department to take part in the NFI

124 The Cabinet Office Fraud, Error and Debt Taskforce recognises the opportunity the NFI offers. Its interim report published in June 2011 recommended that the NFI should be deployed ‘more widely as a near real-time tool to enable data matching between departments and between central and local government’. (Ref. 16)

125 The Commission has made extensive efforts over the years to encourage departments to participate voluntarily in the NFI. However, we have been unable to get them to do so.

126 It makes good business sense for government departments to take advantage of the benefits of participation in the NFI, particularly in the current economic climate. Even if a body considers their arrangements for preventing and detecting fraud to be sound, taking part in the NFI is still important as it can:

- provide assurances to the accounting officer about the effectiveness of their department's control arrangements, and therefore strengthen the evidence for the Annual Governance Statement;
- identify fraud, and therefore fraud risks, that the department may otherwise be unaware of; and
- help identify fraud against other NFI participants in the wider public sector and the private sector.

127 We will again invite all government departments to take part in the NFI 2012/13 exercise and to access our new range of real-time and flexible batch data matching services. However, we think the government should now take a stronger lead by requiring all government departments and their arm's length bodies to take part in the NFI.

Housing associations

128 Housing associations are not mandatory participants in the NFI. Despite clear evidence that the NFI is a powerful tool for detecting tenancy fraud and the increased focus on housing tenancy fraud over the last two years, fewer than 6 per cent of the 1,632 housing associations registered on 31 December 2010 (Ref. 17) currently elect to take part.

129 Taking part in the NFI will help address tenancy fraud against all housing associations and councils. In *PPP 2011* (Ref. 2) we recognised that current funding arrangements mean there are few, if any, financial incentives for housing associations to tackle tenancy fraud. Although some housing associations are working successfully with councils to tackle tenancy fraud, this is not yet widespread. However, to reduce the current pressures on social housing it is important that everyone plays their part. We believe that all housing associations should show their commitment to tackling tenancy fraud by taking part in future NFI exercises.

130 We will continue to encourage housing associations to take part in the NFI voluntarily. We will also urge the Homes and Communities Agency and DCLG to identify a way to promote the benefits of the NFI to the sector and ensure more housing associations take part in the NFI 2012/13. As the necessary legislative changes are made to transfer the Commission's data matching powers to another body, we hope the opportunity is taken to make housing associations mandatory participants in the NFI.

Government should now take a stronger lead by requiring all government departments and their arm's length bodies to take part in the NFI

The private sector

131 Both the NFI batch and real-time data matching services offer real benefits for companies. They can, for example, provide mortality screening services or identify employees whose immigration status means they have no right to work in the UK. We will continue to work with our existing private sector participants and encourage others to take part.

Widening the NFI for other purposes

132 Section 32H of the Audit Commission Act 2007 gave powers to any Secretary of State to extend the Commission's data matching powers for purposes other than the detection and prevention of fraud. The Act defines these other purposes 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.

133 In our discussions on the future of the NFI with DCLG and other stakeholders, we will argue the case for extending our data matching powers to cover the additional purposes outlined above. We hope the proposed legislation to transfer the Commission's data matching powers to a new owner will provide the opportunity to do this. We have also suggested a further extension to allow data matching for the prevention and detection of error and maladministration.

134 There is also potential for the NFI to help deliver wider government initiatives, subject to development of a strategy that fits within the general law on sharing of data. This could provide scope for the NFI to assist:

- the NFA and the Cabinet Office in their development of an Intelligence Sharing Roadmap (Ref. 18) – by sharing the details of fraudsters identified through NFI with the proposed counter-fraud checking service; and
- the Cabinet Office's Identify Assurance Programme (Ref. 19) – by using the NFI databases to validate the information provided by an individual.

Appendix 1: Report calculations

An explanation of how we calculate the figures for frauds, overpayments and outcomes used in the report is shown in the following table.

Table 5: **Report calculations**

Data Match	Already delivered (£million)	Estimated (£million)	Total (£million)	Basis of calculation of estimated outcomes
Housing benefit	18.34	13.00	31.34	Weekly benefit reduction multiplied by 13.
Local government pensions	9.67	52.12	61.79	Cabinet Office formula: annual pension multiplied by the number of years until the pensioner would have reached the age of 90.
Other public sector pensions	2.13	27.24	29.37	Same as local government pensions above.
Blue badges	0	16.01	16.01	Number of badges confirmed as deceased multiplied by £500 to reflect lost parking and congestion charge revenue.
Private residential care homes	0.83	1.95	2.78	£5000 per case based on average weekly cost of residential care multiplied by 13.
Tenancy fraud	0	17.63	17.63	£75,000 per property recovered based on average three year fraudulent tenancy. Includes: temporary accommodation for genuine applicants; legal costs to recover property; relet cost; and rent foregone during the void period between tenancies.
Right to buy	0.06	0.26	0.32	£26,000 per application withdrawn to reflect average value of discount.

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Data Match	Already delivered (£million)	Estimated (£million)	Total (£million)	Basis of calculation of estimated outcomes
Payroll	4.50	3.24	7.74	£5,000 per case (£10,000 for immigration cases).
Trade creditors	4.70	0.02	4.72	
Private sector pensions	0.37	6.25	6.62	Same as local government pensions above.
Council tax SPD	50.37	0	50.37	
Total ⁱ	90.97	137.72	228.69	

Source: Audit Commission

ⁱ The amounts included in this table relate to England results only and are subject to rounding.

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