


Non-Executive Report of the: Audit Committee DATE 08 th December 2015	
Report of: Zena Cooke – Director of Resources	Classification: Unrestricted
Progress on the National Fraud Initiative (NFI) Exercise, 2014	

Originating Officer(s)	Tony Qayum, Corporate Anti-Fraud Manager, Sue Oakley, Corporate Anti-Fraud Team Leader
Wards affected	All wards

1. Introduction

- 1.1 This report provides details of the background and changes to the National Fraud Initiative, and the National Fraud Initiative (NFI) 2014 exercise. This is a bi-annual data matching exercise whereby all Local Authorities and some other government agencies match their data to prevent and detect fraud and error in their systems.

2. Recommendations

- 2.1 The Audit Committee is asked to note 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 it may mean that further investigation is required.
- 3.2 The NFI has been running since 1994, and was originally managed by the Audit Commission. The Commission processed the NFI data under its statutory powers under part 2A of the Audit Commission Act (1998) these powers put the matching on a statutory footing for local government and NHS bodies
- 3.3 The Serious Crime Act 2007 (SCA) gave the Commission new powers to enable the benefit of NFI to be extended to Central Government and the private sector. The SCA inserted a new paragraph into the 1998 Audit Commission Act.
- 3.4 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 exercise must by law, have regard to a statutory Code of Data Matching Practice.

- 3.5 Over time the exercise has evolved to extend its partners to all Local Authorities in England, Wales, Scotland and Northern Ireland, and now includes pension details from the Police, Health Service and Fire Service. To date over £1 billion has been identified in fraud and overpayments over the various exercises across the country.
- 3.6 The 2014 exercise is now managed by the Cabinet Office following the dissolution of the Audit Commission.

4. The 2014 (Current) Exercise Position

- 4.1 As mentioned previously, the main NFI matching exercise takes place bi- annually, with the current exercise commencing in October 2014 when the data was supplied. This current exercise will run for a two year period, whereby the matched output will be examined gradually throughout that period.
- 4.2 By contrast, the Council Tax and Electoral Register matching takes place annually.
- 4.3 Below is a list of the 16 data sets provided to NFI for the current matching exercise:

LBTH Pensions	Transport Passes /Residents Permits
LBTH Payroll	Blue Badge Holders
Housing Benefits	Right to Buy Applicants
Housing Tenants (THH)	Personal Budget Holders
Insurance Claimants	Private Supported Care Home Residents
Market Traders	Creditors Standing
Alcohol Licence Holders	Creditors Payments
Electoral Register	Council Tax Account Holders

- 4.4 On 29th January 2015 the matches for the main exercise were released and for this Authority totalled 17,642 individual matches. These are presented in reports collated by type of match and subject matter. The volume of matches is of a very similar number to the previous (2012) exercise.
- 4.5 The matched data is contained on a secure website and access is granted to selected officers from each relevant service so that they can examine their own particular output and evaluate each match for the likelihood of fraud or error.
- 4.6 Many of the matches are erroneous and arise because the data held is not completely up to date or has been inaccurately input. However,

ideally, each one needs to be examined to eliminate the non-problem matches.

- 4.7** But because of the sheer volume and spread of matched output there are invariably some reports that are not fully examined. The NFI system has its own inbuilt risk assessment system and this is used as a guideline to prioritise those matches which need attention as a priority. Also, experience and knowledge of previous years' exercises dictates which reports yield results, and which involve less accurate data and therefore contain largely inaccurate matches. This also helps us to prioritise the progress of the exercise.
- 4.8** The Risk Management Section oversees the exercise, and aims to guide each service to completing its batch of NFI reports. Some reports are dealt with entirely by investigators within the Risk Management Section, such as benefits and tenancy, as investigators specialising in these areas are based within the team.
- 4.9** Where fraud or error is identified on a particular match the details are recorded on the NFI system, and in most cases recovery of the monies is sought. Where a system weakness is identified, the service in question should seek to resolve the issue by strengthening their controls to prevent recurrence. Similarly matches arising from data errors should prompt the service to improve the quality of its data.

5. Progress on the 2014 Exercise

- 5.1** To date 1,936 matches have been processed, and a further 448 are still in progress. Twenty five cases of fraud have been discovered and a further 102 cases of 'error' have been recorded. Matches cleared with no issue amount to 1805. Appendix 1 (attached) gives more detail of the progress of completed matches.
- 5.2** A breakdown of actions taken on fraud cases identified is included as Appendix 2
- 5.3** The total monetary value of the fraud and error identified to date amounts to £279,788.77
- 5.4** A breakdown is shown below:

Subject	Monetary value	Number of cases	Recovery action
Housing Benefit related	£208,140.52	23 (fraud) 1 (error)	Yes
LBTH Pensions	£14,819.17	Not yet classified	Yes, where possible
Council Tax (Single Person Discounts)	£56,829.08	168 (error)	Yes

Housing Tenancy	1 Property	1 (fraud)	Yes, property recovered
Blue Badge	Not valued	1 (fraud) 100 (error)	Yes, badges stopped or recovered

- 5.5** The majority of this relates to Housing Benefit irregularities, where a specific value of benefit is identified as having been overpaid as a result of an investigation. Recovery is usually sought in addition to potential criminal prosecution action, or other sanction such as a Caution, or an Administration Penalty (a fine). At present consideration is being given regarding further action to be taken on the cases where the applicant is an employee of the Council. HR and the relevant Service Heads are notified on these individual's circumstances so that HR procedures can be instigated.
- 5.6** The LBTH pensions value arose where the matches highlighted pensioners who had died, unknown to the authority. On these (27) cases recovery is sought by the Pensions Section via their liaison with the deceased's family.
- 5.7** In addition one Social Housing Property has been recovered,
- 5.8** 100 Blue badges have been recovered or stopped due to the recipient being deceased, unbeknown to the authority. At present no further action beyond recovery of the badge or preventing further issue has been taken on these.
- 5.9** A further area which is undergoing sifting, but has not yet yielded results is the matching of duplicated creditor payments. The Finance department are currently working on this with the Risk Management Team, but due to their current internal controls have found that duplicated payments have in the main, already been identified and rectified prior to the matched data being released.
- 5.10** This 2014 exercise will continue for a further year, and a new matching exercise programme will begin in the autumn of 2016. Where prosecution action is sought (mainly on Housing Benefit cases) the outcomes may not be known for a year or more, depending on the speed the cases progress through the criminal courts system. Some conviction outcomes from the 2012 NFI exercise are still coming in, as the cases are just reaching court now.
- 5.11** However, the Council Tax and Electoral Register data, which is designed to highlight discrepancies in Single Person Discounts awarded on Council Tax, is matched every year using a separate system, and will re commence in the early part of 2016.
- 5.12** Compared to the previous (2012) exercise the number of frauds identified to date is very similar to this exercise (25 on this exercise compared to 27 on the last) otherwise we have processed around half

of the number of matches and have only half as many cases under investigation. Steps are being taken to ensure all priority cases identified from the NFI exercise are dealt with, as a minimum.

6. Other Initiatives/ the future of NFI

- 6.1** There are a number of other data-related anti-fraud initiatives under development across the country at present which involve private sector partners. The Cabinet Office in particular is running a number of pilots, one of which is likely to involve our borough.
- 6.2** The outcome of these projects may change the future of the NFI, particularly as technology develops and matching becomes more sophisticated. The current NFI only matches bi annually and since the data is supplied many weeks before the matching, it is in some ways out of date by the time the matches reach the recipients.
- 6.3** Going forward into the 2016 exercise, the amount and volume of fraud and error identified from NFI is likely to diminish for Tower Hamlets, since the Benefit Fraud Investigators are due to transfer to the Department for Work and Pensions on 1st February 2016. Without this resource in-house to sift and investigate the benefit matches the volume and overall value of the outcomes is going to be much lower for this borough.

7. COMMENTS OF THE CHIEF FINANCE OFFICER

- 7.1** This report is an update of progress with National Fraud Initiative work as part of the 2014 programme. To date the Council has identified notional and actual savings of £280k from its participation in the National Fraud Initiative, details are provided in 5.4 above.
- 7.2** There are no specific financial implications emanating from this report. The Corporate Anti-Fraud team work programme meets the Council's legal requirements under section 151 of the Local Government Act 1972 and reports directly to the Director of Resources in order to minimise to the Council the risk of fraud, error and omission to the Council's finances and assets.

8. LEGAL COMMENTS

- 8.1** The Serious Crime Act 2007 gave the Audit Commission new statutory powers to conduct data matching exercises by inserting a new Part IIA into the Audit Commission Act 1998 ('the 1998 Act'). Although the 1998 Act was abolished last year by the Local Audit and Accountability Act 2014 ('the 2014 Act'), the National Fraud Initiative (NFI) was moved to the Cabinet Office in advance of the closure of the Audit Commission.

8.2 Statutory Guidance released pursuant to section 32(g) of the 1998 Act, “The Code of Data Matching Practice” was published in 2008 and most recently updated on 20 March 2015. The statutory basis for this code is now set out in Schedule 9 of the 2014 Act. The purpose of this code is to help ensure that the NFI and everyone involved in NFI data matching exercises comply with the law, especially the provisions of the Data Protection Act 1998. It also promotes 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
- where to find further information

8.3 Additionally, unless certain exemptions within the Data Protection Act 1998 apply, the Council is required to provide fair processing information which complies with the “Fair Processing” Statutory Guidance released on 20 March 2015.

8.4 Under Regulation 3 of the Accounts and Audit Regulations 2015, the Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council’s functions. The consideration by the Audit Committee of this report is consistent with the Council’s obligations and is within the Committee’s functions.

9. ONE TOWER HAMLETS CONSIDERATIONS

9.1 There are no specific One Tower Hamlets considerations.

10. BEST VALUE (BV) IMPLICATIONS

10.1 The effective investigation of allegations of Fraud and Corruption complies with the councils Best Value duty to manage its resources effectively and ensure that the three E’s of Economy, Efficiency and Economy are preserved in order to deliver effective services to the public we serve.

11. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

11.1 There are no specific SAGE implications.

12. RISK MANAGEMENT IMPLICATIONS

12.1 The need to manage resources effectively and identify fraud and abuse is a cornerstone in ensuring that risks to loss are effectively managed and the outcome for the last financial year demonstrates the Council’s commitment to foster an Anti-Fraud culture.

13. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 13.1 Effective Anti-Fraud arrangements the Council contributes to a reduction in crime and offers good practice in resolving scope for abuse of assets and systems.
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Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- NONE

Local Government Act, 1972 Section 100D (As amended)

List of “Background Papers” used in the preparation of this report

- NONE

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Officer contact details for documents:

- N/A