

National Fraud Initiative 2006/07



Public sector

Summary

May 2008

 **audit**
commission

Summary

- 1** Taxpayers have a right to expect that public bodies put in place every possible measure to protect their money from fraud. Fraud in local government, the health service and other public bodies is a major concern of those bodies as well as of public auditors.
- 2** Since 1996, the Audit Commission has run the National Fraud Initiative, known as the NFI, once every two years. The NFI is a data matching exercise that compares sets of data to identify inconsistencies or other circumstances that might indicate fraud or error. The data-matching exercises also help auditors to assess the arrangements that audited bodies have put in place to deal with fraud.
- 3** The Audit Commission's NFI has increased the value of detected fraud and overpayments by 26 per cent to £140 million in 2006/07 from £111 million in 2004/05. This does not necessarily mean more fraud is taking place, but that bodies are becoming more successful in uncovering it.
- 4** A number of bodies have clearly demonstrated that they apply a zero tolerance to fraud by proactively investigating the NFI matches and successfully eliminating a number of long running and high value frauds. Others have not exploited to the full the information NFI provides to stamp out fraudsters. All bodies should aim to follow the lead of the best as exemplified by the case studies in this report. Auditors will be asked to monitor bodies' performance at investigating matches during the next round of NFI.
- 5** To ensure data is provided to the Audit Commission securely, it is automatically encrypted during submission to a secure website. The 'matches' highlighted as a result of NFI are then provided to participating bodies through the same secure website, which is then used by auditors to monitor progress in following up these examples of potential fraud and error.

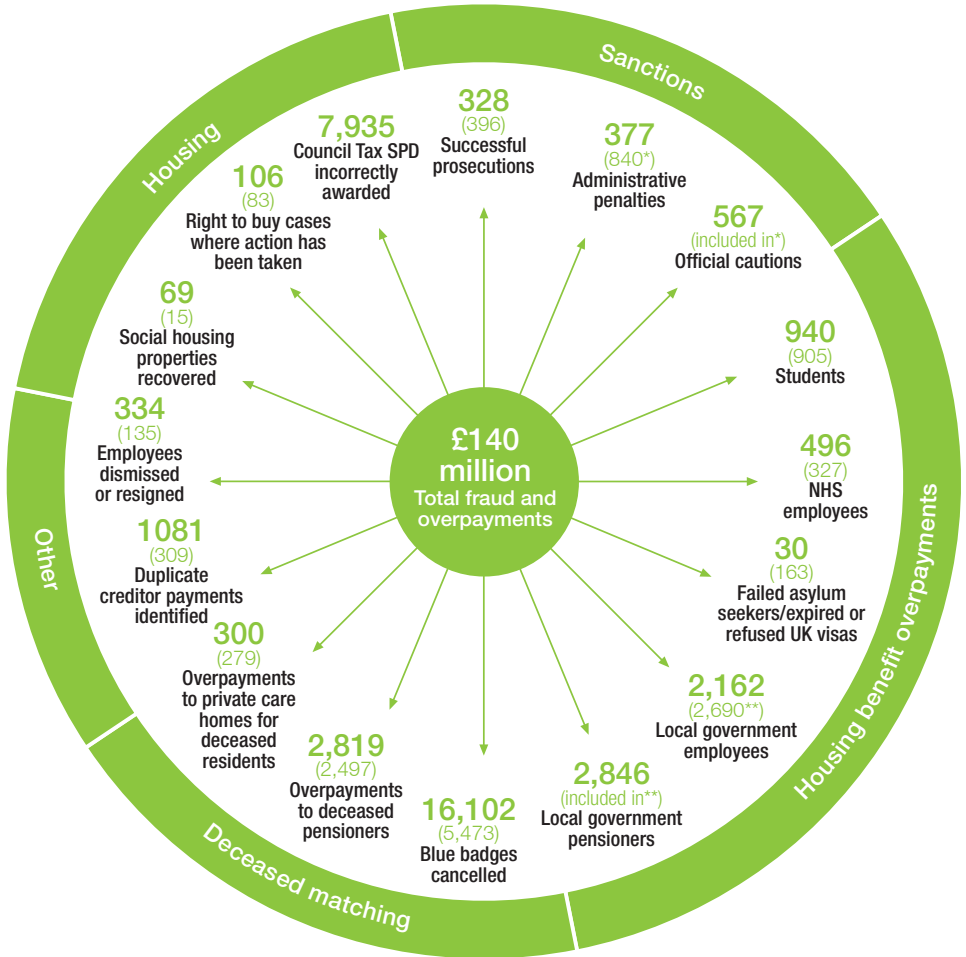
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- 6 Participants in the NFI will be expanded in future years as a result of a new statutory power under Part 2A to the Audit Commission Act 1998 provided by the Serious Crime Act 2007.
 - 7 As part of our commitment to upholding and protecting citizens' rights in relation to their personal data at all times, while continuing to safeguard the public purse, we have consulted on and agreed a new Code of Data Matching practice.
 - 8 A range of measures have been introduced to help make NFI more cost conscious and environmentally friendly, such as:
 - producing most publications electronically rather than on paper;
 - developing desk-based training modules reducing travel costs and carbon emissions; and
 - eliminating postal and courier costs by providing an electronic data submissions facility that is secure and encrypted.

Achievements

- 9 Key outcomes from the 2006/07 exercise (Figure 1, overleaf) include:
 - for the fifth successive time record levels of fraud and overpayments (£140 million) were detected bringing the overall figure since 1996 to nearly £450 million;
 - 157 public sector staff ineligible to work in the UK were dismissed or resigned. This was as a result of matching employees' payrolls to Foreign and Commonwealth Office records of expired visas and refused applications;

Figure 1

NFI 2006/07 results summary



Note: Figures in brackets are reported 2004/05 results

Source: Audit Commission

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- 69 council properties were recovered as a result of detected tenancy fraud. The majority of these recoveries were achieved by Southwark Council as part of a new strategic approach;
 - 2,819 cases were identified where an occupational pension continued to be paid after the death of the pensioner with associated overpayments of £6.4 million;
 - 16,102 deceased persons' blue badges were cancelled;
 - duplicate payments to suppliers of £1.75 million were detected;
 - in excess of £24 million housing benefit overpayments were detected. These have been classified as 31 per cent fraud, 62 per cent claimant error and 7 per cent local authority error with a recovery rate of 71 per cent; and
 - NFI matches were passed directly to the Job Centre Plus (JCP) and The Pension Service (TPS) for the first time. Matching student loan to housing benefit claimant data has resulted in overpayments being identified in 46 per cent of cases investigated. Matching housing benefit claimant to occupational pension data has resulted in overpayments in 31 per cent of cases investigated. Outcomes to date include:
 - £4 million Income Support (IS) and Job Seeker Allowance (JSA) fraud and overpayments;
 - 4,310 cases where IS/JSA benefit payments were reduced or ceased with weekly reductions totalling £229,000; and
 - 31 prosecutions, 22 administrative penalties and 76 cautions issued by JCP/TPS.

New developments

- 10 A new web-based application was introduced for the 2006/07 NFI exercise that allows data matches to be hosted on a secure website, with full fraud case management facilities for investigators. Through this website data can also be electronically uploaded to the Audit Commission with automatic encryption.
- 11 A new data match to detect council tax single person discount fraud looks set to increase the tax base of local authorities by as much as £200 million.
- 12 The NFI has regularly expanded the range of risks addressed in response to requests from audited bodies. The Serious Crime Act 2007 amends the Audit Commission Act 1998 to include new powers enabling the NFI exercise to be extended to central government bodies and the private sector.
- 13 The new legislation also requires the publication of a new *Code of Data Matching Practice* which sets out the strict protocols governing NFI to ensure full data protection compliance. The 2008 Code has been closely scrutinised by the Information Commissioner and will be laid before both Houses of Parliament in summer 2008. This will ensure that data protection will be given top priority alongside protecting the public purse.

Conclusion

- 14 Although small in the context of overall public expenditure, fraud and overpayment should be a concern for all public bodies. So it is reassuring that the ability to detect it continues to improve. As a result of new data matches and repetition of previously successful exercises, the Audit Commission has helped public bodies to detect record levels of fraud (£140 million) through the latest, 2006/07, NFI. Consequently, matches that were optional in 2006/07 will become mandatory for NFI 2008/09 and future exercises.
- 15 If there is no effective penalty for fraud there is no deterrent. We now expect public bodies to do more to follow up the potential fraud that we have identified. They should adopt a zero tolerance policy to fraud. They should also ensure that adequate resources are devoted to following up suspected frauds and overpayments and where fraud is detected, they should always give consideration to the potential positive deterrent effect of a prosecution. Auditors will check that NFI matches are followed up as part of the statutory audit process.
- 16 To assist public bodies in identifying more potential fraud in the future, the Commission will continue to improve NFI to include a wider range of datasets, with better quality data. We will also continue to make our systems easy to use and even more secure and environmentally friendly.

Copies of the full report are available at: www.audit-commission.gov.uk
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The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers by auditing the £180 billion spent by 11,000 local public bodies.

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

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