

 Finance and Audit Scrutiny Committee 30th September 2014		Agenda Item No. 4
Title	National Fraud Initiative	
For further information about this report please contact	Ian Wilson, Senior Internal Auditor	
Wards of the District directly affected	None	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No	
Date and meeting when issue was last considered and relevant minute number	8 th October 2013 (Minute 80)	
Background Papers	NFI Referrals Database (Audit Commission) NFI Internal Working Papers (Internal Audit)	

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	No
Included within the Forward Plan? (If yes include reference number)	No
Equality & Sustainability Impact Assessment Undertaken	No
Subject matter relates to mandatory participation in a long established national process overseen by the Audit Commission.	

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	17/9/2014	Andy Jones
Head of Service	17/9/2014	Mike Snow
CMT		
Section 151 Officer	17/9/2014	Mike Snow
Monitoring Officer		
Finance	17/9/2014	Mike Snow
Portfolio Holder(s)	17/9/2014	Councillor Cross
Consultation & Community Engagement		
Not applicable		
Final Decision?		Yes
Suggested next steps (if not final decision please set out below)		

1. **SUMMARY**

- 1.1 The purpose of this report is to present to Members the outcomes from the Council's investigations into the data matches from the 2012/13 National Fraud Initiative (NFI) programme.

2. **RECOMMENDATIONS**

- 2.1 That this Committee notes the outcomes to date from the 2012/13 round of the NFI.

3. **REASONS FOR THE RECOMMENDATION**

- 3.1 Members have requested annual updates on NFI activities. Additionally, the Audit Commission has recently released an outcomes information pack for Members (attached as Appendix 1) in association with their [National Report](#) on the 2012/13 round.
- 3.2 The NFI considers itself to be a major contributor to public sector counter-fraud activity and continually seeks to expand its influence in both the public and private sectors. From Warwick District Council's perspective the contribution of NFI to counter fraud activity has always been marginal, but offers significant value as a source of independent assurance on the effectiveness the Council's preventative controls and as a deterrent against fraud.
- 3.3 Benefit fraud cases revealed by NFI typically account for only a small percentage of the proven fraud cases processed by the Council's Benefit Investigations Team as a whole. No actual fraud cases have ever been identified in any of the other areas within its scope (typical reasons for matches where no fraud or irregularity is involved are summarised in Appendix 2 attached).
- 3.4 The results from the 2012/13 NFI programme are summarised in Paragraph 8.1 below. The second phase of NFI 2012/13, the processing of the council tax discount matches, is still in progress at the time of this report.

4. **POLICY FRAMEWORK**

- 4.1 Local authorities have a statutory obligation to participate in the NFI. The Council's commitment to the NFI also forms part of a wider counter-fraud framework (embodied in the Anti-Fraud and Corruption Policy).
- 4.2 This contributes to achievement of Fit for the Future financial targets by helping to eliminate wasteful dissipation of financial resources.

5. **ALTERNATIVE OPTIONS CONSIDERED**

- 5.1 Not applicable.

6. **BUDGETARY FRAMEWORK**

- 6.1 There are no direct budgetary impacts arising.

7. BACKGROUND

- 7.1 The National Fraud Initiative (NFI) is a national inter-organisational data matching exercise undertaken by the Audit Commission over continuous two-year cycles as part of the statutory audit of all public bodies under its remit. The Audit Commission's role as NFI managing body is due to be taken over by the Cabinet Office in April 2015 and participation is expected to remain mandatory for local authorities.
- 7.2 While the NFI has traditionally focused on housing benefit fraud as its main target area, recent years have seen pensions and council tax discount overtake housing benefits in terms of monetary value attributed to fraud and irregularities detected. Other areas targeted include:
- employment
 - social housing tenancies
 - right to buy
 - student loans
 - trade creditors
 - licensing (taxi and alcohol)
 - resident parking permits
 - insurance claims.
- 7.4 To meet its obligations under the NFI, Warwick District Council is required to:
- § extract and supply data to the controlling body (currently Audit Commission);
 - § review and, where appropriate, investigate output referred back from the data matching processes and report the outcomes to the managing body.
- 7.5 To comply with law and best practice in handling and sharing personal information, the process is governed by a Code of Data Matching Practice published by the Audit Commission.
- 7.6 The Responsible Financial Officer has overall management responsibility for the NFI at each local authority. NFI operations at Warwick District Council are overseen by a member of Internal Audit as designated 'Key Contact'.
- 7.7 Only a small number of Council staff have access to NFI match data. Special data handling instructions for NFI have now been compiled and are being issued to these officers in preparation for the next round of matches.

8 NFI OUTCOMES

- 8.1 The outcomes for Warwick District Council from the 2012-13 NFI round are summarised below.

Match Type	No. of matches received	No. of matches processed	No. of cases of fraud/ error identified	Over-payments identified £
Housing Benefit/Council Tax Reduction	1,064	1,064	12 fraud ¹ 18 error	66,819 13,050
Payroll	91	91	Nil	

Match Type	No. of matches received	No. of matches processed	No. of cases of fraud/ error identified	Over-payments identified £
Housing Tenants	44	44	Nil	
Right to Buy	5	5	Nil	
Resident Parking Permits	10	10	Nil	
Insurance Claims	4	4	Nil	
Taxi Drivers	Nil	-	-	
Personal Alcohol Licence Holders	Nil	-	-	
Creditors – duplicate suppliers	430	163 (267 disregarded) ²	20 (creditors de-activated)	-
Creditors – Duplicate Payment Transactions	427	144 (283 disregarded) ²	1 ⁴	1,416 (incl. VAT)
Creditors – VAT overpaid	206	Disregarded ³		
Council Tax Discount	912	23	2	554

Notes to table above

¹ Sanction outcomes for benefit fraud cases are:

- § 1 x Prosecution concluded (successful)
- § 2 x Prosecution pending
- § 6 x Administrative Penalty
- § 3 x Official Caution.

² Under the risk-based approach adopted, thresholds were established below which the matches were disregarded as follows:

- § Duplicate suppliers – disregarded where total combined payments over the 3½ year match period was below £50,000;
- § Duplicate payments – all high-precision matches investigated, for ‘fuzzier’ matches transactions below £2,500 were disregarded.

³ All ‘VAT overpaid’ matches related to invoices from the Council’s bailiffs. These invariably include additional VAT relating to fees already received by them through deduction from recovered council tax arrears.

⁴ The duplicate payment was caused by payment being initially raised against the wrong supplier in error. Recovery is still being pursued, but is complicated by the payment having been made to a factoring agency who forwarded it to the correct supplier.

8.2 The above results are presented as final outcomes for all match types except council tax discount where investigations are still in progress at the time of writing.

8.3 In addition to the mandatory programme, NFI have implemented a Flexible Matching Service as a discretionary resource for audited bodies. Use of this resource carries a separate charge for each dataset submitted. In the light of

the low level of outcomes from the mandatory exercise, interest in using this facility has been scant among the service managers.

- 8.4 The only exception to this is the taking up of a promotional offer in January 2014 for a match of Housing Benefit to Student Loan data without charge. This resulted in 27 referrals, none of which yielded any fraud or error outcome.

10 FUTURE DEVELOPMENTS

- 10.1 In the report of the Benefits and Fraud Manager to this Committee on 2nd September 2014 (Item 5), it was advised that the Council's housing benefit fraud investigation service is scheduled to transfer to the Single Fraud Investigation Service (SFIS) in February 2015 as part of the ongoing welfare reforms. This has implications for the processing of matches due to be released at the end of January 2015.
- 10.2 In its 2014 [National Report](#), the Audit Commission states that it is: '...committed to working with Department for Work and Pensions to ensure SFIS gives appropriate priority to investigating NFI housing benefit matches. This includes discussing how SFIS will engage with the NFI...'.
- 10.3 Based on advice received from the Audit Commission, it is expected that the housing benefit matches for Warwick District Council will be released directly to the Department for Work and Pensions and should not require significant internal resourcing for investigation purposes. As the administering body for housing benefit, however, the Council will be expected to manage compliance with NFI requirements as far as it is able.
- 10.4 As a consequence of the forthcoming transfer of on-street parking enforcement, Warwick District Council will cease to be responsible for resident parking permits from 1st November 2014.
- 10.5 Council tax discount matching is now to be undertaken annually, the next exercise being scheduled for December 2014. A temporary fixed-term staff appointment has been made to resource the processing of matches currently outstanding and the new matches when they are released.