

# The National Fraud Initiative 2008/09

National report, May 2010



**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, auditing the £200 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 local people.**

# Contents

<b>Executive summary and recommendations</b>	<b>3</b>
Recommendations	6
<b>Chapter 1: Introduction</b>	<b>7</b>
<b>Chapter 2: The National Fraud Initiative (NFI)</b>	<b>11</b>
The NFI across the UK	15
<b>Chapter 3: Results of the NFI 2008/2009</b>	<b>16</b>
Council tax single person discount	23
Housing benefits	24
Pensions	25
Blue badges	25
Payments to private residential care homes	26
Social housing	27
Payroll	27
Creditor payments	28
<b>Chapter 4: How can organisations make better use of the NFI?</b>	<b>29</b>
Strategic awareness	30
Operational level	31
Specific opportunities to improve	32
Security	33

<b>Chapter 5: Looking to the future</b>	<b>34</b>
Meeting new risks	35
Extending the coverage of the NFI	36
Widening the NFI for other purposes	37
Putting more emphasis on fraud prevention	38
<b>Chapter 6: Conclusion</b>	<b>39</b>
<b>References and appendices</b>	<b>41</b>
Appendix 1: References	42
Appendix 2: Report calculations methodology	42

# Executive summary and recommendations

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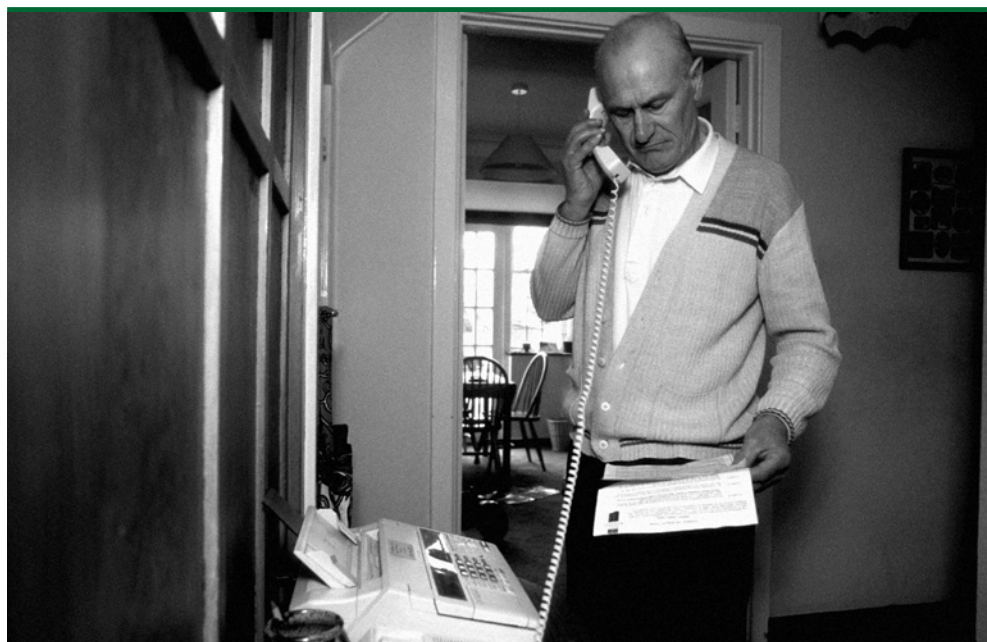
Executive summary	4
Recommendations	6

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**Fraud is a serious and growing problem for the nation.**

- Fraud costs the UK £30 billion each year according to the National Fraud Authority.
- Tackling fraud should be a top priority for all organisations.

**Fraud costs UK tax payers billions of pounds every year.**



**The Audit Commission runs the National Fraud Initiative (NFI) to help detect fraud, overpayments and errors.**

- The NFI is a data matching exercise, using sophisticated computer techniques, which matches data within and between organisations.
- Our latest exercise in 2008/09 processed 8,000 datasets from 1,300 organisations.

**The NFI 2008/09 found record levels of fraud, overpayments and errors.**

- Data matching identified fraud, overpayments and errors of £215 million across the UK, up 54 per cent from our previous exercise in 2006/07.
- This means that since its launch in 1996, the NFI matches have enabled the detection of fraud, overpayments and errors totalling £664 million.<sup>i</sup>
- The Commission's exercise in England identified £183 million of fraud, overpayments and errors. This comprises £90 million of savings already delivered as recorded by participating bodies and estimated savings of £93 million.
- The NFI helped to uncover pension frauds and overpayments amounting to £78 million, and £56 million of council tax single person discount that was fraudulently or wrongfully received.

<sup>i</sup> 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 at Appendix 2.

**The NFI 2008/09 produced other successful outcomes.**

- 181 employees were dismissed or asked to resign because they had no right to work in the UK.
- 269 people were prosecuted.
- 21,534 concessionary travel permits and 16,535 blue badges were cancelled.
- 97 properties were recovered for social housing.

**Most organisations taking part in the NFI perform well but some are not doing enough.**

- The £215 million of fraud, overpayments and errors detected reflects well on the efforts of most public bodies and other participants in the NFI 2008/09, who followed up effectively their data matches.
- The NFI is regarded as a periodic exercise, and is not linked to routine corporate counter-fraud arrangements.
- Elected members, non-executives and senior management are often unaware of the NFI.
- A small number of organisations had significant failings in the way they managed the NFI, for example, not submitting the data required or failing to follow up council tax matches effectively.

**Changes to the law in 2007, which allowed the NFI to extend to other organisations, have had success.**

- Local public bodies in Northern Ireland, Scotland<sup>i</sup> and Wales took part in the NFI 2008/09 on an extended basis and found fraud, overpayments and errors of over £31 million.
- Almost 100 private sector companies and pension schemes are reaping the rewards of joining the NFI.

**The recommendations of the previous government's *Fraud Review in 2006* have not been implemented effectively.**

- No government department, and only one government agency, took part in the NFI 2008/09.
- The previous government did not introduce the necessary Orders to extend the NFI to areas other than fraud, as provided for by the Serious Crime Act 2007.

<sup>i</sup> Audit Scotland did not benefit from the changes to the law in 2007. Although Scotland's public bodies continued to participate as part of statutory audits, there were additional restrictions on how the data could be used, for example, no cross-border matching was permitted.

## Recommendations

### Local government should:

- ensure that all data sets are submitted to the Commission on time;
- prioritise data matches and follow them up promptly and rigorously;
- promote awareness of the NFI among senior management and outside the finance directorate;
- engage elected members and non-executives more effectively in the NFI, for example, by nominating a lead member and through regular reporting;
- ensure that the NFI is integral to the overall corporate arrangements put in place for tackling fraud;
- improve their expertise when investigating immigration fraud to bring cases to a successful conclusion;
- recover previous years' discounts when council tax single person discount has been wrongly awarded; and
- improve communications between different departments, so that information about deceased persons is passed promptly to all those having contact with local residents.

### Pension funds should:

- prioritise and investigate promptly those data matches where pensions appear to be paid to deceased persons.

### The UK Border Agency should:

- share its expertise with councils and other organisations in helping them to tackle immigration fraud.

### The government should:

- exercise the existing statutory power to require government departments and their arm's-length bodies to take part in the NFI; and
- lay the Order to extend the NFI to areas other than fraud such as arrears recovery.

### Housing associations should:

- take part in future NFI exercises to show their commitment to fighting fraud.

### The Tenants Services Authority should:

- continue to encourage all housing associations to take part in the NFI.

### The Audit Commission will develop the NFI by:

- addressing new and emerging fraud risks, such as false claims for empty property discounts, abuse of blue badges (multiple badges) and incorrectly enhanced injury pension payments to retired police officers and firefighters;
- involving a wider range and larger number of organisations in future exercises; and
- placing greater emphasis on fraud prevention, such as including housing waiting list data to prevent persons not entitled to social housing from obtaining a tenancy.



# 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. In the public sector, every pound lost through fraud is potentially a pound taken from taxpayers and the users of essential services, who are often the most vulnerable and disadvantaged in society.

**2** The National Fraud Authority estimates that fraud costs the UK £30 billion each year (Ref. 1). Losses from public sector expenditure fraud are estimated to cost £7 billion a year (Ref. 2). This amounts to £147 for every adult living in the UK.

**3** Organisations need strong counter-fraud cultures and effective counter-fraud policies and procedures. They should also regularly check the effectiveness of their arrangements for preventing and detecting fraud.

**4** The Audit Commission plays an important role in the fight against fraud. Since 1996, we have run a data matching exercise every two years to help detect and prevent fraud: the National Fraud Initiative (NFI). The total fraud, overpayments and errors detected across the UK since the NFI began amounts to £664 million (Figure 1).

**£7bn**  
is lost each  
year because  
of public  
expenditure  
fraud in the  
public sector

**By fighting fraud we can ensure services and benefits are made available to the most needy in society.**



Figure 1: **Savings identified by the NFI as reported to the Audit Commission by participants.**



Source: Audit Commission 2010

5 In addition, each year our auditors review the fraud prevention and detection arrangements put in place by councils, NHS trusts, police authorities, and fire and rescue authorities. Nationally, we promote best practice on how to counter fraud by publishing guidance, including the report *Protecting the Public Purse: Local government fighting fraud* (Ref. 3).

**6** This report summarises the outcomes of the NFI 2008/09 for elected members, non-executives and senior officers at our audited bodies. Government departments and other national organisations will also find it of interest. We are 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](http://www.audit-commission.gov.uk/nfi)

# The National

# Fraud Initiative

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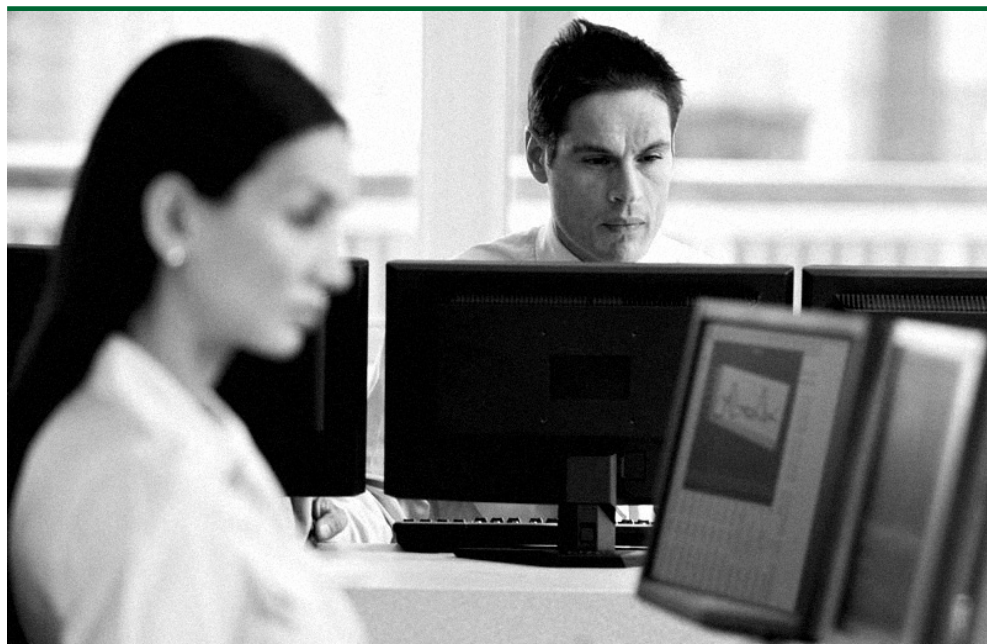
Introduction	12
The NFI across the UK	15

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## **This chapter sets out what the National Fraud Initiative is and how it helps protect the public purse.**

**7** The NFI is a data matching exercise. It compares information held by different organisations and within organisations to identify potentially fraudulent claims and overpayments. When there is a match, there may be something that warrants investigation. For example, when data matching shows a person listed as dead and also in receipt of a pension, the relevant body will investigate and, if appropriate, stop pension payments.

**Data matching compares information within and between organisations to help identify potential frauds and overpayments.**



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

**9** The latest NFI exercise started in October 2008 and processed around 8,000 datasets from 1,300 organisations, including almost 100 from the private sector. We provide bodies with a report on their matches, which they investigate. A match does not automatically mean fraud. Often, there is a simple explanation for a data match and it allows bodies to update their records.

**10** Even where data matching shows little or no fraud and error, this still assures bodies about their control arrangements. It also strengthens the evidence for the body's annual Statement on Internal Control (SIC).

**11** The NFI 2008/09 produced 3.5 million data matches, an average of 2,700 per body. We rated 5 per cent of matches in need of urgent action, because they showed a high risk of fraud. Matches were investigated during 2009 and early 2010. Table 1 shows some examples of the data matches that we undertake and why.

Table 1

<b>Data Match</b>	<b>Possible fraud or error</b>
Pensions payments checked to records of deceased people.	Pension fraudulently cashed on behalf of a dead person.
Housing benefit payments to payroll records.	Benefit claimed falsely because the claimant is working and not declaring income.
Payroll records to failed asylum seeker and expired visa records.	Employee not entitled to be in the UK.
Blue badges records to records of deceased people.	Blue badge used by ineligible person.
Housing benefit payments to housing tenancy records.	Benefit claimed falsely, for example, because the claimant is living as a tenant elsewhere.
Council tax records to electoral register.	Council taxpayer wrongly gets single person discount 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.	Employee paid incorrectly, for example, by working for one organisation while on long-term sick leave at another.

Source: *Audit Commission 2008/09*

**12** The NFI plays an important role in protecting the public purse against fraud. Fraudsters often target different organisations at the same time, using the same fraudulent identities. The NFI combats this threat by matching data across the UK and helps bodies confirm entitlement to benefits or discounts. 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.

**13** One thousand three hundred public and private organisations in the UK now take part. The NFI involves the public audit agencies in Scotland, Wales and Northern Ireland, as well as other national bodies and government departments. A key strength of the NFI is that it combines several bodies in tackling fraud. It helps individual organisations go beyond what they could do acting alone.

**14** Since 1996, the NFI has successfully detected fraud, overpayments and errors totalling £664 million.<sup>i</sup> This includes £80 million detected in Scotland, Wales and Northern Ireland.

**15** In 2006, the Attorney General led a government-wide review to recommend ways of reducing fraud and the harm it does to the economy and society. The final report of the *Fraud Review*, in July 2006, praised the NFI's role in tackling fraud and recommended that 'The remit of the National Fraud Initiative (NFI) should be widened across more public sector authorities...' (Ref. 4).

**16** The government legislated in 2007 to implement the recommendations of the *Fraud Review*. The Serious Crime Act 2007 provides for the Secretary of State to lay Orders before Parliament requiring public bodies to take part in the NFI and extending its remit to cover other areas, such as debt. Disappointingly, so far the Orders have not yet been laid.

**17** The Act also imposes a new framework for data matching and contains important safeguards on the use and disclosure of data, including a requirement for a new statutory *Code of Data Matching Practice*.<sup>ii</sup>

**£664m**  
in fraud,  
overpayments  
and errors has  
been detected by  
NFI since 1996

**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 and overpayments would have continued undetected without NFI data matching. A more detailed explanation is included at Appendix 2.

**ii** 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](http://www.audit-commission.gov.uk/datamatchingcode)



- 18** The success of the NFI depends on organisations investigating the matches. To help organisations with their investigations, we have:
- developed a secure application that is easy to use and environmentally friendly;
  - provided online training;
  - highlighted those data matches that show a high chance of fraud;
  - supplied organisations with guidance, newsletters and help desk support;
  - provided good practice wording for use in letters, application forms, and payslips to inform people that their data will be used, as required by the Data Protection Act 1998; and
  - provided a specimen letter for local authorities to send to all council tax payers who appear as a data match.

**19** The NFI delivers good value for money for each participant, securing the maximum benefit at least cost. The total cost of running the 2008/09 exercise was £2 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 108 times greater than the cost.

## The NFI across the UK

**20** Since 1996, the NFI has developed significantly, including a wider range of organisations across the UK and covering new data matches that deal with new fraud risks. Audit Scotland, the Wales Audit Office and the Northern Ireland Audit Office all now take part in NFI.

**21** The national audit agencies' involvement serves the public interest in the fight against fraud and brings significant benefits. Each agency 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 where permitted.

**22** Many private companies now benefit from the wider powers given to the Commission. Almost 100 companies took part in the NFI 2008/09. This is an advantage, not just because it detects illegal activity in other parts of the economy, but it also helps to boost fraud detection by public bodies. Wider information-matching helps detect fraudsters working across different sectors, sometimes using the same fraudulent identities.

**The NFI has continued to increase the number of organisations that use the Audit Commission's systems, processes and expertise**

# Results of the NFI 2008/2009

Introduction	17
Council tax single person discount	23
Housing benefits	24
Pensions	25
Blue badges	25
Payments to private residential care homes	26
Social housing	27
Payroll	27
Creditor payments	28

































**This chapter sets out the results of the NFI for 2008/09. It highlights the successes in tackling key risks (Table 2), such as housing benefit, pensions and council tax single person discount fraud. It shows why organisations should take part in the NFI.**

**23** The NFI 2008/09 identified fraud, overpayments and errors with a value of £215 million. This brings the total detected since the NFI began to £664 million. The figure for 2008/09 represents a 54 per cent increase on the figure of £140 million identified in the 2006/07 NFI exercise, reflecting well on the bodies that followed up effectively the matches given to them.



**Councils need help in identifying housing benefit overpayments and wrongful claims for council tax single person discount.**

Table 2: A comparison of outcomes by risk area

Overpayment area	2004/05 £m	2006/07 £m	2008/09 £m
Housing benefit	22.63 	23.61 	32.3 
Housing (including right to buy and recovered properties)	2.36 	7.37 	7.57 
Council tax single person discount	0	12.78 	62.3 
Payroll	10.18 	2.96 	6.64 
Creditors duplicate payments	0.957 	1.75 	3.37 
Care homes	0.452 	2.14 	1.05 
Blue badges	0.274 	8.05 	13.7 
Pensioners – Public sector	61.07 	72.85 	71.99 
Pensioners – Private sector	12.19 	8.23 	12.5 
Other	0.58 	0.126 	3.25 
<b>Total</b>	<b>110.693</b> 	<b>139.866</b> 	<b>214.67</b> 

Source: Audit Commission, 2010

**24** Figure 2 summarises the key results from the 2008/09 exercise in England. As well as significant financial success, there were other outcomes:

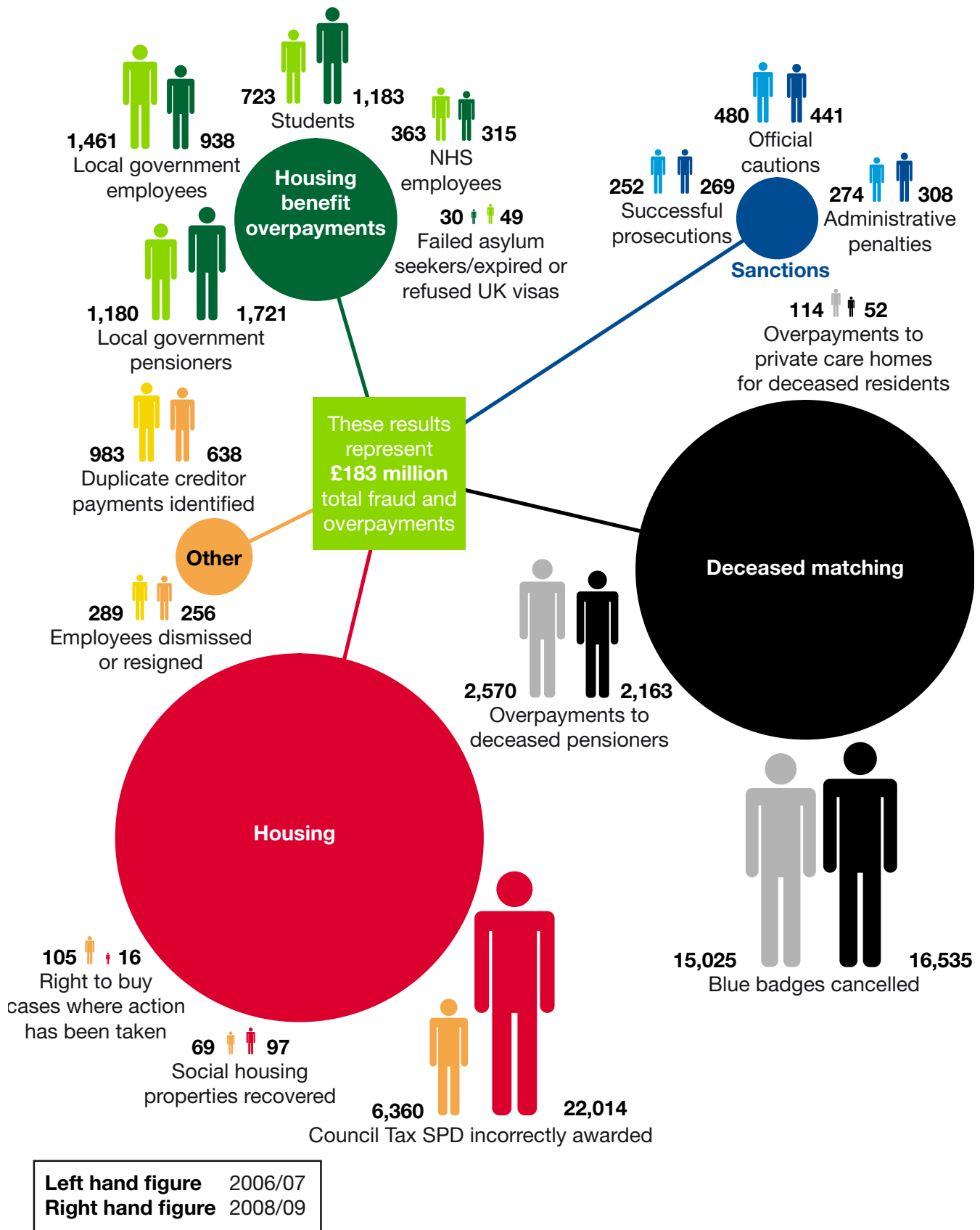
- 269 prosecutions; 308 administrative penalties; and 441 official cautions.
- 256 members of staff dismissed or resigned.
- 16,535 blue badges and 21,534 concessionary travel permits cancelled.
- 97 properties recovered for social housing.

**25** Each national audit agency reports separately on the outcomes of the NFI for their own geographical areas (Figure 3).<sup>i</sup> In Scotland, investigation of data matches found fraud and overpayments of £21 million; in Wales, detected frauds and overpayments amounted to £4.5 million; and in Northern Ireland frauds and overpayments totalled nearly £6 million. The balance of around £183 million relates to the Commission's exercise. Of this, £90 million is savings already delivered and £93 million is an estimate of the cost of the frauds or errors, including where appropriate expenditure that would have been incurred in future years had the fraud or errors gone undetected.

**26** The rest of this chapter reports the outcomes from some of the data matches completed at public bodies.

<sup>i</sup> NFI results in Scotland are available at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in Wales, at [www.wao.gov.uk](http://www.wao.gov.uk) and in Northern Ireland, at [www.niauditoffice.gov.uk](http://www.niauditoffice.gov.uk)

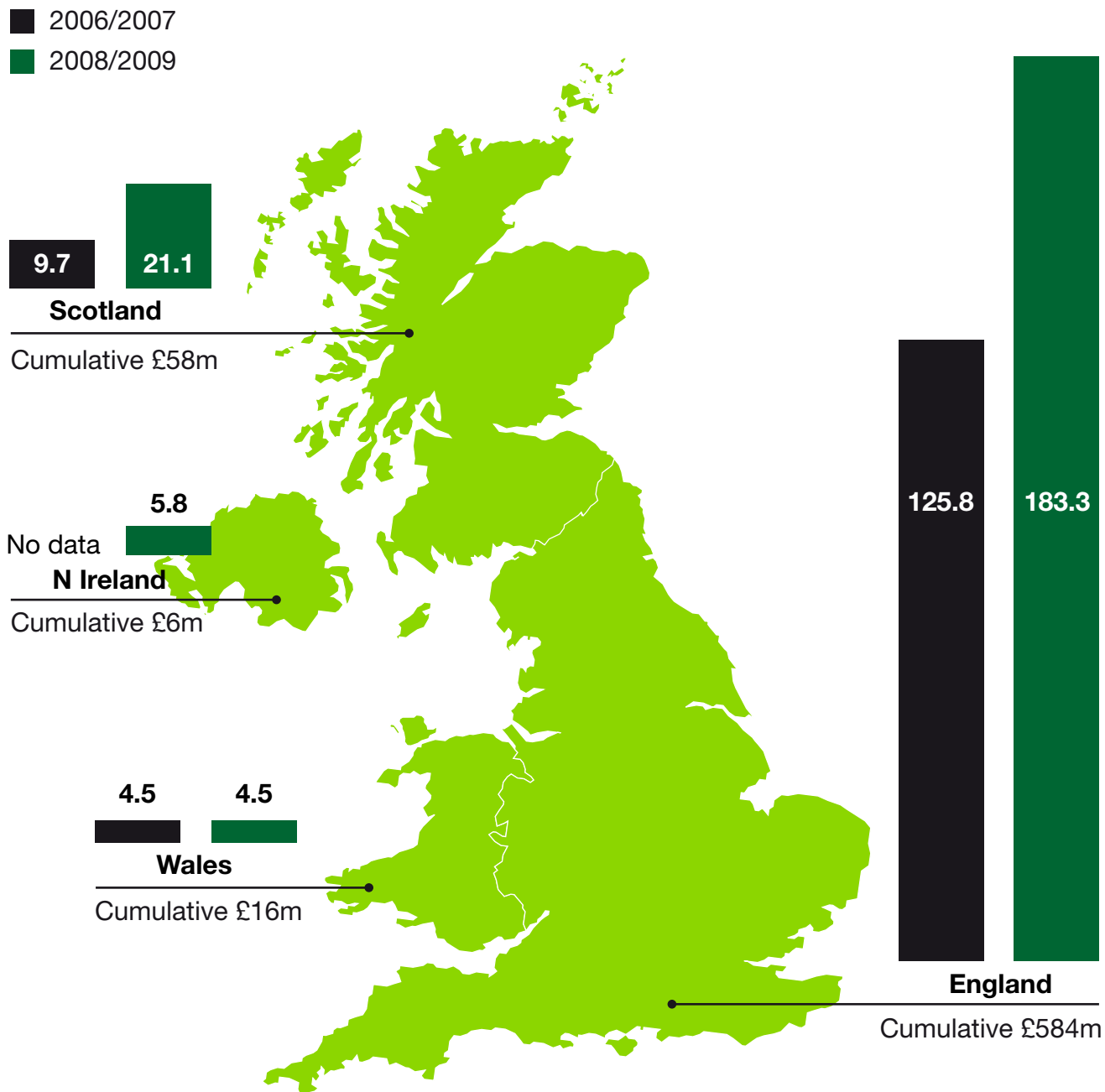
Figure 2: Key results from the 2008/09 exercise, number of outcomes



Source: Audit Commission 2010

Figure 3: **Successfully detected fraud, overpayments and errors (£m)**

Cumulative total over period of NFI (1996-2010) £664m



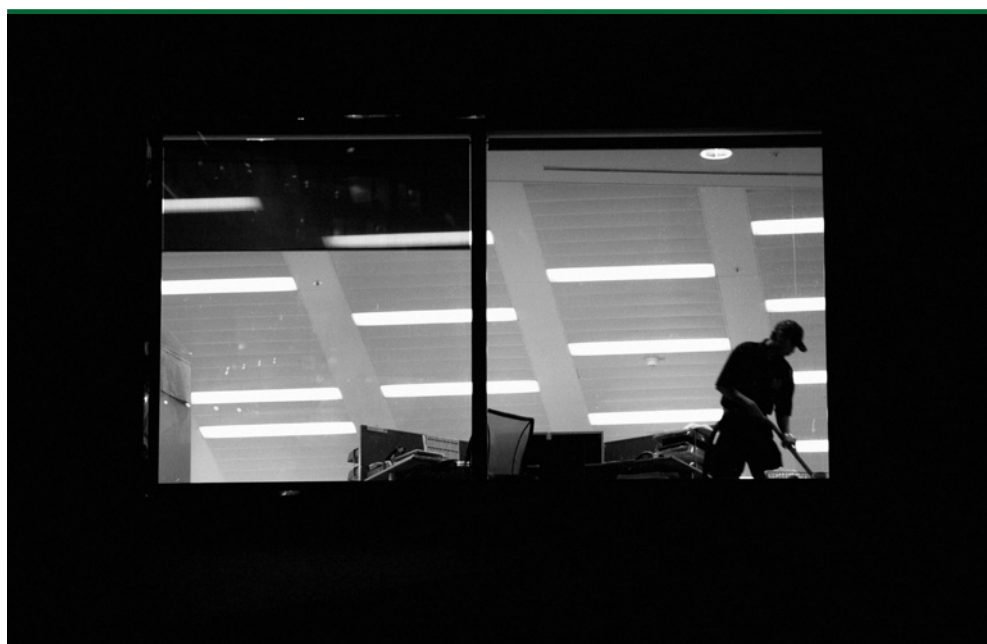
Source: Audit Commission 2010

## Immigration fraud

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

**28** Employers have a statutory duty to satisfy themselves that potential employees are 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).

**Matching UKBA data has led to the detection of a significant number of illegal workers in the public sector.**



**29** Matching UKBA data led to:

- the dismissal or resignation of 181 employees from 96 organisations. These included local authorities, NHS hospitals and primary care trusts, housing associations, and police authorities;
- councils identifying 49 housing benefit overpayments amounting to £0.66 million;
- the recovery of 14 properties for use as social housing, with two tenants awaiting deportation; and
- employers identifying £2.2 million of salary payments to illegal workers.

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



## Case study 1

### Yorkshire Ambulance Service NHS Trust

Yorkshire Ambulance Service investigated an NFI match between payroll and UK visa data and found that an employee had worked for the Trust for several years and been paid over £190,000, despite having no right to work in the UK. Investigations by the Trust's Local Counter Fraud Specialists and the Northern & Yorkshire regional team of the NHS Counter Fraud Service showed that his visa and passport were forgeries.

It was also found that the individual was claiming asylum support stating that he was not working and did not have any income. Following arrest and interview, he absconded from the country before attending court. The employee's wife was also discovered to have no right to reside or work in the UK, but was working for a local employer having deceived that employer who believed she had entitlement to work in the UK.

The Trust is seeking to recover the tax, national insurance and pension contributions wrongly paid.

*Source: Audit Commission 2010*

## Council tax single person discount

**31** The NFI matches council tax records against the electoral register. Certain matches identify individuals receiving the single person discount, 25 per cent<sup>i</sup>, despite living with other countable adults.

**32** Nationally, a third of households claim single person discount, and it costs councils about £2 billion a year (Ref. 6). Over £56 million of fraudulent or wrongful claims for single person discount were identified. This compares with £10 million detected in the NFI 2006/07. In part, this is because submission of the required data was made mandatory in our 2008/09 exercise, so the number of councils taking part more than doubled from the previous exercise.

**i** In certain circumstances, the discount may apply where another adult who meets specified conditions lives in a property. For example, where another adult lives at a property who 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 single person discount may still apply.

**33** After investigation, councils stopped awarding discount in over 22,000 cases. This adds to around 6,000 cases stopped since this data match was introduced in 2006/07. Recovery action has taken place or is taking place in about 75 per cent of cases. Case study 2 highlights the success achieved by one council.

### Salford City Council

Salford City Council's follow up of the data matches between the Council Tax system and the Electoral Register involved sending a review letter to its taxpayers. This identified one case where a taxpayer had been receiving the single person discount since 2001. This was despite the fact that their partner, who should not have been disregarded for council tax purposes, had lived with them throughout the period. Over the nine year period, the discount received amounted to £2,200 and recovery procedures have been implemented. Because of this case and other similar cases Salford City Council expects to raise an extra £1 million in Council Tax.

*Source: Audit Commission 2010*

## Housing benefits

**34** The NFI matches housing benefit records against payroll, pensions, student loans and housing tenancy data. Matches may identify where a person is claiming benefit to which they are not entitled. For example, matches sometimes identify employed people who say they have no income.

**35** Housing benefit fraud costs the country about £260 million each year (Ref. 7). Since 1996, the NFI has detected over £151 million of housing benefit frauds and overpayments.

**36** The NFI 2008/09 helped to uncover benefit frauds and overpayments worth £24 million. Councils are taking action to recover about 74 per cent of the overpayments, including:

- £4.3 million where retired pensioners from the civil service, armed forces, and the NHS claimed benefits without fully declaring their pension income.
- Almost 6,000 housing benefit cases, of which 32 per cent were proven fraud cases.

**37** Action taken against benefit fraudsters included 269 prosecutions, 308 administrative penalties and 441 cautions.

**£24m**  
was detected  
by the NFI  
in benefits  
frauds and  
overpayments  
in 2008/09

## Pensions

**38** The NFI matches pensions data to the records of deceased persons provided by the Department for Work and Pensions. It also matches to other sources including housing benefit claims, injury benefits and staff payrolls. These matches help check that payments are correctly made to pensioners who are still alive or still entitled to receive a pension.

**39** Frauds often occur when pensioners die but relatives fail to tell the authorities of the death and continue to cash the payments. Also, pensioners may return to work and wrongfully avoid pension reductions by not telling the relevant authorities.

**40** The NFI 2008/09 identified 2,163 cases, including 507 among the private sector participants, where pensioners had died, but payments were continuing to be made. A total of £76 million overpayments were detected and prevented. There were 125 further cases, involving overpayments of £1 million, where pensions should have reduced because of changed circumstances but the individuals failed to notify the relevant authorities. Case study 3 provides an example of a fraud case identified.

### South Tyneside MBC

Pensions data matching helped South Tyneside MBC identify a pension overpayment totalling £30,000. Following a pensioner's death, his step-grandson had fraudulently collected the pension payments for some years. The council referred the case to the police and it was successfully prosecuted. The courts imposed a 12 month prison sentence.

*Source: Audit Commission 2010*

## Blue badges

**41** The NFI matches blue badges data to records of deceased persons. Matches may lead to the identification of wrongful use of the badge.

**42** Councils are responsible for awarding blue badges to people with severe mobility problems. About 2.3 million blue badges are used in England.

**43** The badge exempts the holder from car parking charges and, in London, the congestion charge. Consequently 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. As we reported in *Protecting the Public Purse: Local government fighting fraud* there is a black market for badges. They can change hands for as much as £500 (Ref. 3).

**44** The NFI 2008/09 matched information about blue badges to the records of deceased people. Data matches have enabled councils to cancel 16,535 badges.

**There is a black market for blue badges because of the exemption from car parking and congestion charges, 16,535 badges have been cancelled because of data matches.**



## Payments to private residential care homes

**45** The NFI matches information about private residential care home payments to deceased persons' records. Matches may identify where payments are continuing for people who have died.

**46** 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. Sometimes, councils are not immediately told of the death of a resident they support. In such cases, overpayments can cost councils thousands of pounds.

**47** Data matches helped identify 52 cases where payments had continued to residential care homes after a resident's death. Overpayments had continued for some time and amounted to £0.45 million. The overpayment has been, or is being, recovered in 99 per cent of cases.

## Social housing

**48** The NFI matches tenancy records and housing benefit records. Matches may identify tenancy fraud from false housing applications or property that is illegally sub-let. NFI also matches tenancy records and applications from tenants to buy their council property at a discount. Matches may identify cases of false information on the application.

**49** As we reported in *Protecting the Public Purse: Local government fighting fraud* (Ref. 3), housing tenancy fraud has become a major problem in recent years. Waiting lists have increased by over 50 per cent in the last six years, and the number of people waiting for social housing may reach 2 million by 2011. Tenancy fraud should therefore be a key priority for councils and housing associations.

**50** Following NFI 2008/09, social landlords recovered 97 properties from those in illegal occupation, and reallocated the properties to genuine tenants. This brings a significant financial benefit because it avoids placing prospective tenants in expensive temporary accommodation.

**51** Case study 4 provides an example of a recent housing fraud identified as a result of data matching.

### Jephson Housing Association Group

Data matching of housing information revealed that a person held two separate tenancies at the same time with different social housing landlords. Follow up found that the tenant was not living at one of the properties and had been sub-letting the house for some time to another person. An eviction order has now been granted to remove the person unlawfully occupying the house.

*Source: Audit Commission 2010*

**52** Sixteen cases were also identified where right to buy applications had been wrongly awarded. In addition, councils stopped six further applications that were in progress.

## Payroll

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

**54** Investigations following data matches have enabled employers to dismiss or request resignation from 63 employees. Employers have recovered, or are recovering over £400,000 of overpayments. Case study 5 gives an example of a typical payroll fraud.

### **Croydon London Borough Council**

Payroll data matching showed that a member of the Council's staff appeared to be working at two different authorities at the same time, while also living at two different addresses. Investigation revealed that two separate individuals existed, but the Council's employee was working illegally and had used a false identity and false national insurance number. The employee was prosecuted and sentenced to four months' imprisonment. The other person connected with this data match has been charged with facilitation offences for knowingly allowing their details to be used fraudulently to gain employment.

UKBA, which worked with the authority on this case, has used the intelligence to make two further arrests for use of this identity, one at a local authority and the other at London Underground.

*Source: Audit Commission 2010*

### **Creditor payments**

**55** The NFI tests participants' creditors' data to identify duplicate payments and incorrectly calculated VAT. Apart from the financial benefits, data matches help to improve the efficiency with which organisations maintain their creditor payment systems.

**56** For the 2008/09 exercise, we refined the matching process for creditor payments, to improve the quality of the data provided to organisations. The number of matches provided reduced by 78 per cent, but the quality of matches improved. Better quality matches helped identify overpayments of £2.8 million compared with £1.7 million in 2006/07. Eighty-four per cent of the overpayments have been or are being recovered.

**57** As well as positive financial outcomes, organisations have corrected or deleted almost 8,000 creditor payment records.

# How can organisations make better use of the NFI?

Introduction	30
Strategic awareness	30
Operational level	31
Specific opportunities to improve	32
Security	33

**This chapter looks at how organisations can make better use of the NFI. It considers how the NFI is used at a strategic and operational level. It also identifies those local authorities that, in our view, are failing to use the information we provide to help save taxpayers' money lost through fraud.**

**58** The results of the NFI 2008/09 have been excellent but they could have been even better. The NFI's full potential is only realised if organisations submit all the required data on time and investigate the high probability matches. As part of the NFI 2008/09, we have considered how effectively organisations use the NFI.

**59** In this chapter, we:

- comment on the awareness of the NFI at the strategic level and how the NFI fits with bodies' corporate arrangements for tackling fraud; and
- report how well public bodies perform at the operational level in submitting data for matching and investigating data matches.

## **Strategic awareness**

**60** We conducted case study reviews at 13 audited bodies to complement the knowledge we have from our day-to-day management of the NFI.

**61** We found many examples of good practice:

- Audited bodies are committed to the NFI and most have sound systems and processes for investigating NFI matches.
- Directors of finance promote the NFI and provide lead director oversight, receiving regular updates on progress from staff, including the chief internal auditor.
- Audited bodies use the NFI to gain assurance about internal controls. They also take action to address major areas of risk.
- Many bodies publicise case studies internally and externally to discourage fraud.

**62** But bodies could and should do more:

- Most bodies view the NFI as a stand-alone activity. They do not see the link to overall corporate arrangements for tackling fraud. Nor do they promote the NFI in corporate information security policies or counter-fraud policies.
- Executive directors and service departments show little corporate awareness of the NFI.
- Corporate management teams rarely commission or receive reports about fraud and the NFI.



- The NFI is seen as the responsibility of the finance director, who is expected to inform colleagues about the NFI only on an exceptions basis.
- Few elected members and audit committees are aware of, or promote, the NFI.

**63** Audited bodies should show leadership and address these weaknesses. They need to promote a culture that has no tolerance of fraud. The NFI should be a major part of counter-fraud work. All managers need to recognise its value and lead by example and stress the fact that all staff have a responsibility to prevent fraud and loss.

**Audited bodies must promote a culture that has no tolerance of fraud**

## Operational level

**64** We asked auditors to assess audited bodies' arrangements for taking part in the NFI and for following up data matches.

**65** The majority of bodies have sound arrangements in place for managing the NFI and for investigating data matches. But auditors discovered important weaknesses at some bodies. These included failing to:

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

**66** 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. Other bodies responded well after the Commission wrote to those that had failed to submit relevant data.

**67** However, we still have concerns about the performance of a small number of local authorities. These authorities failed to engage effectively with the NFI exercise, specifically:

- Leeds City Council did not submit key data on blue badges;<sup>i</sup>
- Mendip DC did not submit key data on payroll; and
- the councils listed below had failed to open council tax data matches or had not progressed them effectively as at 31 March 2010:<sup>ii</sup>
  - Amber Valley BC;
  - Eastleigh BC;
  - Hertsmere BC;
  - Tendring DC;
  - Warrington BC;

<sup>i</sup> The Council subsequently provided the data on 22 April 2010.

<sup>ii</sup> However, all of these councils have made a commitment to follow up the latest matches and in some cases have already identified savings.

**68** It is unacceptable to ignore data matches that indicate a high risk of fraud. It also raises issues of trust in the administration of public services, as taxpayers are entitled to expect that public bodies will take all appropriate steps to reduce the potential losses from fraud.

**69** More generally, we ask all organisations taking part in the NFI to submit data on time, and to act quickly on the reports provided of data matches. Where fraud is occurring, the public interest is best served by prompt and decisive action.

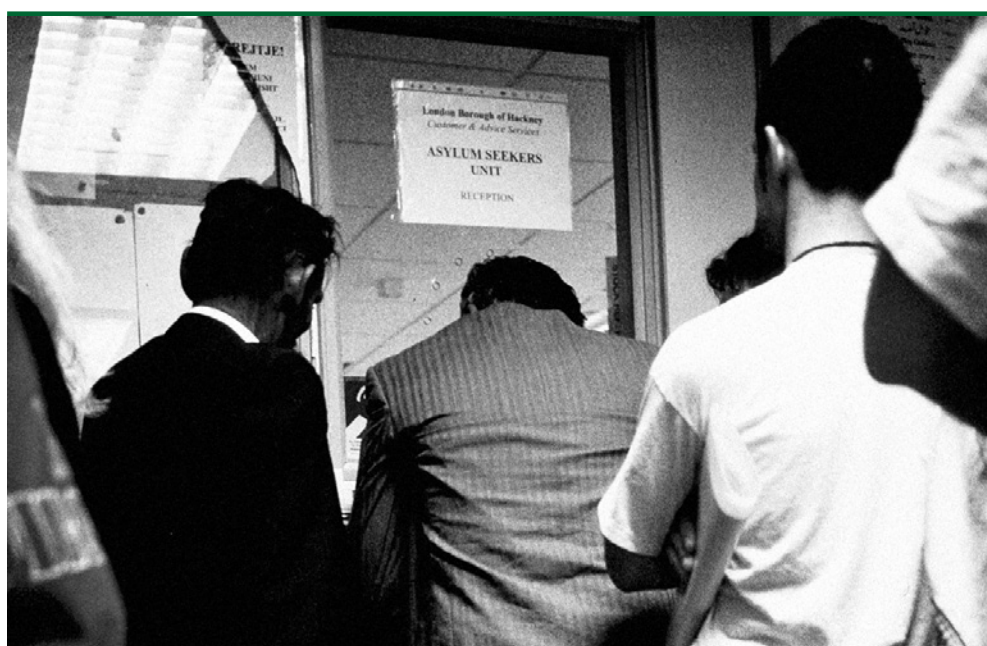
## Specific opportunities to improve

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

### Immigration fraud

**71** Many bodies have successfully investigated data matches about expired and refused visas, visas where there is no entitlement to work, and failed asylum seeker applications. But many organisations are reluctant to pursue possible immigration fraud, because they lack the relevant knowledge and skills to bring cases to a successful conclusion.

**Matching payroll information to data held on failed asylum seekers and expired or refused visas can help companies reduce the risk of incurring fines for employing illegal workers.**



**72** Organisations must improve their expertise if they are to tackle immigration fraud effectively. It would be helpful if UKBA would share its expertise more widely, and strengthen the support it gives to local authorities and other organisations in tackling immigration fraud.

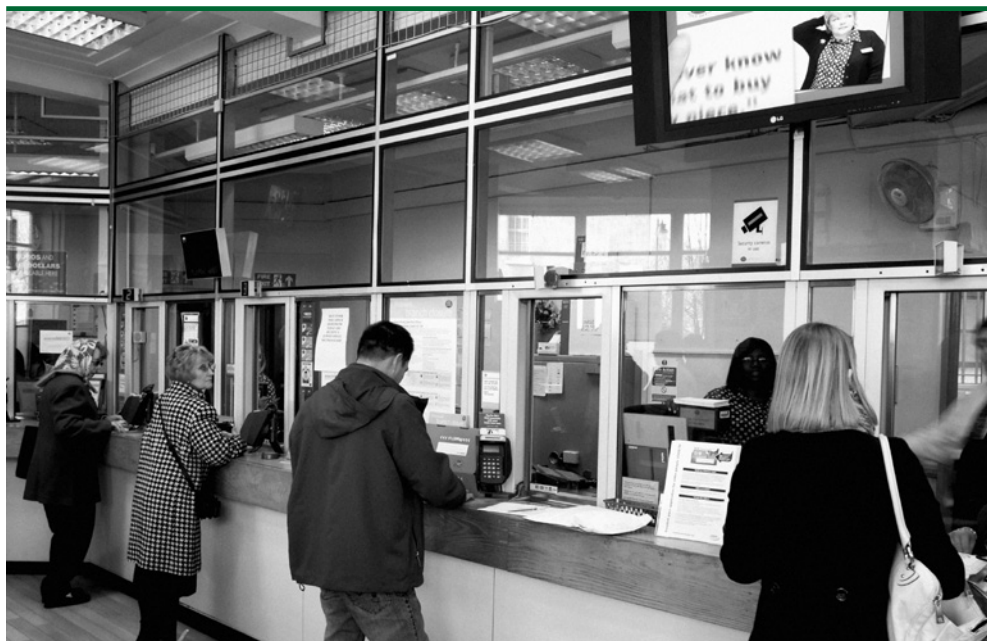
### Council tax single person discount fraud

**73** Many councils only investigate the award of single person discounts for the current financial year, despite the prospect of significant recoveries. *Protecting the Public Purse: Local government fighting fraud* highlighted a council, in one case, recovered £2,589, rather than £369, by recovering the discounts fraudulently claimed in earlier years (Ref. 3).

**74** Councils should consider the financial benefit and the deterrent effect of recovering previous years' discounts where they discover single person discount fraud or wrongful awards.

### **Pensions fraud**

**75** NFI produces good quality matches when comparing pension data with information such as deceased persons and payroll. We rate many of these matches as having a high chance of identifying fraud because of the significant amounts of public money involved. We encourage pension funds to investigate these promptly and rigorously.



**There is a high chance of identifying fraud when comparing pension data with information on deceased persons.**

### **Communication**

**76** Councils could improve internal communications by ensuring that the council tax department notifies all other relevant departments when a death is registered. Information provided by the NFI about deceased persons should be shared in the same way. This would enable the council to recover or withdraw valuable property such as wheelchairs and blue badges. It also represents a better experience for bereaved relatives, who may otherwise have to notify a death several times within the same organisation.

### **Security**

**77** The Serious Crime Act 2007 required a statutory *Code of Data Matching Practice* to govern the NFI. The code includes data security and privacy, which the Commission has always considered vital to the effectiveness of the NFI. The NFI's systems comply with the government information standards and are formally accredited to handle, store and process information up to the restricted classification levels required.

# Looking to the future

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Introduction	35
Meeting new risks	35
Extending the coverage of the NFI	36
Widening the NFI for other purposes	37
Putting more emphasis on fraud prevention	38

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**This chapter looks at how the NFI may develop, attract new participants and increase the benefits for all participants. It looks at the challenges that lie ahead.**

**78** Our vision for the NFI is that it serves the public interest by:

- safeguarding public money against losses from fraud or misappropriation; and
- making an effective contribution to the fight against fraud.

**79** Our strategy for fulfilling this vision in the NFI 2010/11, which we will launch in June 2010, involves work under four broad themes:

- Continuing with successful data matches and expanding them to meet new risks.
- Extending data matching for fraud purposes to a broader range of organisations and sectors.
- Widening the purposes for which data matching is undertaken.
- Placing increased emphasis on fraud prevention.

## Meeting new risks

**80** We will continue to run core data matches, as well as developing our approach to meet the threat posed by new fraud risks. We will listen to the concerns raised by organisations about emerging challenges facing them. Some examples of the way we plan to develop our data matches are included in Box A.

### Box A: Possible new data matches

#### Empty properties

Councils can offer a discount of up to 50 per cent of the council tax payable for dwellings that have been empty and unfurnished for longer than six months. We will pilot a match between empty home discount data and information contained in electoral registers. This is designed to check whether people are claiming discount falsely by claiming their property is empty while they are still in residence.

#### Blue badges

Seven councils will take part in a pilot that matches data about blue badges awarded by the authorities taking part. This is designed to see whether individuals are claiming more than one badge at the same time, as some councils have found.

>>>

### **Incapacity benefits**

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 enhanced occupational pension as a result of work-related injuries. Reductions in payment may be required when both incapacity benefit/industrial injury and disablement benefit and enhanced occupational pension relate to the same injury. Pilots undertaken at police and fire authorities found that these reductions do not always happen. Data matching confirmed 15 cases with outcomes totalling just over £490,000. As a result of the success of this data match, we may include it in future NFI exercises at all police and fire and rescue authorities on a mandatory basis.

**To gain greater effectiveness in data matching, more government departments and agencies need to submit data and participate in the NFI**

## **Extending the coverage of the NFI**

### **Central government**

**81** We welcome the support that some departments give to the NFI by providing personal data about claimants, deceased persons and immigration status. But we are disappointed that no government department, and only one government agency, has so far taken part in the NFI. Only the Highways Agency submitted data during the NFI 2008/09 about its own operations such as payroll and creditor information.

**82** We recognise departments' concerns about data security following the loss of disks belonging to HM Revenue & Customs in January 2008. But these concerns should not preclude their future participation in the NFI. Our data processing systems have been formally accredited as complying with rigorous government standards.

**83** It makes good business sense for government departments to take advantage of the benefits that participation in the NFI brings, particularly in the current economic climate. We will invite them again to participate in the 2010/11 exercise.

**84** But we think the government should now take a stronger lead and exercise the power under the Serious Crime Act 2007 to lay an Order requiring all government departments and their arm's-length bodies to take part in the NFI.

### **Housing associations**

**85** The NFI has proved a powerful tool for detecting tenancy fraud. We believe that all housing associations should demonstrate their commitment to tackling tenancy fraud by taking part in future NFI exercises.

**86** The Tenant Services Authority (TSA) has already taken action to encourage all housing associations to take part in the NFI. We urge the TSA to continue to promote the benefits of the NFI to the sector.

## The private sector

**87** We will strengthen our work with private sector companies and encourage others to take part. Two areas of data matching that companies could benefit from are pensions and payroll.

**88** Eighty-five private sector pension schemes currently benefit from taking part in the NFI, but over 62,000 separate private sector pension schemes were in existence at 31 March 2009 (Ref. 8). We will encourage more schemes, in particular the larger private sector pension schemes where most members are concentrated, to join the NFI in future.

**89** Case study 6 shows how matching payroll records to information about refused visas and failed asylum seekers can help companies to identify immigration fraud and therefore reduce the risk of the legal sanctions, possible fines (Ref. 5) and associated damage to their reputation that they may otherwise suffer if they were found to be employing illegal workers.

### DSG International plc

DSG International plc, the owners of Dixons, Currys and PC World, identified a number of staff who appeared to have no right to work in the UK. One investigation carried out with the cooperation of the UK Border Agency led to 16 individuals being detained.

*Source: Audit Commission 2010*

**90** We are also discussing with leading recruitment agencies how the NFI might prevent individuals with no right to work in the UK being accepted onto their employment registers.

## Widening the NFI for other purposes

**91** The Serious Crime Act 2007 gave powers to the Secretary of State to extend the purposes of data matching beyond fraud. The Act defines these 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.

**92** We have asked the previous government to make the Orders to extend the NFI in the way permitted by the Act. It is disappointing that the Orders have not yet been laid. Data matching through the NFI could help public bodies to reduce the significant levels of debt owed to them. Arrears owed to local authorities in respect of unpaid council tax, rent arrears and parking notices totalled more than £2 billion in 2007/08. Data about

these arrears could easily be matched to information that the NFI already processes. This could help identify:

- new contact details for debtors whose forwarding address is otherwise unknown;
- details of any pay or pension received by those owing money; and
- tenancy information where the person has moved to social housing.

## Putting more emphasis on fraud prevention

**93** The Prime Minister launched the Smarter Government initiative on 7 December 2009. This is designed to introduce more efficient government and release more than £12 billion in efficiency savings. The report, *Putting the Frontline First: Smarter Government* (Ref. 9), outlined plans for:

**‘Reviewing anti-fraud work across government to ensure that data analysis techniques become embedded in standard processes’.**

**94** The report also promised that the government:

**‘... will set up a task force to investigate what more can be done to reduce fraud, using the best techniques from the private sector’.**

**95** The task force published its report, *A Fresh Approach to Combating Fraud in the Public Sector*, in March 2010 (Ref. 2). It recommended a shift in focus towards fraud prevention. It highlighted how private companies access a range of databases and use data analytics to prevent fraud. Prevention results from refusing to provide a service or by highlighting high risk cases for prepayment investigations.

**96** The NFI provides an excellent example of what can be achieved when organisations combine forces to tackle growing fraud risks before payment. Fraud prevention is often beyond the means of individual organisations as they have limited powers and means to share data between departments and with other bodies. Increasingly, we will develop the NFI to help prevent fraud from happening.

**97** For example, recently we ran a data match at the Royal Borough of Kensington & Chelsea. The purpose was to identify people who were on the housing waiting list but who may have misrepresented their personal circumstances, or failed to notify the council of changes in their circumstances, such that they were not entitled to social housing. Following the pilot the Council has removed 77 ineligible applicants from the housing list. This includes 11 applicants who had gained sufficient points to justify priority in the allocation of social housing. We will extend this pilot to all London councils.



# Conclusion

**This chapter sums up what needs to be done to maximise the benefits of the NFI and highlights how by collaborating we stand a better chance of preventing, deterring and detecting fraud.**

**98** The NFI 2008/09 has helped to detect fraud, overpayments and error amounting to £215 million. It has demonstrated its effectiveness in detecting fraud. Most organisations that take part in the NFI perform well, submit data on time and investigate data matches promptly. But public and private bodies are not yet exploiting the full potential of the NFI.

**99** The Audit Commission will continue to develop the NFI. We will include new datasets for emerging risks, improve the efficiency of our processes and help organisations to channel their efforts on the key risks. We will also require auditors to promote the NFI at the bodies they audit and to use the information provided as part of their audit.

**100** Fraud prevention and detection requires a concerted response. The NFI does this successfully by bringing organisations together to share information and benefit from specialist expertise. By joining forces, we can take effective action to stay one step ahead in the fight against fraud.

**Organisations must combine forces and share data to achieve the best in fraud prevention.**



# References and appendices

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Appendix 1: References	42
Appendix 2: Report calculations methodology	42

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## Appendix 1: References

- 1 National Fraud Authority, *Annual Fraud Indicator*, January 2010.
- 2 National Fraud Authority, *A Fresh Approach to Combating Fraud in the Public Sector*, March 2010.
- 3 Audit Commission, *Protecting the Public Purse: Local government fighting fraud*, September 2009.
- 4 HM Government, *Government Fraud Review*, July 2006.
- 5 HM Government, *Immigration, Nationality and Asylum Act 2006 (section 21)*, March 2006.
- 6 Department for Communities and Local Government, *Local Government Finance Key Facts: England*, November 2009.
- 7 Department for Work and Pensions, [National Statistics on Fraud and Error in the Benefit System: April 2008 to March 2009](#): Table 2.1, November 2009.
- 8 The Pensions Regulator, *Annual Report and Accounts 2008/09*, July 2009.
- 9 HM Government, *Putting the Frontline First: Smarter Government*, December 2009.

## Appendix 2: Report calculations methodology

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

Data match	Already Delivered (£ million)	Estimated (£ million)	Total (£ million)	Basis of calculation of estimated savings
<b>Council tax single person discount</b>	56	0	56	
<b>Housing benefit</b>	19	5	24	Value of sanctions applied plus weekly benefit reduction multiplied by 13.
<b>Local government pensions</b>	3	25	28	Cabinet Office formula: annual pension multiplied by the number of years until the pensioner would have reached the age of 90.
<b>Other public sector pensions</b>	3	34	37	As above.
<b>Blue badges</b>	0	8	8	Number of badges confirmed as deceased multiplied by £500 to reflect lost parking and congestion charge revenue.
<b>Residential care homes</b>	0.4	0.4	0.8	£5000 per case based on average weekly cost of residential care multiplied by 13.
<b>Tenancy fraud</b>	0	7	7	£75,000 per property recovered based on average three year fraudulent tenancy. Includes: temporary accommodation for genuine applicants; legal costs to recover property; re-let cost; and rent foregone during the void period between tenancies.
<b>Right to buy</b>	0.05	0.15	0.2	£26,000 per application withdrawn to reflect average value of discount.
<b>Payroll</b>	3	3	6	£5,000 per case (£10,000 for immigration cases).
<b>Creditors</b>	3	0	3	
<b>Private sector pensions</b>	2	11	13	As above.
<b>Other</b>	0.4	0	0.4	
<b>Total<sup>i</sup></b>	<b>90</b>	<b>93</b>	<b>183</b>	

<sup>i</sup> The amounts included in this table relate to England results only and are subject to rounding. Numbers have been rounded to an integer, 0.5 and above were rounded up and under 0.5 rounded down.



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