

Public sector

National report

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commission



# National fraud initiative 2004/05

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As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

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Summary	2
<b>1 Background</b>	<b>5</b>
<b>2 Results</b>	<b>7</b>
Housing benefits	9
Home Office	11
Occupational pension	13
Payroll	16
Social housing	18
Pilots	20
<b>3 NFI in Scotland</b>	<b>28</b>
<b>4 NFI in Wales</b>	<b>30</b>
<b>5 Communication</b>	<b>31</b>
<b>6 Areas for improvement</b>	<b>32</b>
<b>7 Future strategy</b>	<b>34</b>

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‘This very successful exercise cuts across organisations and enables us to share data and identify overpayments or individuals who are fraudulently taking money from the public purse. The results send out the right messages. We are determined to protect public funds.’

**Simon Taylor, Director of Finance, Kings College Hospital**

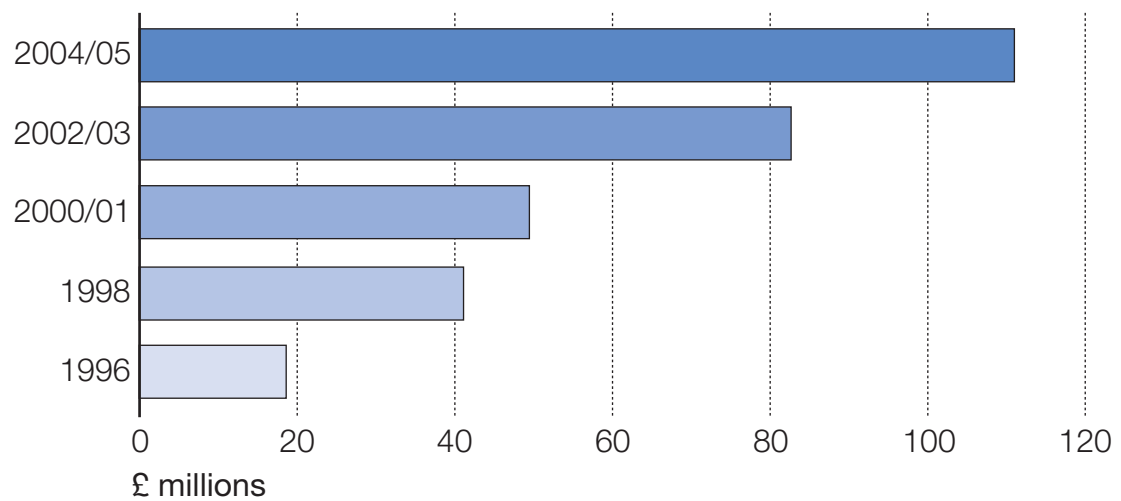
## Summary

The value of fraud and overpayments detected by almost 1,300 public bodies taking part in the National Fraud Initiative (NFI) 2004/05 exceeds £111 million. Due to the actions of auditors and investigators working together to exploit the matches provided by the Audit Commission, this is a record breaking achievement for NFI in protecting the public purse.

- The value of detected fraud and overpayments rose from £83 million in NFI 2002/03 to £111 million in 2004/05 – an increase of 33 per cent (**Figure 1**). Aggregate fraud and overpayments for NFI since its inception are just over £300 million. A number of case studies have been included in the main body of this report highlighting that, in the majority of cases, the overpayment has either been recovered or repayment is ongoing.
- The record levels of fraud detected reflect the increasing sophistication of the NFI process and the attention given to new areas of risk as they emerge. This allows participating bodies to review the detected frauds and put in place controls to prevent further public sector fraud. In addition the ongoing success and development of NFI continues to act as a deterrent to potential fraudsters.
- The outcomes from the 2004/05 exercise include:
  - 396 successful prosecutions for housing benefit fraud; and
  - 327 NHS employees and 2,690 local government employees carrying out housing benefit fraud.
- The NFI is run once every two years at minimal cost to the organisations involved (core NFI 2004/05 fees range from £450 to £1,900) and is firmly established as the United Kingdom’s premier public sector fraud detection exercise.
- A series of successful pilot data matches were introduced covering a range of risk areas such as duplicate payments to creditors and serial insurance claimants. The pilots will be available to all participating bodies in 2006/07.

**Figure 1****NFI detected fraud and overpayments comparison**

The value of detected fraud and overpayments rose from £83 million in NFI 2002/03 to £111 million in 2004/05.



**Source:** Audit Commission

- Core aspects of NFI data matching were run for Scottish local authorities and a selection of other Scottish bodies on behalf of Audit Scotland. Detected overpayments arising from this work totalled £15.1 million and the success has led to an expansion of the range of matches planned for 2006/07 and the production of a separate national report for Scotland by Audit Scotland.

The increase in fraud detected was partly due to new areas of data matching but all of the traditional areas such as occupational pensions, housing benefits and council tenancies also showed marked increases:

- Housing benefit fraud and overpayments detected rose by 29.4 per cent to more than £22 million. The increase is in no small measure attributable to the quality of data provided by the Department for Work and Pensions (DWP) on behalf of local authorities and the enhanced facilities in the NFI application provided to investigators.
- The number of cases of occupational pensions continuing to be paid after the death of the pensioner rose from 2,076 to 2,497 – an increase of 20.3 per cent. Associated overpayments rose 15.8 per cent to £6.6 million.

- The emphasis in housing investigations switched from tenancy fraud to abuse of the right to buy process with over 80 cases already reported and some authorities having instigated legal proceedings to recover discounts and/or properties.
- Pilot exercises, which were restricted to a small number of authorities, led to the detection and recovery of just under £1 million of duplicate payments to trade creditors; the identification and ongoing recovery of £450,000 of overpayments to private care homes, relating to the care of residents after the date of their death; and the cancellation of more than 5,000 disabled parking badges, many of which were in active use after the death of the badge holder.

Monitoring of NFI at audited and inspected bodies (AIBs) by local external auditors and a more rigorous regime of visits and reminders from the NFI team has helped the majority to achieve a more timely exploitation of their matches. However, a small number of authorities (often where responsibility for investigations had been outsourced) have struggled to deal with even the high-priority reports. These authorities are receiving direct support and, in some cases, additional training to resolve the difficulties and will be prioritised for early help and support in 2006/07.

During the NFI processing cycle a number of requests for data matching are received from participating bodies with regard to emerging risks. These are considered along with enhancements to existing projects to provide a range of new referrals and, if adopted, are either made available as part of the mandatory core data matching or are offered as optional datasets for submission by those most at risk. Those under development for 2006/07 include:

- fraudulent single person council tax discounts;
- abuse of freedom passes and residents' parking permits;
- non-declaration of company directorships by members and officers; and
- housing benefits claimed by individuals refused a visa to enter the UK.

# 1

## Background

- 1 The Audit Commission's NFI uses advanced data matching techniques to tackle a broad range of fraud risks faced by the public sector. Matches are provided as referrals to participating bodies in a user friendly application to allow prioritisation of matches and dissemination to investigators without compromising data privacy requirements.
- 2 The NFI has been embedded in the statutory external audit process for AIBs since 1998 and is run every two years. In 2004/05 the number of participating public sector bodies contributing data was just under 1,300, an increase of 12.7 per cent on NFI 2002/03. The level of fraud and overpayment detected rose over the same period from £83 million to £111 million, an increase of 33 per cent.
- 3 The data supplied to the NFI is principally used for cross-matching between systems to identify possible incidences of fraud or overpayment. Traditional examples of such matches are council tenants with a council property in each of two authorities or a public sector employee on long-term sickness leave from one organisation while working for another. The introduction of creditors' payments in 2004/05, to add to housing benefits and payroll, means that NFI now includes matches relating to 100 per cent of local government expenditure.
- 4 The use of data for NFI purposes continues to be controlled to ensure compliance with data protection and human rights legislation. The Audit Commission has recently published a new Code of Data Matching Practice following consultation with the Information Commissioner and other stakeholders. The Code, which contains a foreword from the Information Commissioner, has been distributed to all participating bodies and can be accessed on the NFI web page ([www.audit-commission.gov.uk/nfi](http://www.audit-commission.gov.uk/nfi)).
- 5 There is a continuous development programme for enhancements to the NFI application and feedback on the 2004/05 results was exceptionally positive. Key changes planned for 2006/07 are a restructuring and simplification of the match reports and a move to a web-based system to improve the timeliness of output and to facilitate updates without the need for distributions of CD-ROMs.

6 This report looks at:

- the value and types of fraud detected and other benefits from the core elements of NFI 2004/05;
- the success of the new pilot data matches and plans for making them more widely available in 2006/07;
- the future strategy and new developments for NFI 2006/07; and
- ways to achieve more effective use of NFI matches at participating bodies.



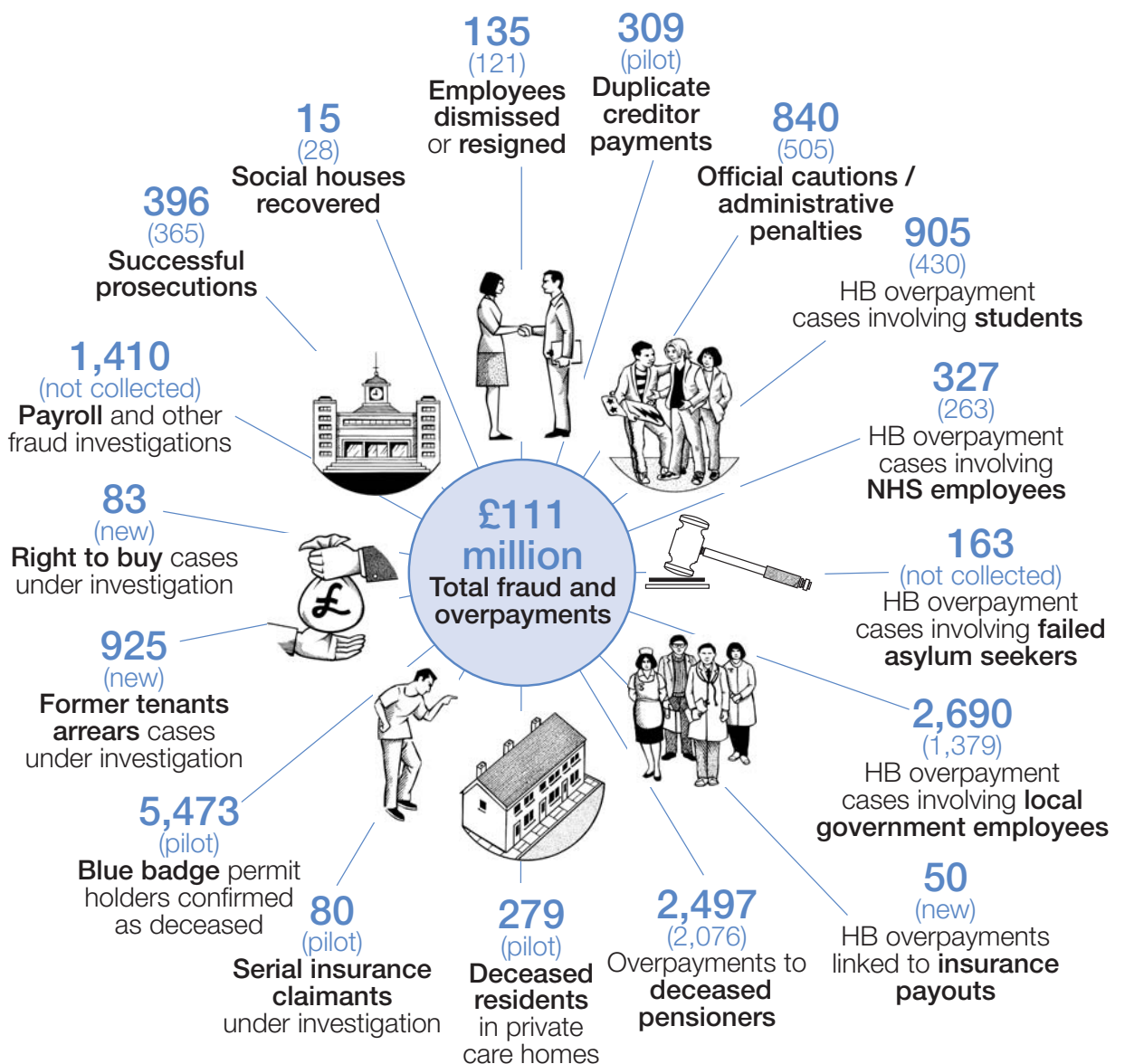
# 2

## Results

- 7 Following the introduction of NHS bodies to NFI in 2002/03, there has been a gradual increase in the number of participants. The addition of probation boards, a small number of housing associations and all local authorities in Scotland brought the overall number to nearly 1,300, who between them contributed over 3,400 files of data.
- 8 The data matches were distributed on a CD-ROM that contained guidance for investigators and provided a way of reporting the details of fraud and overpayments detected back to the Audit Commission. More than £111 million has already been reported and any further overpayments reported from outstanding investigations will be carried forward to the 2006/07 exercise.
- 9 Pensions, payroll and housing benefit frauds detected and reported all showed steady increases over previous exercises, reflecting improvements in the quality of data submitted, advanced matching techniques and enhancements to the NFI CD-ROM-based application.
- 10 Home Office data on failed and removed asylum seekers continued to play a part in the success of NFI. Fraudulent benefit claims were identified as well as a number of public sector employees with no right to employment in the UK. In addition, the Immigration and Nationality Department of the Home Office were able to effect 178 removals from the NFI referrals.
- 11 Inevitably not all participants benefit to the same degree from the core NFI processes so the success of the new pilot data matches is particularly pleasing as they will provide a range of anti-fraud measures across a variety of known risk areas. The work on creditors identified duplicate payments of more than £100,000 each for a number of pilot sites and will be extended to the majority of AIBs as part of the core mandatory process in 2006/07. The other new areas, including serial insurance claimants and abuse of parking and free transport schemes, will be available as options for those authorities who determine they are at risk.
- 12 Other outcomes include 396 successful prosecutions, 905 housing benefit fraud cases involving students and 327 involving NHS employees (**Figure 2, overleaf**).

**Figure 2**  
**NFI 2004/05 results summary**

There have been significant increases in the number of housing benefit fraud cases involving students and local government employees.



**Note:** Figures in brackets are reported 2002/03 results.

**Source:** Audit Commission

## Housing benefits

- 13 The detection of housing benefit fraud continues to be a primary function of NFI with the value of detected fraud and overpayments reported for 2004/05 showing in excess of £22 million. This represents a 29.4 per cent increase from the equivalent figures for NFI 2002/03 (£17 million).
- 14 In addition data collected for the first time on tenants who had purchased council properties through the right to buy scheme was matched to housing benefits. This was designed to identify former tenants who, while claiming housing benefit, had:
- failed to declare that they were home owners through right to buy; or
  - recently disposed of a right to buy property and therefore may have undeclared capital.

## Housing benefits to payroll and pension payroll matches

- 15 The 2004/05 exercise represented a significant milestone for NFI. For the first time details of any income declared by benefit claimants was included in the housing benefit data download. The introduction of this information meant that, within the NFI application, authorities could readily identify cases where payroll or occupational pension income was in payment, but had not been declared by the claimant. A sort facility then allowed these cases to be ordered by gross pay or by the amount of weekly benefit (**Case studies 1 to 4, overleaf**). This advance has significantly increased the effectiveness of the benefit investigator resources utilised by participating bodies in NFI 2004/05.
- 16 In such cases where fraud is proven and a sanction achieved, the employing body should assess the risks associated with the continued employment of the individual. In cases where the benefit paying and employing bodies are different this assessment relies on the benefit paying authority sharing the details with the employing body. In many cases this assessment has led to the employee either being dismissed or resigning.
- 17 NFI also allows the detection of fraud cases where the claimant has failed to declare the income of a public sector employee living at the same address (**Case studies 5 to 7, overleaf**).

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## Case studies 1 to 4

- 1.** Rushmoor Borough Council identified two NHS employees who had falsely claimed housing benefit and council tax benefit. With overpayments of £35,000 and £6,000 respectively both employees have subsequently resigned from their NHS employment, one from an ancillary role and one from the trust's bank staff, at the same NHS trust. The overpayment of £35,000 was repaid in full and over half of the £6,000 overpayment has already been recovered via an attachment of earnings.
- 2.** Investigations by the London Borough of Hackney have identified 89 cases of fraudulent or erroneous benefit payments totalling over £650,000 from the NFI payroll and pension payroll matches. To date, 18 sanctions have been obtained with a further 41 investigations ongoing. Recovery action has commenced in approximately 80 per cent of these cases.
- 3.** Blaby District Council found an NHS employee who was claiming housing benefit, council tax benefit and income support but had failed to declare their income. Further investigation established that the overpayments had been ongoing since 2000 and housing benefit, council tax benefit, incapacity benefit and income support overpayments totalled £58,000. A prosecution is anticipated in this case.
- 4.** The investigation of a housing benefit to pensions payroll match by Newark and Sherwood Borough Council led to the identification of almost £100,000 of undeclared savings. The claimant admitted to this in court, was prosecuted and received a fine. The overpayment was repaid in full.

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## Case studies 5 to 7

- 5.** Wigan Metropolitan Borough Council investigated an address match identifying an income support claimant who had failed to declare a spouse's income. The investigation established that the claimant had continued to claim income support and council tax benefit since 1992 and overpayments totalled £67,000. The claimant was successfully prosecuted and sent to prison for 12 months. Repayment of the overpayment has commenced.
- 6.** A local authority in Derbyshire investigated an address match and identified an individual claiming housing benefit, council tax benefit and income support who had not declared any income from employment as a school support teacher under a previous name. The investigation established that overpayments totalled £35,000. An

agreement is in place to repay the housing benefit overpayment and the council tax benefit overpayment is being recovered via an attachment to earnings. The DWP prosecution and recovery of the overpayment is ongoing.

7. Kirklees Borough Council investigated an address match and identified a case that also had tax credit implications. As a result Kirklees undertook a joint investigation with Her Majesty's Revenues and Customs (HMRC) which led to them becoming the first authority in the North of England to formalise an agreement for joint working with HMRC. Although HMRC determined that there was insufficient evidence to prosecute they are pursuing the overpayment of £15,000. Kirklees is proceeding with the housing benefit and council tax benefit investigation.

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## Housing benefit and right to buy

- 18 The introduction of this match has led to the identification of some significant frauds. For example one site identified a number of cases where housing benefit had been paid on the basis of the claimant being a single person, with no partner's earnings being declared, yet the right to buy applications had been made in joint names. As well as investigating these cases the authority has also tightened internal controls to identify such fraudulent applications at the outset. This has already led to one new right to buy application being withdrawn when the local authority challenged it, thus preventing the council losing almost £25,000 from awarding the right to buy discount.
- 19 Despite these successes, the NFI team's site visits established that many sites had missed the opportunities this new area offered by failing to review the reports containing these matches. The sequence and structure of the NFI reports has now been revised and in NFI 2006/07 the reports will be placed more prominently alongside the other key housing benefit reports. In addition NFI communications and guidelines will emphasise the importance of these matches.

## Home Office

- 20 Home Office data on failed asylum seekers was first introduced to NFI in 2002/03 and met with considerable success in terms of assisting audited bodies to detect fraud and the Immigration and Nationality Department to deal with overstayers. The matching was repeated in 2004/05 on a narrower range of data to provide a set of results with higher-quality matches offering more effective investigations to both the Home Office and the public sector.

- 21 The categories of data used were asylum seekers that had exhausted all appeal rights, where they had no right to remain in the United Kingdom and were ineligible for public funds and those that had actually been removed from the UK. The matching revealed a number of cases where the failed or removed asylum seeker was:
- employed by a local authority or NHS body contrary to section 8 of the Asylum and Immigration Act 1996 (**Case studies 8 and 9**);
  - in receipt of housing benefit and other state benefits;
  - a tenant of a local authority; or
  - a student eligible for a student loan.

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### Case studies 8 and 9

**8.** This investigation was led by Trafford Metropolitan Borough Council, but involved Salford City Council, the Home Office and Jobcentre Plus. The case was highlighted for investigation because the individual appeared as a match on housing benefit, housing rents and failed asylum seeker reports across three organisations.

The case concluded with the individual (Mr B) appearing in Manchester Crown Court on 15 July 2005 and pleading guilty to:

- obtaining a money transfer for housing benefit and council tax benefit by deception and for procuring an advantage to obtain a council property from Trafford Council for which he was sentenced to eight months' imprisonment and four months' imprisonment respectively;
- obtaining a money transfer for housing benefit and council tax benefit by deception for which he was sentenced to eight months' imprisonment and for procuring an advantage to obtain a council property from Salford City Council for which he was sentenced to four months' imprisonment; and
- possessing a false passport and obtaining employment by deception (at a security firm). He was sentenced to 12 months' and 4 months' imprisonment respectively.

Mr B is to serve a total of 20 months' imprisonment and the Home Office is aware of the outcome of the investigation. An attempt to recover the overpayment will be made on release.

**9.** An individual on housing benefit to payroll, housing benefit to failed asylum seeker and payroll to failed asylum seeker NFI reports across two neighbouring local

authorities in Berkshire has led to disciplinary action being taken by the employing authority as employment had been gained using forged immigration documents. The employee was suspended pending disciplinary action. The housing benefit case investigation is ongoing.

## Status checks

- 22 The status of asylum seeker applications and appeals is extremely fluid so for 2004/05 a more streamlined protocol was agreed with the Home Office Evidence and Enquiry Bureau (E&E). The protocol meant that the up-to-date status of an asylum seeker could be obtained within a 14-day timeframe by a body participating in NFI. The protocol and a pro forma for completion by the organisation making the referral to E&E, was included on the NFI CD-ROM.

## The future

- 23 To complement our partnership with the Home Office a relationship with the Foreign and Commonwealth Office has been established to obtain data relating to UK visa applications. This data is less likely to change and would provide matches to individuals who should not be in the UK because the visa application was:
- refused;
  - granted, but had since expired; or
  - granted for a specific purpose, but the individual was found to be undertaking a different activity (for example, a study visa was granted but the individual was actually working).
- 24 Because this data is more stable, decisions can be made much quicker by the organisation concerned, for example, the employer or education authority. This data match will be rolled out in the next NFI exercise.

## Occupational pension

‘As taxpayers and custodians of public funds it is in all our interests to eliminate abuse of the NHS pension scheme. Sharing and matching data between public bodies via the Audit Commission’s National Fraud Initiative has proved to be a reliable and economical way to identify £2 million of fraud and overpayments.’

**Sharon Slack, NHS Pensions Agency**

- 25 The results of the NFI work on occupational pensions continue to deliver impressive results. Once again the number of cases where occupational pensions were still in payment after the death of the pensioner has risen (**Case study 10**). The 2,497 cases identified, from the 4.75 million records submitted, represents an increase of almost 20.3 per cent from NFI 2002/03.

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### Case study 10

Transport for London, participating in NFI for the first time, identified overpayments of £118,000 made in respect of 23 deceased pensioners. £45,000 has already been repaid, repayment of a further £43,000 is underway and the remainder is being pursued.

The cases identified included:

Pension payments continued to be made to a pensioner who died in 1997 until the death was highlighted by NFI in February 2005 when payments were discontinued. Subsequently the pensioner's son queried why his father's pension had been stopped. It was explained to him that records showed that his father had died, but he insisted that his father was sitting next to him. The case was investigated further and the son was interviewed, during which he admitted the fraud. Agreement to repay the amount has been secured and a repayment plan is being negotiated.

An overpayment of £4,000 had been made over six years to the daughter of a pensioner who died in February 1998. The daughter has admitted the offence and stated that she used the Transport for London pension money to reimburse another railway company who had also continued to pay out a pension after her father's death. Recovery of the overpayment is being considered.

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- 26 The £6.6 million overpayments relating to these cases represent a rise of 15.8 per cent from the £5.7 million identified in NFI 2002/03. However, this equates to a reduction of 5 per cent in the average overpayment made to pensioners after the date of death. Given the difficulties that can be experienced recovering such overpayments this reduction is welcomed and may be a result of the majority of participating bodies undertaking NFI every two years. This regular participation limits the maximum period any such cases can go undetected (assuming prompt follow-up action is taken) and therefore restricts the amount of associated overpayments.
- 27 For public sector pension schemes NFI again provided details on potential pension abatement cases where early retirees have returned to work in the same sector without



notifying the pension scheme. In certain circumstances, the income from the new employment can impact on the pension entitlement (**Case studies 11 to 13**).

- 28 As an additional benefit to participating pension schemes NFI also offers matching of deferred benefits to identify instances where former employees have passed away without the pension scheme being notified (**Case study 14**).
- 29 This match does not identify fraud but rather instances where the pension scheme is unaware of the deferred pensioner's death. Consequently, the pension payments to the relatives of the deceased person have not started, potentially leaving these relatives in financial hardship at a particularly difficult time. An increased number of pension providers elected to participate in this matching, 45 as opposed to 12 in NFI 2002/03, resulting in the identification of 1,661 such cases.

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### Case studies 11 to 14

**11.** Investigations by Edinburgh City Council, who administer the Lothian Pension Fund, have identified 15 pension abatement cases where the Fund had not been informed of the re-employment of a pensioner. The overpayments for these cases total £141,000, with one overpayment alone being £23,100. Action to recover these overpayments is underway. In the majority of cases a repayment plan has been agreed.

**12.** The Greater Manchester Pension Fund, administered by Tameside Metropolitan Borough Council identified 34 pension abatement cases with a total value of £110,000. All of the overpayments are being pursued with over £19,000 already recovered. Some have been recovered through pension payments and others have been invoiced.

**13.** Investigation of the payroll to pensions matches by Transport for London revealed a former bus driver who left on an ill-health pension in September 1986. NFI highlighted that this person had, since May 1999, been employed as a full-time bus driver. As a result the pensioner had received £22,235 of ill-health pension for which he was not entitled. Action to recover this overpayment is ongoing. Transport for London has stopped the payments for this case, and a number of others, worth £32,000 annually.

**14.** East Sussex County Council have been particularly proactive in the follow up of these matches and identified 24 cases where a previous employee with a deferred pension had passed away without the pension scheme being notified. Further investigations to locate the next of kin have been undertaken and in the three cases where it has been successful, payments have commenced. In the other cases work is still ongoing.

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## Payroll

‘We have identified a number of staff working excessive hours on a regular basis. One employee was found to have worked in excess of 90 hours for 26 weeks during a 12-month period. Another had worked an average of 82 hours for a 15-week period. In most cases at least one job is in a caring role, often with elderly people. The health and safety implications for service users are of great concern as they may be cared for by staff that have worked excessive hours and are unduly tired. NFI has enabled the service area to review their approach to the overall hours worked and working patterns of some employees.’

**Jim Wilkinson, Assistant Director (Audit and Risk Management), Birmingham City Council**

- 30 The NFI matches data between payroll systems and detects a number of fraudulent issues where individuals have:
- obtained employment by deception (for example, using false documentation);
  - two or more employments with overlapping shift patterns and are subsequently being paid by two organisations for the same hours; or
  - worked for one organisation while on paid leave from another employer (for example, sickness absence or compassionate leave).

The implications of these issues not only extend to the financial losses to one or both bodies, but also to public safety and reputation – particularly when the employee is not doing the shift they are paid to do that may involve caring for vulnerable adults or children.

**Case studies 15 to 20** illustrate these detected frauds.

‘NFI 2004/05 has been a fruitful exercise and one I very much enjoyed taking part in. The methodology suggested by the Audit Commission was the approach I took. It was simple and logical – as the resulting investigations and outcomes show. I’m looking forward to NFI 2006/07’.

**Lynda May, Local Counter Fraud Specialist, Kings College Hospital NHS Trust**

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## Case studies 15 to 17

Kings College Hospital NHS Trust has reported five cases of payroll fraud with estimated overpayments of over £200,000.

**15.** A doctor was employed in a full-time post, but his time was split equally between two trusts. The salary payments should have been picked up by one of the trusts, but in fact both trusts were paying the salary, resulting in a gross overpayment of £45,748. The doctor has agreed to repay the overpayment and work is in progress to ascertain how the situation arose and what internal controls can be put in place to prevent a recurrence.

**16.** When the working patterns of an employee with three posts at two health bodies were reviewed, a number of overlapping shifts were identified. When interviewed this employee admitted that two of the shifts were worked at one health body while on paid compassionate leave from the other. The individual was dismissed and the weaknesses in internal controls that had been identified were addressed immediately.

**17.** Three other cases that have been referred to the police involve individuals with concurrent full-time and/or part-time posts, working while on paid sick leave and using false documents to obtain employment.

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## Case studies 18 to 20

**18.** A London borough council employee appeared to also be working for an NHS body. However, investigations revealed that it was in fact two different individuals using the same identity details. After a joint investigation the local authority employee refused to cooperate with the investigation and was dismissed and the NHS employee vanished.

**19.** A metropolitan borough council identified two employees who each had jobs with neighbouring authorities in a caring role. Investigations revealed that both employees were found to have worked for one authority while taking sick leave from the other and on the weeks they attended both jobs they were working excessive hours. A recommendation has been made to the directorates involved to pursue the recovery of monies.

**20.** A full-time student nurse was employed concurrently by three neighbouring NHS organisations. Analysis of the time records identified that a significant number of hours were being undertaken on the nurse bank as a healthcare assistant for two primary care

trusts (PCTs) in addition to undertaking full-time study. As a result, up to 90 hours were being claimed per week. Three main patterns emerged from the analysis:

- instances when shifts at different PCTs had been started and finished at the same time;
- up to ten shifts were being worked in succession without there being sufficient time periods in between to allow for sleep; and
- regular sickness incidences after carrying out a night shift on the bank.

When interviewed under caution, the individual admitted to reporting in sick when they were available to work, instead using the time to catch up on sleep after conducting a night shift. The trust is pursuing disciplinary action.

## Social housing

31 NFI 2004/05 saw the introduction of two new areas to complement the traditional matching of tenancy data to identify housing benefit and/or tenancy fraud. These new areas were:

- tenants who had purchased council properties through the right to buy scheme; and
- former tenants who had left a council property with arrears in excess of £1,000 where the council did not have a forwarding address.

In addition, a number of housing associations were invited into NFI by the Housing Corporation. This was to ensure that the range of matches could be carried out across the full range of social housing providers and not limited to housing stock under local authority control.

## Tenancy fraud

32 The introduction of a small number of housing associations increased the social housing coverage of NFI. These housing associations were particularly interested in, and mainly focused their efforts on, the arrears matching. However, by matching their housing stock information to local authority records, a number of cases of fraud against local authorities were identified (**Case studies 21 and 22**). Discussions are ongoing about rolling out NFI to all housing associations. It is anticipated that bringing in the large, and growing, amount of social housing stock these associations manage will lead to the identification of a significant amount of previously undetected social housing fraud.

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## Case studies 21 and 22

**21.** The investigation of NFI matches by the London Borough of Hackney revealed an instance where a tenant also had another tenancy through a housing association. The tenant had been letting guests use the local authority property and the address had been used to perpetrate other fraudulent activities. The property was recovered and re-let.

**22.** The London Borough of Wandsworth investigated a housing rent match revealed that their tenant had been re-housed by a housing association. Further investigation, including passport checks, revealed that the tenant in the property was an impostor and a notice to quit was served. The property has now been recovered.

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## Right to buy

- 33** The right to buy match is designed to identify abuse of the right to buy scheme, as well as individuals who have obtained housing benefit or a council tenancy without declaring the property they have acquired (**Case study 23**). Although this matching has been affected by the quality of the data provided and the lack of investigation resources allocated, it still appears to have had an immediate impact with sites reporting 83 cases where the right to buy has been awarded inappropriately (**Case study 24**).
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## Case study 23 and 24

**23.** The investigation of a housing tenancy to right to buy match by Wandsworth London Borough Council identified that one of their current tenants had purchased a property at a neighbouring authority under the right to buy scheme. Further investigation revealed that other unidentified individuals, and not the tenant, had lived at the property since late 2002. A notice to quit was issued and, when presented with the evidence, the tenant vacated the property, which has been re-let to a family on the housing register.

**24.** Investigations by a district council in Worcestershire revealed an individual who had purchased two of the Council's properties through the right to buy scheme. Investigations revealed that the first property was sold to finance a business venture. When this failed the individual returned to the area homeless and was housed again by the Council. The individual subsequently bought this second property through the right to buy scheme without declaring purchase of the first property, receiving a discount of £21,000. Legal action is in progress.

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## Former tenants' arrears

- 34 The arrears match provides new contact details for former tenants that have not provided a forwarding address and consequently recovery of the debt has been prevented. These new contact details allow the authority with the debt to consider re-commencing debt recovery procedures. Additionally, in cases where the individual had a current tenancy at another authority, the information about the arrears was shared so that it could be considered when the authority was managing the tenant's rent account.
- 35 The success of this matching is impressive with reports that recovery action has commenced on 925 debts with a total value of over £1.34 million (**Case study 25**). In cases where NFI identified that the debtor is employed by another public sector body, the authority chasing the debt has been able to apply for an attachment of earnings, this is where the debt is repaid from earnings by the employer before the income is passed to the employee, thereby minimising the opportunity for the debtor to default again.

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### Case study 25

Investigation of the arrears matches by Sheffield City Council has led to recovery action re-commencing in 41 cases with arrears totalling over £67,000.

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## Pilots

- 36 NFI 2004/05 saw the introduction of a range of risk-based data matches outside the core mandatory elements of NFI:
- Parking and transport.
  - Insurance claims.
  - Payments to private residential care homes and continuing care.
  - Creditor payments.
  - NHS student grants.
- 37 These areas reflected the risks reported by local authorities and submission of data was optional dependent on whether the authority considered they were at risk and if data was of the appropriate quality and format. The success of these match types has led them to be offered as optional for all audited bodies for 2006/07 and a further series of pilots covering other risk areas is currently under development.

## Parking and Transport

- 38 As part of the most recent NFI consultation a number of local authorities expressed concern about abuse of the schemes for disabled and residents' parking permits. It appeared that Blue Badges for disabled parking were being traded for about £500 and the consequent loss of parking revenues was estimated to be several million pounds in certain city centres.
- 39 NFI collected Blue Badge data from a number of authorities in London, Merseyside and Manchester and matched it against records of deceased persons. To date, we have been informed of 5,473 badges having been cancelled as the issuing authority had not previously been informed of the death of the badge holder prior to the NFI match.
- 40 Some of the cancelled badges were unlikely to have been used and therefore posed no threat to parking revenues. However, the fact that a significant number had been renewed after the date of death supported the local authorities concern about abuse of the scheme (**Case studies 26 and 27**). Definitive proof of active use of some of these badges came from a further match to Transport for London congestion charge discounts which showed that a number of these badges were being regularly used to avoid paying the congestion charge.

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### Case studies 26 and 27

**26.** Transport for London have commenced investigations into fraudulent avoidance of congestion charge fees by drivers using Blue Badges reissued after the date of death of the badge holder. Examples include:

- London Borough of Barnet, 10 badges used a total of 80 times;
- London Borough of Camden, 2 badges used a total of 277 times; and
- London Borough of Wandsworth, 4 badges used a total of 347 times.

**27.** Investigations of the Blue Badge matches by Liverpool City established that a number of badges had been reissued since the death of the pensioner. Further work, in partnership with the police, has led to 6 persons being prosecuted for obtaining property by deception, with a further 23 investigations ongoing. As a result of this work further resources and controls have been introduced to counter the abuse of Blue Badges. This has led to:

- the identification of Blue Badge abuse by employees of Liverpool City Council;

- links being made between the abuse of Blue Badges and other criminal activity;
- studies showing that 37 per cent of pay and display bays are occupied by blue badges holders; and
- estimates of Blue Badge abuse running as high as 80 per cent in some areas.

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41 Given the findings from this pilot, the data match will be made available on an optional basis to all local authorities in 2006/07. Consultation will be held with participating bodies to determine how best to present the matches, so as to share the information on fraudulent use to prevent parking revenue losses outside of the badge-issuing authority. Where appropriate, authorities will be able to include details of residents' parking permits and freedom passes (offering free public transport for the over 60s) for the same match against deceased persons' data.

## Insurance

- 42 Insurance data matching was piloted in 2004/05 at the request of a number of local authorities who felt they were at risk in this area and had growing concerns about the number of false public liability compensation claims for injury or loss being made where the authority bears the cost of the claim. The pilot involved matching the compensation claim details to identify serial claimants, both between and within the local authorities providing the data.
- 43 The quality and consistency of the data supplied had an impact on this area, but where matches could be followed up, potentially fraudulent claims were uncovered and the matching also helped refute several speculative claims from known serial claimants.
- 44 During this exercise, discussions were held with Zurich Municipal, as providers of around 70 per cent of risk and insurance solutions to local authorities, regarding the possibility of them providing insurance claims data on behalf of local authorities in future. This would only be satisfactory if the data held is of sufficient quality. If this arrangement was implemented there may be a possibility of exchanging further intelligence on known insurance fraudsters between the private and public sectors.



## Payments to private residential care homes and continuing care

- 45 Following a successful pre-pilot exercise, NFI matched DWP deceased records against individuals in private residential care homes to identify cases where payments were still being made after the date of the resident's death. This match was made available to all London boroughs, Manchester and Merseyside metropolitan borough councils and all county councils. A small number of NHS bodies also provided data on individuals where a payment is being made for continuing care treatment.
- 46 The pilot has been particularly successful with the 42 participating bodies reporting that payments in excess of £450,000 had been made for the care of ex-residents after their death (**Case studies 28 and 29**). The smaller NHS continuing care pilot involving four Welsh local health boards (LHBs) did not identify any overpayments, although it did flag one death that the LHB were unaware of, but participating bodies found NFI an effective mechanism for gaining this assurance. As a result of this success both residential care home and continuing care data matching will be available as options for those sites who determine they represent areas of risk.

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### Case studies 28 and 29

**28.** A city council in the North West identified ten cases where payments had continued to be made after the death of the individual. The overpayments were in excess of £100,000, but over £32,000 of this money has already been repaid. Currently one fraud investigation is being pursued by the police.

**29.** Investigations by North Yorkshire County Council identified seven cases where payments had continued after the death of the resident with overpayments totalling over £73,000. Recovery action on these overpayments has been successful and all monies have now been repaid.

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## Creditor payments

- 47 The 2004/05 pilot exercise matching creditors' standing and history data, delivered such impressive results that it is the only one of the pilot matches to be incorporated into the core NFI product rolled out for most audited bodies in 2006/07.
- 48 Fifty local authorities located in London, Greater Manchester and Merseyside and four NHS trusts took part in the pilot. Creditors' standing and history data was processed through a series of tests. The tests had been developed and used previously by the Audit Commission on an individual basis, but by bringing the techniques into the NFI huge economies of scale can be achieved.
- 49 The most successful of the tests were those identifying potential duplicate payments. The value identified to date stands at approximately £957,000.
- 50 Other issues that have come to light as a result of this pilot include:
- overpayments of value added tax (VAT);
  - weaknesses in creditor payments systems (for example, duplicate invoice numbers can be entered without a warning being given); and
  - inadequate housekeeping of standing data resulting in a serious risk of fraud/error from duplicate and dormant supplier records (**Case study 30, overleaf**).

## Comparatives

- 51 Collecting creditors' data across a range of organisations provides the opportunity to make comparisons. For the pilot this meant huge variances in the number of creditors' references held were shown. If this was in fact a true picture, and not related to submission of dormant records, this would expose an authority to fraud as payments could be made to an incorrect or fictitious supplier. The comparatives also highlighted that some local authorities appear to make larger volumes of low value payments through the creditors' system than others. This raises the question why some authorities operate in this way yet others do not.

## Anti-corruption

- 52 The collection of creditors' data for NFI has identified another important data matching area that will help achieve good governance, openness and transparency – an anti-corruption module. This module will deal with data matches between creditors' and payroll data, alongside information on directors from Companies House. The aim is to show if public sector employees or elected members have interests in companies trading with audited bodies. Auditors will then be able to make sure the register of interests is accurate, by checking if these interests have been disclosed.
- 53 From 2006/07, all local authorities and NHS hospital trusts will be required to provide creditors' standing and history information as a mandatory part of the NFI exercise. However, creditors data can be supplied on an optional basis for the remaining local government and NHS organisations.

## Guidance and support

- 54 A considerable amount of work has been done since the pilot to refine the creditors' data specifications based on the lessons learnt from the pilot and the valuable feedback received from the participants. Providing a small number of additional fields next time will give the opportunity to refine the results when they are returned, making the review and investigation process more efficient.
- 55 The creditors' guidance documentation has also been reviewed to take account of the changes that have been made since the pilot and can be found in the Data specifications section of the NFI web page ([www.audit-commission.gov.uk/nfi](http://www.audit-commission.gov.uk/nfi)).
- 56 Unlike the pilot the results will also be fully integrated into the NFI application where each field can be sorted or filtered prior to investigation. The matches will also be exportable to another software application, such as the IDEA<sup>®</sup> data analysis software, for manipulation locally to take account of data variances or payment patterns (**Case study 31, overleaf**).

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## Case studies 30 and 31

**30.** One authority identified that setting up creditors' references was not controlled centrally so multiple creditor references existed on their standing data files for the same creditor. For other authorities these tests highlighted that old and unused creditor references were still live on standing data files as routine database housekeeping had not been taking place.

**31.** Using IDEA® software London Borough of Barking and Dagenham extracted duplicates where amounts were greater than £500. After further scrutiny two duplicate invoices were identified that resulted in net repayment of £14,135.

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- 57** There will be an opportunity for participating bodies to send a creditor's test file to the Audit Commission during June 2006. The test file should contain sample data extracted using the creditor's data specification. This will mean that extraction routines will be tested early, providing time to make any corrections prior to the October 2006 submission deadline. Information about this test period is on the NFI web page.

'London Borough of Bromley found the creditor matching exercise extremely useful and this part of the exercise paid for itself many times over. The duplicate payments identified were not only reclaimed, but the results were useful in identifying how duplicates had occurred in the first instance.'

**Arron Leslie, Principal Auditor**

## NHS Pensions Agency student grants

- 58** One of the new data matching sources for NFI 2004/05 was student data from the NHS Pensions Agency Student Grants Unit (SGU). They assess, review and make payments of bursaries for NHS commissioned students attending pre-registration training courses at Higher Education Institutions (HEIs) in England.
- 59** The student data was matched to housing benefit claimant data and to Home Office data relating to failed asylum seekers. The outcome was that 143 cases had to be referred back to the Home Office for confirmation of their status. As a result 17 bursary payments were suspended resulting in recovery action of overpayments totalling over £411,000 with projected forward savings of over £147,000.

- 60 During these investigations the SGU found that in at least six of the above cases the Home Office could not confirm the authenticity of the documents provided by the student as proof of the right to residency in the UK, therefore the bursary payments were suspended.
- 61 The SGU acknowledge they have gained a lot of experience from this pilot and have since drawn up detailed procedures to enable them to make improvements for future exercises. One of the lessons learnt was that attention should be paid in the first instance to matches involving students nearing the end of the three-year courses so that investigations can be finalised before the student moves on.
- 62 The SGU commended the Home Office Evidence and Enquiry Bureau for their cooperation in the 2004 exercise and their prompt responses.

# 3

## NFI in Scotland

‘We are delighted to be working with the Audit Commission to bring the benefits of NFI to Scotland. The savings generated have confirmed that this has been a worthwhile exercise that should be continued and developed.’

**Bob Black, Auditor General for Scotland**

- 63 Following the success of NFI pilots in Scotland in 2000/01 and 2002/03, Audit Scotland decided, in consultation with a range of stakeholders that the NFI data matching exercise should be more fully rolled out to Scottish councils, police and fire boards and undertaken as part of the external audit of these bodies. **Case studies 32 and 33** outline the importance of this type of exercise.

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### Case study 32 and 33

**32.** A local government finance officer retired early but subsequently returned to work in a relatively senior capacity with another local authority. The officer failed to disclose the re-employment to the pension authority and was overpaid £31,000 over a period of more than two years. The officer resigned and repaid the amount in full.

**33.** Glasgow City Council had the following successes:

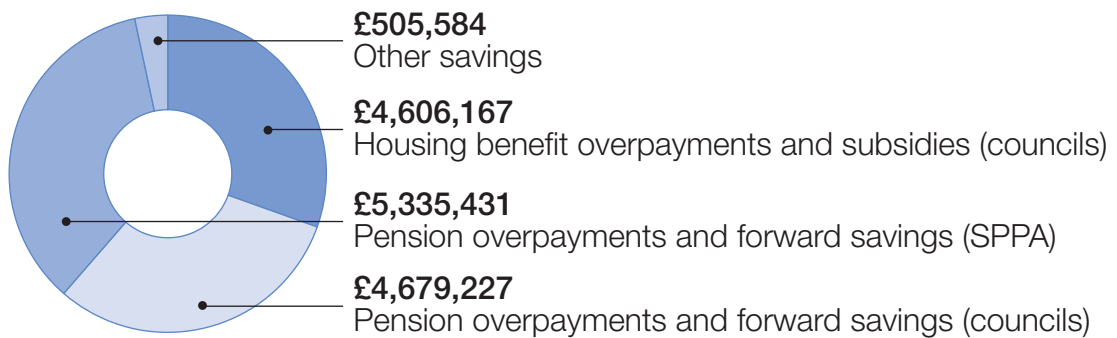
Housing benefits fraud overpayments	£1,766,174
Pension overpayments and forward savings	£3,997,431
Overpayments to private care homes (pilot)	£18,334

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- 64 More than 40 public bodies participated in NFI in Scotland in 2004/05. The returns submitted up to 31 March 2006 by these bodies identified substantial fraud and overpayments from the exercise of just over £15.1 million. This is analysed in **Figure 3**.
- 65 A general summary of the results of the 2004/05 exercise in Scotland is set out in **Figure 4**.
- 66 As a result of the above successes, Audit Scotland has decided that for future exercises the full range of datasets and match types available to English AIBs will be incorporated. This increased scope, added to the experience of investigators gained from participation in the current exercise, should generate even greater benefits. Full details of fraud and overpayments and the future strategy are contained in the published report which can be accessed via the Audit Scotland website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)).

Figure 3

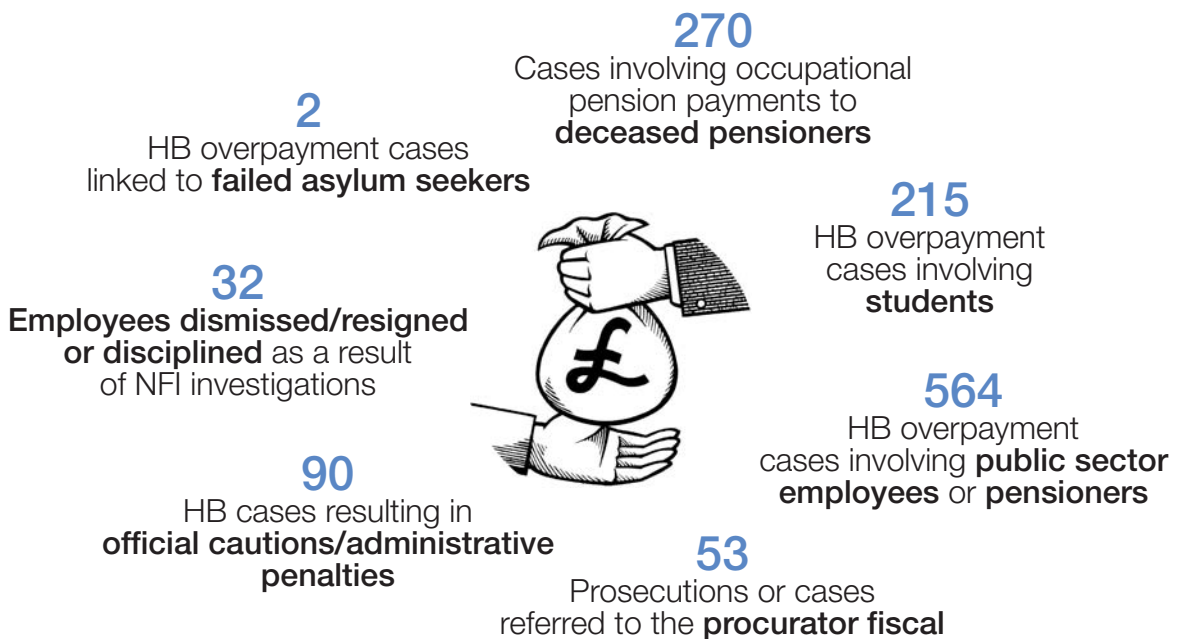
## Detected fraud and overpayments – NFI 2004/05 in Scotland



Source: Audit Commission

Figure 4

## NFI results summary – Scotland



Source: Audit Commission

# 4

## NFI in Wales

- 67 The statutory responsibility for the audit of Welsh bodies moved from the Audit Commission in Wales to the newly formed Wales Audit Office on 1 April 2005. Although this has changed the statutory basis of NFI in Wales it did not affect the operation of NFI 2004/05. Agreement that NFI will continue to be undertaken in Wales has already been secured with discussions now ongoing about the remit of future initiatives. It is anticipated that the new areas of matching scheduled for NFI in England will also be rolled out in Wales.
- 68 Analysis of the results of NFI 2004/05 in Wales shows that the value of housing benefit fraudulent overpayments reported had increased by 25.5 per cent to £930,000 (excluding overpayments reported late from 2002/03) (**Case study 34**). In contrast, the number of cases where pensions were still in payment after the death of the pensioner had fallen from 61 to 21, a 66 per cent reduction. The fact that NFI continues to detect new cases demonstrates that this remains an area of significant fraud but the reduction in the number of these cases is good news for participating bodies and reflects the benefits of undertaking NFI on a regular basis.

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### Case study 34

**34.** Investigation of the housing benefit matches by Cardiff City Council has identified 79 cases with overpayments totalling in excess of £400,000. To date 13 successful prosecutions, 10 cautions and 3 administrative penalties have been obtained with a further 8 cases waiting for a court date. The team are continuing to work on a number of other cases and further legal action is anticipated. Ten overpayments have already been repaid in full and a large percentage of other cases are in the process of being recovered.

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# 5

## Communication

- 69 The NFI web page, established in July 2003, is constantly being improved and updated and has developed into a valuable source of reference for those participating in the NFI exercise.
- 70 The specifications for the 2006/07 data types, covering both the new and the existing areas, have been added to a new data specifications area on the NFI web page ([www.audit-commission.gov.uk/nfi/dataspec](http://www.audit-commission.gov.uk/nfi/dataspec)).
- 71 The specifications are distributed in the NFI Handbook, but as the web page is a central reference point it can now be used to issue advance copies of the 2006/07 data specifications. Issuing these early will provide additional data extraction preparation time which will be particularly valuable for creditors' data as this is a new and complex area.
- 72 During this exercise two editions of the *NFI Matters* newsletter have been circulated to finance directors and key contacts. The July 2005 edition identified ideas for smarter working and gave an update on the new matches and pilot projects for 2004/05. The second edition in February 2006 was a special edition dedicated to communicating the outcomes from the pilot projects and the important changes planned for 2006/07.
- 73 Thanks to the increase in the provision of email addresses, electronic communication has been improved. This proved extremely useful for communicating messages quickly to all key contacts (for example, advance notification of the special edition of *NFI Matters* and NFI progress return reminders).

### Working with external auditors

- 74 External auditors were sent copies of the CD-ROMs containing the NFI results and guidance tools to assist in the local review of progress with the NFI matches and the assessment of AIBs' arrangements for preventing and detecting fraud and corruption under the Code of Audit Practice. The auditor's assessment of their arrangements for NFI is reported in the Annual Audit Letter.
- 75 As part of the support provided to participating bodies, the NFI team made a number of site visits during the 2004/05 exercise. These visits were agreed with auditors who attended the meetings whenever possible. In addition, the auditors were involved in the follow-up process as being based locally they were best placed to provide any further support or assistance.

# 6

## Areas for improvement

- 76 Despite the record levels of NFI detected fraud and overpayments there is still scope for further improvement of both the quality of data provided and the approach adopted at a number of participating bodies. Equally work is already ongoing on the development of NFI 2006/07 in order to further improve the effectiveness of the NFI application.
- 77 Poor data quality affected a number of participants and severely hampered their ability to maximise the benefits of NFI. The reasons for this poor data varied from problems with systems not holding key data, to data extraction issues which meant inaccurate or incomplete data was provided. In the latter case, this often rendered the filter and sort tools ineffective, therefore causing more work for the organisation and the bodies the data was matched with.
- 78 Improvement in the quality of data is one of the five themes in the Audit Commission's Strategic Plan 2006. In order to stimulate improvements in the quality of data provided for NFI 2006/07 details of bodies providing poor data in NFI 2004/05 are being collated and proactive work will be done by the NFI team prior to NFI 2006/07 to ensure the issues are addressed.
- 79 As part of the support offered to participating bodies the NFI team undertook a series of site visits during NFI 2004/05. Although these visits identified many examples of good practice and effective investigation of NFI matches they also revealed that there is scope for improvement at a number of sites. The main issues identified revolved around:
- the delay in commencing NFI reviews;
  - failing to fully exploit the benefits offered by not reviewing all the new areas of NFI matching; and
  - wasting investigator resources by not using the NFI application tools, especially the filter and sort options, to effectively identify the key matches that needed review.

- 80 The measures that can be taken locally to make the NFI process more efficient are:
- check the NFI web page for details of coverage of the forthcoming exercise;
  - identification of a key contact to be responsible for control and monitoring of the project and ensure the Audit Commission is advised of their contact details;
  - review of data quality reports from the previous NFI to ensure the next data submission will comply fully with the NFI data specifications;
  - supply test data for the new creditors data matching throughout June 2006;
  - risk assess the new optional data types to establish the availability and quality of data; and
  - plan for investigation resources to deal with the matches when they are fresh.

# 7

## Future strategy

- 81 The NFI application, currently distributed to participating bodies on a CD-ROM, is undergoing further development to respond to requests from users and to integrate the new creditor payment related reports. In parallel with these changes, a web-based application is in development which will ultimately replace the CD-ROM entirely. The internet offers real advantages in timeliness and ease of distribution of matches. It will also reduce costs and provide for the first time an audit trail to monitor access to the matches.
- 82 The final planned module of the creditors' payments activity consists of cross-matching Companies House data with that of AIBs' payrolls and creditor payments. The objective is to detect evidence of corruption in procurement where directorships in companies trading with audited bodies have not been disclosed by staff or members. This activity is scheduled for inclusion in 2006/07 but the matches will not form part of the main distribution. Instead they will be delivered to AIBs via external auditors.
- 83 Since 2002, considerable success has been achieved by matching payroll and housing benefit data to failed and removed asylum seekers. This has detected a number of cases of public sector employees not entitled to be working in the UK and a significant number of housing benefit frauds. It has also led to a number of overstayers being removed by the Immigration and Nationality Department of the Home Office. This work will be greatly enhanced in 2006/07, by the introduction of data in relation to applications for UK visas that have been refused or which have been granted but have elapsed.
- 84 In advance of NFI 2006/07, initial pilot work is being undertaken in response to requests to use NFI techniques to assist local authorities to detect fraud in relation to single person and student discounts for council tax. Should this activity prove effective, there will be an extended pilot offered to a number of authorities during the 2006/07 exercise with a view to a full roll-out in 2008/09.







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