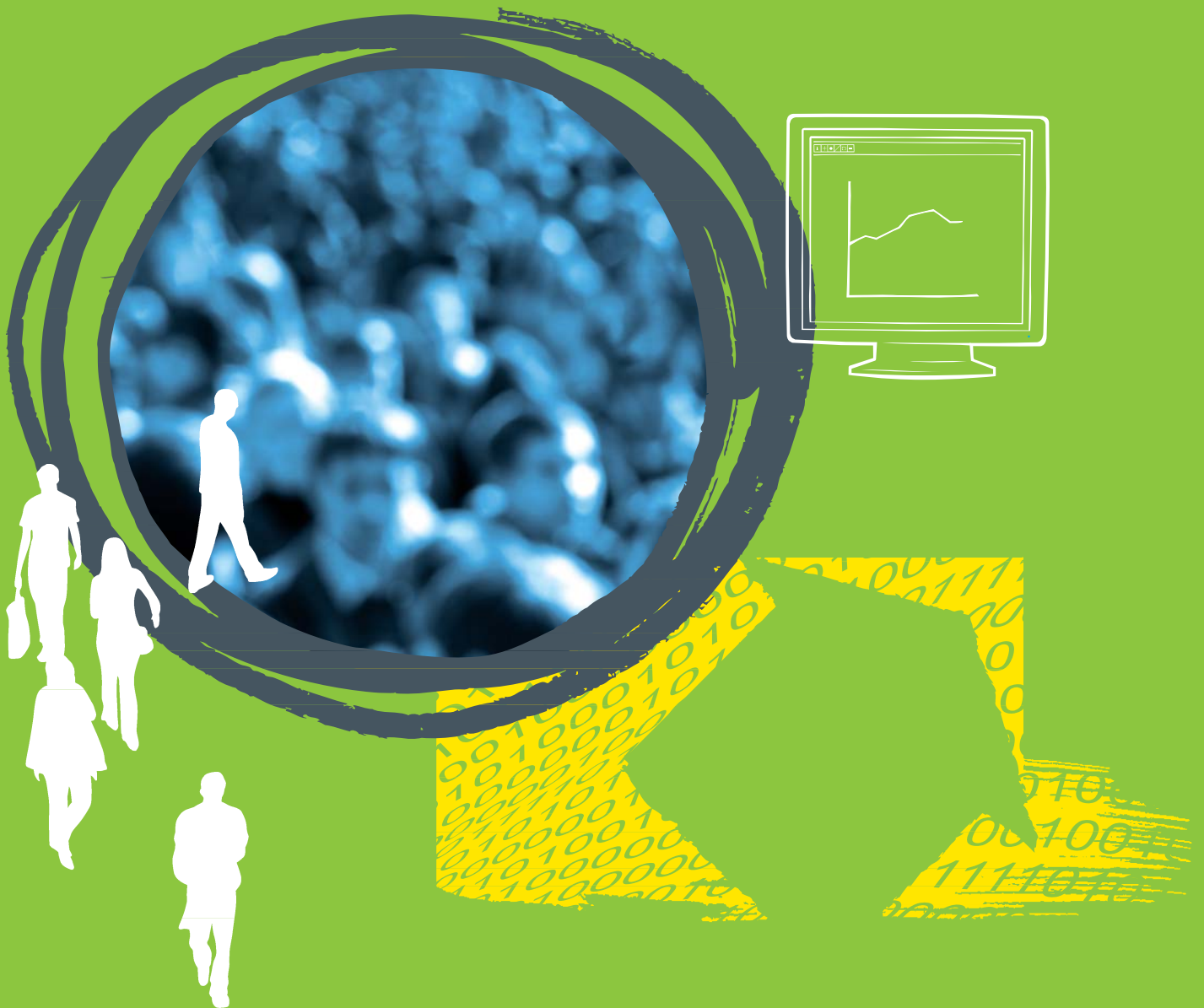


National Fraud Initiative 2006/07



Public sector

National report

May 2008

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Contents

Summary	2
1 Introduction	7
2 Core elements of NFI	9
3 Other data matching	16
4 Security and software enhancements	22
5 Future strategy – new data matching powers	24
6 Conclusion	27
References	28

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Summary

NFI 2006/07 data matches have been investigated with great energy and enthusiasm by Southwark's anti fraud team. As well as detecting fraud and overpayments across a range of risk areas we have been particularly successful in safeguarding social housing stock from attempted right to buy and tenancy frauds.

Duncan Whitfield, Director of Finance Southwark London Borough

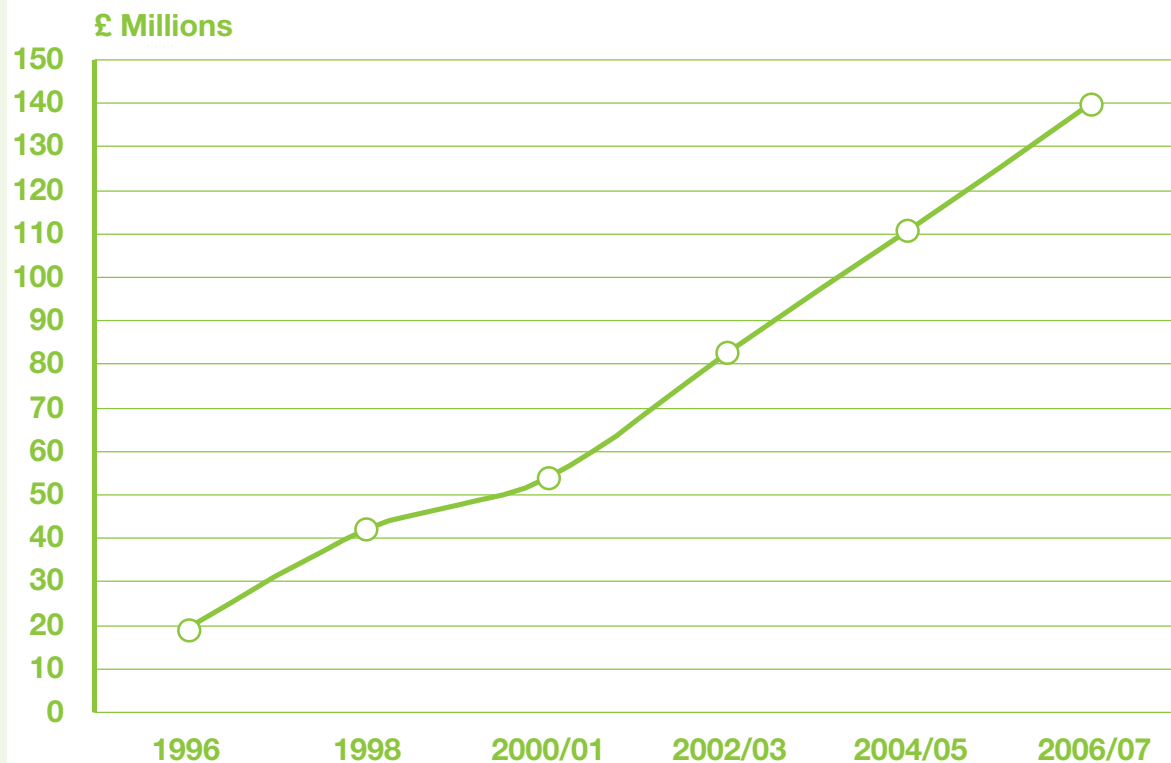
- 1** Taxpayers have a right to expect that public bodies put in place every possible measure to protect their money from fraud. Fraud in local government, the health service and other public bodies is a major concern of those bodies as well as of public auditors.
- 2** Since 1996, the Audit Commission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

website, which is then used by auditors to monitor progress in following up these examples of potential fraud and error.

- 6 Participants in the NFI will be expanded in future years as a result of a new statutory power under Part 2A to the Audit Commission Act 1998 provided by the Serious Crime Act 2007.
- 7 As part of our commitment to upholding and protecting citizens' rights in relation to their personal data at all times, while continuing to safeguard the public purse, we have consulted on and agreed a new Code of Data Matching practice.

Figure 1

National Fraud Initiative outcomes



Source: Audit Commission

Summary

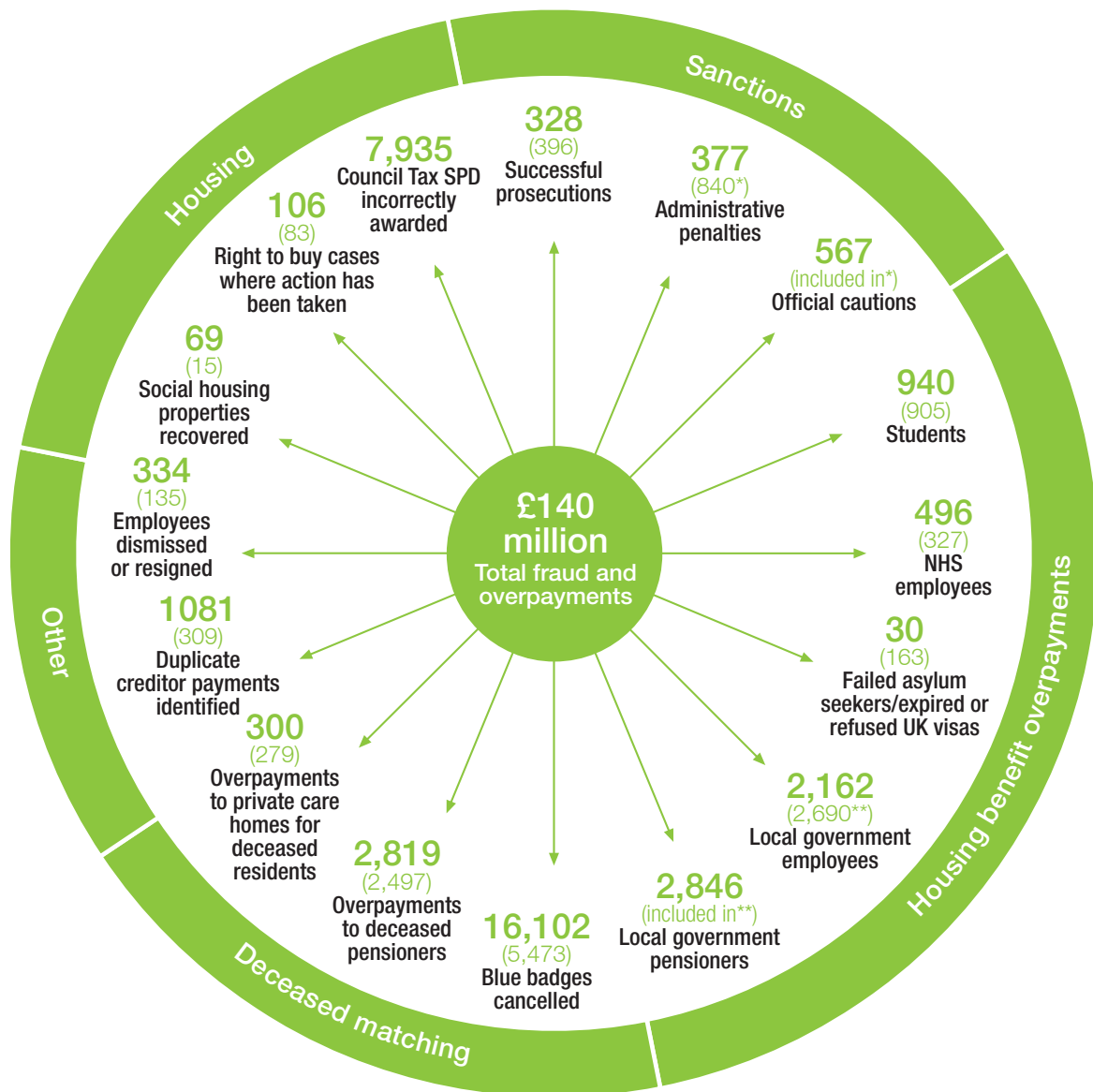
- 8** A range of measures have been introduced to help make NFI more cost conscious and environmentally friendly, such as:
- producing most publications electronically rather than on paper;
 - developing desk-based training modules reducing travel costs and carbon emissions; and
 - eliminating postal and courier costs by providing an electronic data submissions facility that is secure and encrypted.

Achievements

- 9** Key outcomes from the 2006/07 exercise (Figure 2) include:
- for the fifth successive time record levels of fraud and overpayments (£140 million) were detected bringing the overall figure since 1996 to nearly £450 million;
 - 157 public sector staff ineligible to work in the UK were dismissed or resigned. This was as a result of matching employees' payrolls to Foreign and Commonwealth Office records of expired visas and refused applications;
 - 69 council properties were recovered as a result of detected tenancy fraud. The majority of these recoveries were achieved by Southwark Council as part of a new strategic approach;
 - 2,819 cases were identified where an occupational pension continued to be paid after the death of the pensioner with associated overpayments of £6.4 million;
 - 16,102 deceased persons' blue badges were cancelled;
 - duplicate payments to suppliers of £1.75 million were detected;
 - in excess of £24 million housing benefit overpayments were detected. These have been classified as 31 per cent fraud, 62 per cent claimant error and 7 per cent local authority error with a recovery rate of 71 per cent; and

Figure 2

NFI 2006/07 results summary



Note: Figures in brackets are reported 2004/05 results

Source: Audit Commission

Summary

- NFI matches were passed directly to the Job Centre Plus (JCP) and The Pension Service (TPS) for the first time. Matching student loan to housing benefit claimant data has resulted in overpayments being identified in 46 per cent of cases investigated. Matching housing benefit claimant to occupational pension data has resulted in overpayments in 31 per cent of cases investigated. Outcomes to date include:
 - £4 million Income Support (IS) and Job Seeker Allowance (JSA) fraud and overpayments;
 - 4,310 cases where IS/JSA benefit payments were reduced or ceased with weekly reductions totalling £229,000; and
 - 31 prosecutions, 22 administrative penalties and 76 cautions issued by JCP/TPS.

New developments

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

1 Introduction

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- 14** Since 1996 the Audit Commission has run the NFI, an exercise that matches electronic data within and between audited bodies to prevent and detect fraud. This includes police authorities, local probation boards and fire and rescue authorities as well as local councils. These bodies are listed in Schedule 2 to the Audit Commission Act 1998. To date, an estimated £450 million of fraud and overpayments have been identified from this work and the initiative has attracted international recognition.
-
- 15** The formula for success has been periodically to collect a range of data and then cross-match it to detect anomalies, such as a tenant with more than one council house, a housing benefit claimant not declaring income or an employee on long-term sick leave while working elsewhere. In 2006/07 this approach has led to £140 million of fraud and overpayments being detected.
-
- 16** A significant contributor to the success of NFI 2006/07 was the introduction of a new web-based application that, in the first instance, has been used to host the matches for investigation in a secure and well regulated environment. This software has been further developed to include a secure electronic data submission process removing the need for any physical transit of data.
-
- 17** The effectiveness of the NFI has been recognised by the Government's Fraud Review (Ref. 1) and new powers have been given to the Audit Commission under the Serious Crime Act 2007, to enable the benefits of NFI to be extended to other public bodies and the private sector. This will have the added advantage of boosting fraud detection for audited bodies, as their data will be matched more widely. There is growing evidence from NFI cases that have been investigated that fraudsters are attacking different sectors simultaneously, for example with the same fraudulent identities.
-
- 18** The new framework for data matching prescribed by the Serious Crime Act 2007 contains a number of safeguards on the use and disclosure of data, in addition to the existing requirements under the Data Protection Act 1998 to process data fairly and lawfully. They include the duty on the Commission to prepare a *Code of Data Matching Practice*, in consultation with the Information Commissioner. The *Code* is due to be laid before Parliament in summer 2008. All organisations which provide data to the Commission for the purposes of a data matching exercise on either a mandatory or voluntary basis will be under a statutory duty to have regard to it when conducting or participating in data matching exercises. The organisations required to provide data on a mandatory basis are listed in Schedule 2 to the Audit Commission Act 1998.
-

1 | Introduction continued

19 This report looks at:

- the value and types of fraud detected and other benefits from the core elements of NFI 2006/07;
- the success of the risk-based modules introduced in 2006/07 and how they will be consolidated into the core elements of NFI 2008/09;
- new developments for NFI 2008/09 including interactive online training modules; and
- the Audit Commission's future strategy for NFI under its new data matching powers.

2 Core elements of NFI

Housing benefits

20 Housing benefit fraud and overpayments (due to customer and official error) were estimated at £760 million for October 2005 to September 2006 (Ref. 2). Against this background, the Audit Commission continues to make detecting housing benefit fraud a core function of NFI with the 2006/07 initiative leading to the identification of fraud and overpayments in excess of £24 million (Case study 1), a 9 per cent increase from the equivalent figures for NFI 2004/05 (£22 million).

21 The number of overpayments has increased for both local government employees and pensioners and NHS employees (32 per cent and 21 per cent respectively). Further analysis of these overpayments reveals that 31 per cent were classified as fraud, 62 per cent were claimant error and 7 per cent local authority error, with 71 per cent having been or being recovered.

22 During the 2006/07 exercise NFI matches were passed directly to the Job Centre Plus (JCP) and The Pension Service (TPS) for the first time. As well as removing the need for each authority to share this data, this new approach allowed JCP and TPS to undertake further automated sifting using intelligence held by the Department for Work and Pensions, for example, income declared on the income support application, to identify matches that warranted follow-up action.

23 The results so far from this new arrangement are impressive. Student matches proved the most rewarding with 46 per cent of cases investigated resulting in overpayments being identified. Occupational pension matches yielded a 31 per cent overpayment rate. With over 19,000 matches still under investigation outcomes to date include:

- IS and JSA fraud and overpayments totalling £4 million detected – an increase of 143 per cent;
- 4,310 cases where IS/JSA benefit payments were reduced or ceased with weekly reductions totalling £229,000; and
- 31 prosecutions, 22 administrative penalties and 76 cautions issued by JCP/TPS.

24 NFI 2008/09 will be undertaken in a significantly different environment because of the powers given to the Audit Commission under the Serious Crime Act 2007 and the additional powers the Welfare Reform Act 2007 gives local authorities to investigate and prosecute IS/JSA benefit offences.

2 Core elements of NFI continued

25 NFI 2008/09 processes are therefore being revised to take advantage of the opportunities these changes offer as responsibility for assessing and determining the way forward for housing benefit cases involving Income Support and Job Seeker Allowance will again be passed back to local authorities. To allow a more effective assessment of NFI matches, the Audit Commission is in discussion with the Department for Work and Pensions about integrating key intelligence from data relating to this type of benefit claimant into NFI, for example income declared and student status.

Social housing

26 Previous NFI national reports have highlighted concerns that many councils do not follow up housing matches effectively even though housing fraud represents a real risk across many areas of the UK. Nationally there are very few experienced housing investigators to review the data matches provided by NFI, which as a consequence has meant that previous exercises have consistently identified surprisingly low levels of housing fraud. For example, NFI 2004/05 matches led to the termination of only 15 fraudulent tenancy agreements.

27 The recent introduction of right to buy data, supplemented by matches to UK visa data, was intended to complement the traditional matches of tenancy data and deliver a range of benefits that would encourage participating bodies to give more emphasis to housing matches.

Case study 1

Housing benefit

The investigation of a housing benefit to market trader match by South Holland District Council, Lincolnshire, identified an individual in receipt of council tax benefit, income support, incapacity benefit and disability living allowance while running a fruit and vegetable stall. In addition his wife was also claiming carer's allowance for looking after him.

Further enquiries revealed that he:

- owned various vehicles, including a convertible Mercedes sports car with an expensive personalised number plate;
- had savings in excess of £100,000;
- ran several businesses from the home address; and
- enjoyed lavish and expensive holidays.

With overpayments estimated to be in excess of £40,000 (the final figures are still being calculated) the authority has already begun to prepare the case for prosecution.

28 For NFI 2006/07 one authority, Southwark Council, has used the full range of NFI housing matches to deliver significant outcomes for each type of housing match. As part of a new strategic approach the council (Case study 2) ensured that the NFI matches were assigned to an experienced housing investigator, who was given time and support to follow them up. The outcomes so far include:

- the recovery of 30 properties, with a further 19 recoveries anticipated. This action means that Southwark is now able to re-allocate these properties to genuine tenants, thereby avoiding housing them in expensive temporary accommodation; and
- the identification of 65 cases where a right to buy application has been awarded inappropriately.

29 Not only has this work delivered real benefits for Southwark Council, but it also supports the belief that, by undertaking effective follow up of housing matches using skilled officers, many more participating bodies could realise significant benefits from housing matches.

Case study 2 Housing tenancies

The investigation of housing rents matches by Southwark Council, London identified:

- a tenant who was matched to an address within the Croydon area. The documentation provided confirmed that the tenant was the owner/occupier of the Croydon property. After further investigations the individual relinquished the tenancy and Southwark gained vacant possession of the property; and
- a tenant who had made a homeless application and was given a tenancy had bought a property in the London Borough of Barking and Dagenham. Further investigations revealed that the person had also obtained another property from Southwark, using a different name, and was actually subletting both the Southwark properties. Both tenancies were terminated.

30 Normally local authorities would be expected to prosecute in cases of this significance. However, this is an area where they have to make a trade off between the powerful deterrent effect of bringing a criminal prosecution, where the remedy is available (as subletting is not a criminal offence although obtaining a tenancy by deception is), and taking civil action which enables them to recover the property more quickly and thereby help families in housing need more effectively. The absence of effective criminal sanction in this area is one that the Government may wish to review. Housing providers should also consider devoting more resources to follow-up action in cases such as this.

2 Core elements of NFI continued

Immigration

31 NFI data matches continue to provide evidence about the numbers of people working illegally or accessing benefits to which they are not entitled. The UK Border Agency recently announced the introduction of a new points system for immigrants seeking permission to work in the UK. At the same time, civil fines for employers who unknowingly hire illegal workers were also introduced.

32 To help participating bodies with their responsibility to check all prospective employees' entitlement to work in the UK, as well as helping to ensure that only those entitled are given access to public funds, data relating to UK visa applications provided by the Foreign and Commonwealth Office was included in NFI 2006/07. This supplements the Home Office Failed Asylum Seeker data, included since 2002, and has had a significant impact.

33 Matching visa data (refused, expired and granted visas where there was no entitlement to work) and failed asylum seeker data to housing benefits, payroll and housing rents (tenancy and right to buy data) led to:

- 157 employees being dismissed or resigning at 56 participating bodies. The affected bodies included London Boroughs, NHS acute hospitals, foundation trusts and primary care trusts, as well as probation boards and police authorities;

- payroll overpayments of around £69,000 being recovered;
- 30 housing benefit overpayments totalling just over £70,000 being identified by local authorities and a further 610 cases of overpayment of Job Seeker Allowance or Income Support being identified by Job Centre Plus;
- one property being recovered following deportation action;
- five market trader licences being cancelled and/or not renewed;
- one right to buy application being stopped; and
- a number of cases where coordinated action with the UK Border Agency led to persons being dismissed and arrested for deportation.

34 This success will be built on by holding discussions with both the Home Office and the Foreign and Commonwealth Office to ensure that the data provided for NFI is as up to date and meaningful as possible.

Case studies 3 and 4

UK visas

3 The follow up of the payroll to visa matches by Surrey and Borders Partnership NHS Trust led to an individual being dismissed and removed from a sponsored nursing course. The individual also appeared on NFI as a housing benefit claimant. By working with Croydon Council, which was paying housing benefit that the person was not entitled to, the NHS Trust prosecuted the individual who was given a custodial sentence at the end of which the judge recommended deportation.

4 At Harrow Council, the follow up of the NFI UK visa data matches led to the development of a strong working relationship with the local immigration service. As well as enabling the effective follow up of NFI matches, this relationship led to a wider review of council services culminating in a further 45 arrests for a combination of offences relating to fraud committed against the Council and immigration matters. These arrests have resulted in staff being dismissed or imprisoned for using false identities and being deported.

Payroll

35 The introduction of the UK visa data has added a new dimension to payroll fraud detection in NFI, enabling the identification of a significant number of employees who were not entitled to work in the UK and were subsequently dismissed or who resigned.

36 However, traditional matches also continue to identify individuals fraudulently working at more than one organisation, for example overlapping shift patterns or working for one organisation while on paid leave from another. In total, 73 people were dismissed, 7 employees were prosecuted and 26 overpayments totalling more than £125,000 are being recovered as a result of this data match.

Creditor payments

37 Each year audited and inspected bodies pay over £20 billion through their trade creditor payments systems. A suite of tests has been developed to deal with a range of risks from duplicate payments and incorrect VAT payments to potential corruption.

38 The NFI approach tends to be much broader than others in terms of the risks addressed, and cheaper because of the economies of scale in running the match for all audited and inspected bodies. In addition, bringing the trade creditors' payments history together provides information to enable inter-authority comparisons relating to payment processes and a database to check on illegal activity by suppliers, such as price fixing and cartels.

2 Core elements of NFI continued

39 The positive results from the 2004/05 pilot exercise highlighted that trade creditor data should become a core data match in NFI 2006/07. This was further confirmed in NFI 2006/07 as the identification of duplicate payments again proved successful across all types and sizes of bodies (Table 1).

40 However, the poor quality of much of the data submitted suggests that this figure could have been significantly higher. The main reason for the poor data quality is that trade creditors is a new and complicated specification requiring more technical knowledge to extract than most other NFI datasets.

Table 1

Analysis of duplicate trade creditor payments identified and recovered

Type of body	Maximum identified by a single body (£)	Total amount
Housing association	£34,000	£43,546
NHS trust	£16,000	£55,963
Unitary	£41,716	£124,790
Police authority	£77,000	£140,768
Borough council	£38,000	£152,197
County council	£84,000	£201,417
London borough council	£145,000	£279,223
Metropolitan borough council	£225,000	£683,299
		Total £1,681,203

Source: Audit Commission

41 For 2008/09, efforts will be made to improve the data quality by drafting more precise guidance on what data is required; developing stricter data cleansing routines in an attempt to identify data that does not meet the specification prior to data matching; and offering advice on how to apply advanced filtering techniques to the data matches provided in the NFI web application using software available locally. Once this has been achieved, progress can be made on providing valuable inter-authority comparative data and addressing issues of procurement fraud and corruption.

3 | Other data matching

Council tax single persons discount

- 42** A full council tax bill assumes that there are two adults living in a property. If only one adult lives in the property they can claim a council tax single persons discount of 25 per cent. Nationally these discounts are being received by over 7 million householders, costing councils over £2 billion each year.
- 43** Two years ago the London Borough of Hillingdon asked for help following its concerns that discounts were rising substantially and suspicions that the rise could be partly due to spurious applications. Consequently, a pilot study was carried out in Hillingdon in 2006.
- 44** By matching council tax records against the electoral register, it was confirmed that there were grounds for suspecting significant abuse of the single persons discounts. This exercise has enabled the council substantially to increase its present and future tax base. The consequent increase in revenue is likely to exceed £3 million.
- 45** As a result of the exercise, Hillingdon has also introduced more internal controls at the discount application stage to help prevent inappropriate awards. This success prompted a larger pilot exercise and early progress, at Croydon Council in particular, indicates that these results are typical.

Case study 5

Council tax single person discount

Croydon Council had 2,448 matches and about a third of the discounts investigated so far have been found to be fraudulent. Nearly £700,000 of inappropriate awards have already been identified. Some of the individual cases date back to 2000 and total over £3,000. Around 600 discounts have been withdrawn and recovery of amounts owed is in progress.

- 46** Consequently this match has now been rolled out nationally and the results are being released in the first half of 2008. Cautious estimates for the full exercise, based on work carried out so far at pilot sites, suggest that the impact could exceed £200 million nationally.
- 47** Also within this exercise is a 'Rising 18s' match which identifies young people becoming an adult at 18 who live with a council tax single person discount recipient. As this age change could make many recipients of the single person discount ineligible as they will not then be the only adult living in the property. By identifying such cases, the Rising 18s match will enable councils to address this risk at an early stage.

48 This data match will now become a core NFI matching module and, to balance the workload for NFI participants, will be run in the year between the main two yearly NFI matching cycle. This module will be extended by matching to other datasets to tackle areas of potential abuse such as student disregards, council tax arrears and second home discounts.

49 Approximately 10 per cent of those inappropriately receiving the discount were also found to be committing housing or council tax benefit fraud. By identifying cases where benefits were in payment, NFI has made it easier for councils to combine council tax single persons discount and benefit investigations, therefore minimising duplication of effort.

50 At the pilot sites the housing benefit overpayments were between 5 per cent and 15 per cent of the single person discount fraud and therefore nationally this exercise could identify an extra £20 million of overpayments.

51 Wilful tax evasion of this kind is also a criminal offence. Public bodies should therefore be more proactive in considering whether such cases should be referred for prosecution, weighing the positive deterrent of a successful prosecution against any other relevant factors.

Case study 6

Council tax and housing benefit fraud

Hillingdon Council identified a case where a claimant had been receiving both council tax single person discount and housing benefit for nearly seven years based on her being a sole occupant. A joint discount and benefit investigation confirmed her husband was also living at that address and, when interviewed, she freely admitted that he had lived there for the past 15 years. Discounts of about £2,000 and benefits in excess of £13,000 had been fraudulently claimed over that period and are now being recovered. The council tax payer was quoted as saying, 'I thought I would be found out one day. I know lots of people claiming single person discount fraudulently, nobody checks'.

Payments to private residential care homes

52 Local authority payments to private residential care homes can be significant, costing them over £500 per week per resident. Where local authorities are not informed of the death of a resident in a care home, payments can continue for some time and can result in large overpayments.

53 NFI matches residential care home payments to the Department for Work and Pensions deceased records to identify cases where payments were still being made after the date of a resident's death. This match was offered as an optional risk-based module in 2006/07 and was available to all local authorities and also to NHS bodies that wished to submit continuing care payments data.

3 | Other data matching continued

54 The 94 bodies participating in the exercise have identified 300 overpayment cases totaling over £630,000. Some local authorities found more than just isolated cases (Case study 7) with some care homes failing to inform the local authority of the death of several residents. As a result of the success of this match, and the clear indication that these overpayments are being made by many local authorities, residential care home data matching is being included as a mandatory data set for the 2008/09 NFI exercise.

Case study 7

Private care home payments

Leeds City Council found 11 separate cases where overpayments were made. The authority has now recovered these overpayments amounting to just over £145,000, and made improvements to some of its systems as a result of the investigations.

Neil Hunter, Head of Audit, Leeds City Council stated 'The NFI data match exercise in relation to residential care charges to deceased persons has proved to be a valuable tool in identifying system improvements to the process of verifying and approving residential care payments. It has also assisted in demonstrating that Leeds City Council is committed to acting promptly to protect public funds and ensuring they are used effectively for the delivery of services and Council objectives.'

Blue badge parking permits

- 55** Department for Transport statistics (Ref. 3) show that the number of blue badges in circulation, which provide a range of parking concessions for people with severe mobility problems who have difficulty using public transport, is rising steadily and 2.3 million badges were issued in 2007.
- 56** Local authorities approached the Commission before NFI 2004/05 to explore whether there was any opportunity to use data matching to help them tackle abuses of the scheme. The concerns raised were that blue badges, discovered to be changing hands for £500 on the black market, were being used to avoid the congestion charge in London and parking charges in all areas, with loss of revenue running into several millions of pounds for some authorities.
- 57** The results from the 2004/05 pilot confirmed that the concerns were valid with a significant number of blue badges being renewed after the death of the holder and a number of the badges being used to avoid the London congestion charge.
- 58** Following the success of this pilot, blue badges matching was offered as an optional risk-based dataset in NFI 2006/07. Data were submitted by 80 authorities, which have reported 16,102 deaths that they had not been advised of prior to the receipt of the NFI data.

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- 59** The impact of the fraud uncovered falls into two categories:
- a loss of parking revenue for authorities, resulting from the use of either a stolen, cloned or deceased person's blue badge. For someone working in Central London possession of a fraudulent blue badge would mean that charges (congestion charge plus car parking charges) in excess of £5,000 per annum would be avoided; and
 - an adverse impact on disabled people who genuinely need concessions and parking spaces close to their local amenities.

Case studies 8 and 9

Blue badges

8 The widow of a blue badge holder was given a formal caution by London Borough of Croydon after she was found to have regularly reapplied for her late husband's blue badge for nine years after his death.

9 The London Borough of Bexley was able to bring a prosecution for fraudulent use of a blue badge belonging to a deceased person. A parking attendant noted that a lone driver was using a blue badge belonging to a person of the opposite sex and issued a ticket. The driver made a subsequent appeal against the ticket and it appeared they would be cleared on a technicality. However NFI revealed that the badge holder had died, enabling Bexley to prosecute the driver for providing a false declaration.

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- 60** A crackdown on blue badge fraud in Liverpool found links to organised crime including uncovering stolen, untaxed and uninsured vehicles (Ref. 4).
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- 61** Additional benefits of the data matching are being realised by participating authorities. Internal Audit reviews undertaken as a result of NFI have highlighted weaknesses and limitations in the systems for administration and processing of blue badges. This has led to various recommendations and actions. These include the redesign of application forms to ensure that better quality data is held about the badge holders and improvements in internal communications channels to ensure that if one department is made aware of a death, it passes this intelligence to all other relevant departments. This in turn has led to social services departments recovering mobility aids which can be made available to other users.

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- 62** Waltham Forest Council shared the data on deceased blue badge holders with its parking attendants to enable them to identify blue badges being used fraudulently. It was also identified that, on market days, a significant number of blue badges appeared on vehicles parked around the market. These badges were being used by the traders so they could park closer to their stalls and, by taking the NFI data out on market days, the permits manager was able to recover around 40 blue badges.

3 | Other data matching continued

63 The benefit of sharing intelligence has been highlighted by a pilot scheme that has been carried out by several London Borough Councils and Transport for London. Information on deceased blue badge holders as well as lost and stolen blue badges is shared to stop the badges being used fraudulently across London.

64 As a result of these successes, blue badges, parking permits and concessionary travel data matching is being incorporated into the range of core, mandatory data sets for NFI 2008/09.

Insurance fraud

65 The UK insurance industry loses over £1.6 billion a year to bogus and inflated insurance claims (Ref. 5). This results in increased insurance premiums for individuals and also for public and private sector organisations. NFI 2006/07 offered public liability insurance data matching as an optional risk-based module and data was provided by 90 Councils directly or on their behalf by their Insurer. Where matches have been followed up, potentially fraudulent claims were uncovered and several speculative claims were identified (Case study 10).

Case study 10 Insurance claims

Salford City Council found a number of cases where individuals appeared to be submitting several claims. There was also evidence of claims being submitted by different individuals at the same address. NFI highlighted a number of cases as potentially fraudulent. These claims were withdrawn by the claimants as a result of rigorous investigation by the Council and its claims handlers. This resulted in savings in legal defence costs and also the cost of any potential settlements.

66 For insurance data matching to be as effective as possible and to protect the public sector from organised insurance fraud, there needs to be increased participation by local authorities. By collecting insurance claims data from all local authorities there will be a greater chance of identifying serial claimants and people submitting duplicate public liability claims to neighbouring authorities. Insurance data will therefore become a core, mandatory dataset for 2008/09.

67 To provide mutual benefits to both the public and private sector, the Commission is working in partnership with the Insurance Fraud Bureau to match local authority claims data to information from the private sector relating to personal injury claims and known fraudsters. Using the new data matching powers this data has the potential to identify serial claimants and insurance fraudsters operating across both the public and private sector.

68 In support of the NFI's aim of making the process of data submission as efficient and straightforward as possible for participants, the Commission will continue to liaise with companies providing risk and insurance solutions to local authorities and will arrange for them to submit the data on behalf of local authorities. Good quality complete data is essential to enable NFI to provide useful matches for investigation. Efforts are now being made to ensure that the claims data collected by councils and companies providing risk and insurance solutions is sufficient to ensure that the list of fields outlined in the 2008/09 data specification can be provided for data matching.

4 Security and software enhancements

The new web-based application allows the local external auditors to monitor progress at participating bodies in a way that was not possible previously, and in a more secure environment. The recommended filter facility makes it very easy for auditors to determine if bodies are focusing on the best matches initially and, if not, to discuss the approach being taken.

Russell Frith, Director of Audit Strategy, Audit Scotland

69 The strategic aims of NFI are to ensure that it is secure, user focused and environmentally friendly.

70 With concerns about identity fraud continuing to grow and several well publicised losses of data by major public and private sector bodies, the focus on security has heightened. Although NFI has an impeccable record on data security, the Commission continues to keep procedures under constant review. As part of NFI 2006/07 the following security enhancements were introduced:

- access to the NFI 2006/07 data matches was provided for the first time over a secure internet connection. The application, with password controlled access, uses the same computer architecture as online banking; and
- a secure electronic process for submitting data was launched in August 2007. This data submission module is accessed from within the main NFI software and consequently benefits from the same controlled access safeguards. It is convenient, fast and free of charge. This is now the only permissible data submission method available to NFI participants.

71 NFI has a responsibility to maximise the security of the data it collects. With the submission of data on physical media such as CD ROMs prohibited, the security of data has been strengthened. Nevertheless, to maintain and further strengthen security arrangements, a six monthly review of data processing procedures takes place. The most recent review (January 2008) concluded that the current measures comply with the information security standard ISO27001 (Ref. 6). The Information Commissioner's Office has accepted an invitation to review the security arrangements at the NFI Data Centre and the review will be carried out during 2008.

72 The introduction of the web-based NFI application allows participating bodies to review and prioritise matches for investigation and record outcomes online. It has been well received and users continue to feed back good ideas about how the software can be developed. Many of their suggestions will be incorporated in the 2008/09 version.

As we are a large authority, several members of staff need to work on each individual report and we found the web-based application made this really easy. It also helped us monitor our work on NFI by allowing outcomes to be recorded online and produced a report summarising these outcomes automatically rather than us recording the same information manually. The NFI team was responsive to our requests for a number of further developments to the software and in some cases they were already being considered.

Sarah Penfold, Group Auditor, Birmingham City Council

73 A range of measures to help make NFI more environmentally friendly have also been introduced, such as:

- handbooks and national reports being made available electronically to all participants;
- online interactive training modules providing more effective desk-based training without the need for delegates to travel to regional NFI events; and
- the new electronic data upload facility eliminating the need for postal and courier services for data submissions.

74 In the past, training on how to use the NFI software was delivered by the Audit Commission at events that brought together representatives from the various departments responsible for investigating data matches, for example, housing benefits and payroll.

75 Not only does online training avoid the cost and environmental impact of audited and inspected bodies hosting and/or sending employees to training events, it also allows training to be undertaken at a time and place that is convenient to the user.

76 In addition, unlike group training events, the interactive training software will be available throughout the NFI cycle as it will form part of the NFI software package. It will include demonstrations and tutorial exercises presented in modules based on specific areas of responsibility. This means that users can select the modules that are most relevant to them.

77 Customised training will still be available on request. Assistance and support will continue to be underpinned by regular editions of the electronic newsletter *NFI Matters*, a queries email address (nfiqueries@audit-commission.gov.uk), periodic emails to participants on recurring subjects and an online message board.

78 All the new components mentioned above will be accessible for NFI 2008/09 via a home page located within the main NFI software application. This will allow users to swap between the various components of the NFI package, such as the data matches, data upload, or the interactive training modules, seamlessly and effortlessly.

79 The development cost of the new training modules, together with the new electronic data submission facility and other user driven enhancements to the NFI software, is reflected in the proposed fee scales for 2008/09.

5 Future strategy – new data matching powers

80 Considerable progress has already been made to prepare for the new powers given to the Audit Commission under the Serious Crime Act 2007. The new Code of Data Matching Practice will be in place for NFI 2008/09 and workshops have been devised for organisations new to NFI to demonstrate the benefits of NFI participation. The Commission has also begun discussions with stakeholders such as the Pensions Regulator, the Council of Mortgage Lenders and the Insurance Fraud Bureau to develop NFI to assist all sectors in the fight against organised fraud.

81 The aim under the new arrangements is to ensure that, while upholding and protecting citizens' rights in relation to their personal data at all times, the NFI continues to serve the public interest by:

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

82 The current strategy for the NFI has three broad themes:

- expanding the risk areas covered for audited bodies, for example, to include council tax, insurance and private care home residents;

- developing a secure, user-focused and environmentally friendly application with training modules and data submission facilities, as well as online access to data matches; and
- providing more direct support for appointed auditors through a range of new matches, for example, through Companies House matches to detect possible procurement corruption and analysis of spending patterns and accounts payable controls.

83 These three strategic themes will underpin the NFI strategy for the foreseeable future. However the Audit Commission Act 1998 Part 2 A now provides the opportunity to increase the number and range of participants by enabling bodies in the wider public and private sectors such as the Department of Health, the Driver and Vehicle Licensing Agency and financial institutions to submit data sets for matching by the Commission. This will extend the scope of NFI for audited bodies as additional data will be available from these new organisations.

84 In the short term, the core NFI matches (Table 2) can be made available to a much wider range of bodies providing public services. The range of data matches made available to participating bodies is now very diverse. Traditional areas such as housing benefit, payroll and tenancy fraud have been supplemented by insurance, blue badges, right to buy, council tax discounts, student loans and occupational pensions.

Table 2

Core data

– Housing benefit claimants	– Electoral register
– Payroll	– Council tax
– Pensions	– Students eligible for a student loan
– Trade creditors payment history	– Insurance claimants
– Trade creditors standing data	– Transport passes and permits
– Housing	– Licences
– Private supported care home residents	

Source: Audit Commission

85 The Audit Commission Act 1998 now enables the Commission to make these match types available to participants that are new to NFI, in particular to local public bodies audited by the Northern Ireland Audit Office. Audit Scotland and the Wales Audit Office have already taken up the full range of matches under their own statutory powers within the NFI framework and their respective outcomes from NFI 2006/07 will be published separately.

86 Central government departments and agencies will be invited to submit payroll and trade creditors' data for matching and they will be provided with access to the matches in the same way as existing participants. NFI workshops will then be held for each government department before the next round of NFI in 2008/09, to discuss other risk areas that NFI can address.

87 This also means that there will be increased opportunities for fraud detection by audited bodies as they match against the data provided by the new participants.

5 | Future strategy continued

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- 88** In the medium and longer term, the Commission will tackle the programme of new work that was proposed to the Government's Fraud Review subject to Secretary of State Orders. This could include public safety issues, such as identifying where individuals who represent a risk are working with children and vulnerable adults.
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- 89** The programme could also include non-fraud work, such as assisting participating bodies to track council tax payers who have absconded leaving large arrears and the Ministry of Justice to recover unpaid court fines.
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- 90** The development of a range of new match types and the extension of participation to other sectors will require some data to be collected more frequently than in previous NFI cycles. The timings of both collection of data and the distribution of data matches will be explored to minimise the resource implications for those concerned.




6 Conclusion

91 Although small in the context of overall public expenditure, fraud and overpayment should be a concern for all public bodies. So it is reassuring that the ability to detect it continues to improve. As a result of new data matches and repetition of previously successful exercises, the Audit Commission has helped public bodies to detect record levels of fraud (£140 million) through the latest, 2006/07, NFI. Consequently, matches that were optional in 2006/07 will become mandatory for NFI 2008/09 and future exercises.

92 If there is no effective penalty for fraud there is no deterrent. We now expect public bodies to do more to follow up the potential fraud that we have identified. They should adopt a zero tolerance policy to fraud. They should also ensure that adequate resources are devoted to following up suspected frauds and overpayments and where fraud is detected they should always give consideration to the potential positive deterrent effect of a prosecution. Auditors will check that NFI matches are followed up as part of the statutory audit process.

93 To assist public bodies in identifying more potential fraud in the future, the Commission will continue to improve NFI to include a wider range of datasets, with better quality data. We will also continue to make our systems easy to use and even more secure and environmentally friendly.

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