

DECISION-MAKER:	AUDIT COMMITTEE		
SUBJECT:	NATIONAL FRAUD INITIATIVE 2006-07		
DATE OF DECISION:	27 TH MARCH 2008		
REPORT OF:	CHIEF INTERNAL AUDITOR		
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STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

SUMMARY

The National Fraud Initiative ('NFI') is the Audit Commission's data matching exercise that seeks to tackle a broad range of fraud risks faced by the public sector. The NFI has been run every two years since 1998 and is part of the statutory audit process for health, local government and the other public sector providers that the Audit Commission is responsible for. Approximately 1,500 organisations supply data in areas like housing benefit, payroll and pensions which is then cross-matched to identify inaccuracies or potential fraud.

The 'Internal Control' section of the 'Comprehensive Performance Assessment 2008 ("CPA") - Use of Resources' makes specific reference to the NFI and requires that the council has provided the required data and established a comprehensive process to review data matches and taken any appropriate action.

RECOMMENDATIONS:

The Audit Committee is asked to:-

- (i) Note the outcome of the 2006-07 NFI exercise.

REASONS FOR REPORT RECOMMENDATIONS

1. The Audit Committee is the member body with responsibility for oversight of and provision of assurance to the Standards and Governance Committee on 'the scope and effectiveness of the internal control systems established by management to identify, assess, manage and monitor financial and non-financial risks (including measures to protect against, detect and respond to fraud)'.

CONSULTATION

2. Not applicable.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. No alternative options have been considered.

DETAIL

4. The NFI is the Audit Commission's data matching exercise that runs every two years and is designed to help participating bodies identify possible cases of fraud and detect and correct any consequential under or overpayments from the public purse.
5. The 2006-07 NFI included a new 'risk-based data matching' option outside of the core mandatory elements. The risk-based options included residents' parking permits, blue badges and concessionary travel passes, insurance claims, private care home residents and market trader and taxi driver licences. A decision was taken however that for the 2006-07 exercise the focus would be on the core mandatory elements.
6. For the first time the data matches were made available to organisations via a new secure web based application developed by the Audit Commission.
7. In preparation for the data matching exercise the Council was required to provide creditors' payment history and standing data, payroll, pensions payroll and housing rents data. Housing benefit and student loan data was collected separately by the Audit Commission from the 'Department of Work and Pensions' and the 'Student Loan Company' respectively.
8. In advance of the data being supplied, and in accordance with the Audit Commission's 'Code of Data Matching Practice 2006', appropriate steps were taken to ensure that data subjects were notified that data held on systems may be used for the prevention or detection of fraud.
9. The data was submitted to the Audit Commission in October 2006 and the initial output of the data matching exercise was made available in January 2007. The Audit Commission subsequently obtained progress reports in May 2007 and September 2007 with the final return in January 2008. In each case the reports were extracted by the Audit Commission via the web based application.
10. The output from the exercise identified 51,000 data matches (these are interpreted as prompts to review the data to determine whether further investigation is required). In view of the volume of data matches it was considered necessary to take a proportional approach in terms of resources available to investigate. Where appropriate, service areas were instructed that assumptions could be made based on a sample of reviewed data within particular criteria.
11. A meeting was held with the Audit Commission in October 2007 who commented that reasonable progress was being made and confirmed that the 'risk based' approach adopted by the Council in respect of reviewing the data matches was appropriate.

12. The council's nominated key contact was the Risk & Assurance Manager – Internal Audit, Risk & Assurance Service, who was responsible for co-ordinating the council's approach and overall response. Unlike previous NFI exercises, and as a result of the data matches being accessible via the web based application, responsibility for the review and investigation of individual data matches was devolved to the relevant service areas. Meetings were held with representatives from each of the service areas to outline the purpose and expected actions arising from the exercise.
13. Although approximately 51,000 data matches were identified, 87% (44,300 of these matches) related to 'duplicate creditor payments' and on further investigation a significant number were found to be periodic or regular payments to suppliers. In addition, a separate exercise had previously been commissioned by Exchequer Services in May 2006 to ascertain whether and to what extent payments made by the Council exceeded what was actually properly due under the supply contract, lease or other agreement and whether in fact any payments had been duplicated. In addition, the data matches also covered some efficiency issues for examples where 'invoice values were less than £1'.
14. In total, approximately 4300 individual matches were investigated. In addition, the web based application allowed for a 'Report Comment' to be added against blocks or groups of data where the same outcome or comment could be applied across all the individual matches.
15. To date, the 'NFI 2006-07' has identified £33,300 in overpayments (both fraud and non fraud) relating to Housing Benefit and Council Tax Benefit and a further sum of £2,250 was identified in relation to overpayment (both fraud and non fraud) of 'Income Support' and 'Job Seekers Allowance' The related value of overpayments where recovery is in progress is £26,500 with a further sum of £5,300 subject to ongoing investigation.
16. This compares with the 'NFI 2004-05 Savings Return' submitted in January 2006 which confirms that £1,550 was identified in terms of overpayments (both fraud and non fraud) relating to Housing Benefit and Council Tax Benefit and a further sum of £15,800 was identified in relation to overpayment (both fraud and non fraud) of 'Income Support' and 'Job Seekers Allowance'.
17. The outcome of the 2006-07 NFI exercise has identified overpayments (fraud or non fraud) in the same broad areas as the previous exercise. Although the sums involved have increased the outcome needs to be considered against the resources committed by the Council in reviewing and investigating the matches particularly taking into account the sheer number of data matches identified.
18. Approximately 20 employees, at various levels across the organisation, were involved in NFI data match investigation. This figure excludes those officers or managers who were involved in the data extraction element of the process and preparatory meetings with the service area representatives.

19. The Council will continue to actively participate in future NFI exercises but will take an informed decision as to whether to participate in the optional 'risk-based data matching' facility based on the level of resources required/available and the perceived likely benefit.

FINANCIAL/RESOURCE IMPLICATIONS

Capital

20. NONE

Revenue

21. NONE

Property

22. No specific property implications have been identified in this report.

Other

23. NONE

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

24. The Audit Commission Act 1998 and the Accounts and Audit Regulations 2003 require the council to adopt Good Governance arrangements in respect of the discharge of its functions. The above arrangements are intended to meet those responsibilities.

Other Legal Implications:

25. NONE

POLICY FRAMEWORK IMPLICATIONS

26. NONE

SUPPORTING DOCUMENTATION

Appendices

1.	NONE
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Documents In Members' Rooms

1.	NONE
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Background Documents

Title of Background Paper(s)

Relevant Paragraph of the
Access to Information
Procedure Rules / Schedule
12A allowing document to be
Exempt/Confidential (if
applicable)

1.	NONE	
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Background documents available for inspection n/a

FORWARD PLAN No: N/A

KEY DECISION? N/A

WARDS/COMMUNITIES AFFECTED: N/A