

## **WILTSHIRE COUNCIL**

### **Audit Committee**

**Date: 17 September 2013**

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## **NATIONAL FRAUD INITIATIVE 2012 REPORT**

**Cabinet member: Councillor Richard Tonge**

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### **Purpose of Report**

The purpose of this report is twofold:-

1. To brief members' on the requirements and work carried out in relation to the Audit Commission's National Fraud Initiative (NFI) data matching exercise 2012/13.
2. To provide members with an updated position statement as at August 2013 on the council's progress in resolving matches resulting from the NFI.

### **Background**

3. Since 1996 the Audit Commission has been operating the National Fraud Initiative (NFI), an exercise that matches electronic data held within and between audited public bodies to prevent and detect fraud. Since its commencement, NFI exercises have resulted in the detection and prevention of more than £939 million of fraud and overpayments across the UK.
4. The council's arrangements for prevention and detection of fraud are a core element of good corporate governance. Participation in the NFI supports the Corporate Plan priority of delivering excellent services, by improving value for money and internal control arrangements which impact upon how well the council is managed.
5. The value to the council of the NFI, in addition to the identification and recovery of both fraud and error, is in its role as a deterrent for fraud and as a measure of assurance that adequate system controls are in place to prevent and detect fraud or loss.
6. Local authorities are required by law to participate in the NFI by providing a range of datasets to the Audit Commission for matching. The main NFI data matching is undertaken every two years, the results of these matches is fed into a national report at the end of each cycle. Past reports can be found at <http://www.audit-commission.gov.uk/national-fraud-initiative/nfi-reports/>
7. Historically, the council's audit team held responsibility for managing the NFI, this was devolved in 2012 to the Benefit and Investigations Team when the council's audit function was transferred to South West Audit Partnership Ltd

(SWAP). It is envisaged that the Councils newly established corporate fraud team will take over responsibility for the NFI as part of its wider role of managing the fraud and corruption risk across all services.

8. It should be noted that the NFI will continue following the planned abolition of the Audit Commission. The Local Audit and Accountability Bill 2013-14 makes provision for the future arrangements for the NFI. The bill transfers the Commission's current data-matching powers to the Secretary of State, who in practice will delegate them to a new operational owner of the NFI.

## **NFI 2012 – Methodology**

9. The legitimate use of personal data in this initiative is covered by the Data Protection Act and as such there are requirements to explain to individuals providing this information that their data will be used for the prevention and detection of fraud.
10. To satisfy the data protection requirements the council has included 'fair processing notices' on application forms, letters and bills, identifying the further information available, including that held on the council's website with links to the detailed notice on the Audit Commission's website.
11. The requisite data was extracted from the council's information systems in October 2012 and, following integrity checks, transferred to the Audit Commission through a secure dedicated website (password protected and encrypted). Results of the data matching were subsequently transmitted to all participating bodies through the same website.
12. The following data sets were submitted by the council:-
  - Housing Benefit
  - Concessionary Travel
  - Blue Badges
  - Pensions
  - Payroll
  - Accounts Payable (creditors history & creditors standing)
  - Care Homes
  - Housing (housing tenants & right to buy)
  - Residential parking permits
  - Licensing (Personal alcohol licences, market traders & taxi licences)
13. A total of 25,679 matches have been returned, of these, 16,517 are trade creditor matches and 3,831 are deceased matches. Applying the NFI recommended filters 5,585 of matches' were identified as priority for investigation.
14. As in prior exercises, once the output was received from the Audit Commission the council is responsible for investigating the recommended matches generated from the exercise.

15. The council's approach to resolving the recommended matches has been to appoint a manager from each of the relevant service areas to oversee a thorough and effective investigation of key matches, this includes:-
  - Following up data matches promptly
  - Ensuring staff are fully trained and confident in resolving matches
  - Recovering overpaid funds
  - Reviewing effectiveness of internal controls
  - Identifying risks
  - Undertaking criminal proceedings in the event of fraud (if appropriate)
  - Ensuring the outcome of investigations are accurately recorded via the secure website in accordance with audit commission's instructions and recommended timetable.
16. Managers responsible for data matches have access to additional support and advice from the council's Fraud Investigation Team.
17. Full details of the NFI instructions and requirements can be found at :-  
<http://www.audit-commission.gov.uk/national-fraud-initiative/public-sector/local-government/>

## **Findings**

18. Appendix A to this report contains a summary of matches and findings to date, although the picture is likely to change as outstanding investigations are progressed.
19. At the 30th August 2013 the council has processed in excess of 4000 matches and identified overpayment totalling £31,673. Recovery action has commenced in respect of all money overpaid with in excess of £4,000 recovered as at the end of August this year. The council will continue to vigorously pursue overpaid money using the full range of recovery methods at its disposal.
20. The matching exercise has also been instrumental in identifying system anomalies and is likely to drive reviews of some internal controls.

## **Next Steps**

21. The remaining recommended matches will continue to be investigated and a further review will be undertaken by the Service Director, Finance at the end of October 2013. The review will include an evaluation of lessons learnt and if appropriate recommendations for strengthening internal controls.
22. The council has established a dedicated team to improve its resilience and capability against fraud and corruption. The councils newly established corporate fraud team will draw on any lessons learnt from the NFI to support the councils strategic approach for managing the fraud risks and achieving savings across all services.

## **Consultation and Communication**

23. The council has included 'Fair processing notices' on application forms, letters and bills, identifying the further information available, including that held on the council's website with links to the detailed notice on the Audit Commission's website.

## **Environmental and climate change considerations**

24. None

## **Equalities Impact**

25. There are no direct implications arising from this report.

## **Risk Assessment**

26. This work supports the risks identified in the Authority's Risk Register specifically to reduce fraud and corruption to an absolute minimum.
27. Participation is mandatory, failure to do so may result in fraud and error going undetected. There would also be a risk of an adverse opinion being given by the external auditors on the council's corporate governance arrangements.

## **Financial Implications**

28. The NFI is run over a two year period and the fee charged for participation, £2,300, is invoiced equally over the relevant financial years (i.e. 2012/13 and 2013/14). This fee along with the internal resource to investigate the matches is provided for within existing budgets.
29. Recovery of amounts arising from fraud and error reduce the net cost of operations to the council and make financial resources available to invest in other services or minimise Council Tax increases.
30. The total value of fraud and error identified in the 2012/13 NFI to 30<sup>th</sup> August 2013 is £31,673 this figure is likely to increase as a number of ongoing investigations reach conclusion over the coming months.

## **Legal Implications**

31. Participation in the 2012 data matching exercise is mandatory, as regulated by the powers in the Audit Commission Act 1998, Part 2A.

**Michael Hudson**  
**Service Director, Finance**

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**REPORT AUTHOR**

Date of report:

**Background Papers**

Appendix A – NFI Summary report as at 30 August 2013

