

# The National Fraud Initiative 2008/09

Members' briefing, May 2010



**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**

## Fraud is a serious and growing problem for the nation

- Fraud is a crime. In the public sector, every pound lost through fraud is potentially a pound taken from taxpayers and the users of essential services.
- The National Fraud Authority estimates that public sector expenditure fraud is estimated to cost £7 billion a year.
- Tackling fraud should be a top priority for all organisations. They need strong counter-fraud cultures and effective counter-fraud policies and procedures. They should also regularly check the effectiveness of their arrangements for preventing and detecting fraud.

## The Audit Commission runs the National Fraud Initiative (NFI) to help detect fraud, overpayments and error

The NFI is a data matching exercise, using sophisticated computer techniques, which compares information held by different organisations and within organisations to identify potentially fraudulent claims and overpayments.

- When there is a match, there may be something that warrants investigation. For example, when data matching shows a person listed as dead and also in receipt of a pension, the relevant body will investigate and, if appropriate, stop pension payments.

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

Source: Audit Commission

- The box on page one shows some examples of the data matches that we undertake and why.
- Fraudsters often target different organisations at the same time, using the same fraudulent identities. A key strength of the NFI is that it combines several bodies in tackling fraud. It helps individual organisations go beyond what they could do acting alone.
- Our latest exercise in 2008/09 processed 8,000 datasets from 1,300 organisations.
- We provide bodies with a report on their matches, which they investigate. A match does not automatically mean fraud. Often, there is a simple explanation for a data match and it allows bodies to update their records.
- Even where data matching shows little or no fraud and error, this still assures bodies about their counter-fraud arrangements. It also strengthens the evidence for the body's annual Statement on Internal Control (SIC).
- The NFI works within a strong legal framework, including the Data Protection Act 1998 and the statutory Code of Data Matching Practice, which protects individuals' personal data.

### **The NFI 2008/09 found record levels of fraud, overpayments and error**

The NFI identified fraud, overpayments and error of £215 million across the UK, up 54 per cent from our previous exercise in 2006/07.

- This means that since its launch in 1996, the NFI matches have enabled the detection of fraud, overpayments and error totalling £664 million.
- The Commission's exercise in England identified £183 million of fraud, overpayments and error. This comprises £90 million of savings already delivered and £93 million in estimated costs of the frauds and errors.
- The NFI helped to uncover pension frauds and overpayments amounting to £78 million, and £56 million of council tax single person discount that was fraudulently or wrongfully received.

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

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

## How can organisations make better use of the NFI?

- The record results of the NFI 2008/2009 have been excellent and reflect well on the efforts of most public bodies and other participants in the NFI 2008/09, who followed up effectively their data matches.
- Audited bodies are committed to the NFI and most have sound systems and processes for investigating NFI matches. Examples of good practice include:
  - Directors of finance promote the NFI and provide lead director oversight, receiving regular updates on progress from staff, including the chief internal auditor.
  - Audited bodies use the NFI to gain assurance about internal controls. They also take action to address major areas of risk.
  - Many bodies publicise case studies internally and externally to discourage fraud.
- But they could do more. They should:
  - Ensure that all data sets are submitted to the Commission on time.
  - Prioritise data matches and follow them up promptly and rigorously.
  - Promote awareness of the NFI among senior management and outside the finance directorate.
  - Ensure that the NFI is integral to the overall corporate arrangements put in place for tackling fraud.
  - Promote NFI in corporate information security policies or counter-fraud policies.
- Audited bodies should show leadership and address these weaknesses. They need to promote a culture that has no tolerance of fraud. The NFI should be a major part of counter-fraud work. All managers need to recognise its value and lead by example and stress the fact that all staff have a responsibility to prevent fraud and loss.

## How can elected members support the NFI?

We think elected members and non-executives should be engaged more effectively in the NFI. For example by nominating a lead member and through regular reporting to the audit committee or equivalent. For that reason we have developed a checklist to help you understand and assess your council's approach to NFI on page 4.

## Where can I find out more about the NFI?

To find out more about the NFI, go to our website at

[www.audit-commission.gov.uk/nfireport](http://www.audit-commission.gov.uk/nfireport)

You will find there a copy of our national report on the NFI 2008/09.

## The NFI: A checklist for members

Question	Answer/action required
1 What is the role/post of the most senior officer accountable for the NFI in the organisation?	
2 How do we involve members? <ul style="list-style-type: none"> <li>■ Do we have a lead elected/board member for counter fraud and the NFI?</li> <li>■ What role does the audit committee play?</li> <li>■ How are other elected members/non-executive members kept informed of the NFI?</li> </ul>	
3 What governance arrangements do we have in place to ensure the organisation achieves the best possible outcomes from the NFI? Who decides and monitors this approach?	
4 What resources do we invest in the NFI?	
5 What is our strategy/policy for data security? Is there any specific reference to NFI data security in the strategy?	
6 What have been the outcomes from the most recent NFI? <ul style="list-style-type: none"> <li>■ What savings have been made?</li> <li>■ What assurances have we drawn about the effectiveness of internal controls and the risks faced by the organisation?</li> <li>■ What changes have we made as a result?</li> </ul>	
7 Are the outcomes from the NFI used to inform wider decision making, for example internal audit risk assessments, data quality improvement work or anti-fraud and corruption policy?	
8 How does the NFI influence the focus of our counter-fraud work? Does our anti-fraud policy include reference to the organisation's participation in the NFI?	
9 How is the NFI reflected in the governance training and development provided for officers and board/elected members?	
10 How do we publicise the outcomes from the NFI? How does the NFI influence how and what we communicate to the public about our approach to counter fraud?	

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We welcome your feedback. If you have any comments on this report, are intending to implement any of the recommendations, or are planning to follow up any of the case studies, please email: [nationalstudies@audit-commission.gov.uk](mailto:nationalstudies@audit-commission.gov.uk)



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