

<b>AUDIT COMMITTEE</b>	AGENDA ITEM No. 5
<b>27 JANUARY 2020</b>	<b>PUBLIC REPORT</b>

Report of:	Peter Carpenter, Acting Corporate Director of Resources	
Cabinet Member(s) responsible:	Councillor Seaton, Cabinet Member for Resources	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	Tel: 384557

**NATIONAL FRAUD INITIATIVE: INVESTIGATING ALLEGATIONS OF FRAUD**

<b>R E C O M M E N D A T I O N S</b>	
<b>FROM:</b> Steve Crabtree, Chief Internal Auditor	<b>Deadline date:</b> N/A
<p>It is recommended that Audit Committee:</p> <ol style="list-style-type: none"> <li>1. Note progress and the outcomes to date in relation to tackling fraud against the Council through the National Fraud Initiative; and</li> <li>2. Note results from national studies to raise awareness of the extent and types of fraud impacting on the public purse.</li> </ol>	

**1. ORIGIN OF REPORT**

1.1 This report is submitted to the Audit Committee to provide awareness of some of the steps undertaken within the Council to tackle fraud and corruption within the Council.

**2. PURPOSE AND REASON FOR REPORT**

2.1 Audit Committee has a remit to oversee that appropriate governance arrangements are in place to protect the public purse and this report provides Members with details of current initiatives to investigate fraud.

2.2 This report is for Audit Committee to consider under its Terms of Reference 2.2.2.15 “*To monitor Council policies on “raising concerns at work” and the anti-fraud and anti-corruption strategy*”

### 3. **TIMESCALES**

Is this a Major Policy Item/Statutory Plan?	<b>NO</b>	If yes, date for Cabinet meeting	N/A
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### 4. **BACKGROUND AND KEY ISSUES**

#### 4.1 **Introduction**

4.1.1 This report provides details of the background and evolution of the National Fraud Initiative (NFI), progress updates in relation to the NFI 2018 exercise, pilot studies and future requirements. Details of national studies are provided to place further context on fraud and corruption. This is a biennial data matching exercise whereby all Local Authorities and some government agencies match their data to prevent and detect fraud and error in their systems. The NFI compares different sets of data, for example payroll and benefit records against other records held by the same or other organisation, bringing to light potentially fraudulent claims and payments. Where a match is found it may mean that further investigation is required.

4.1.2 The NFI has been running since 1994, and was originally managed by the Audit Commission. The Commission processed the NFI data under its statutory powers under Part 2A of the Audit Commission Act (1988). The Serious Crime Act 2007 (SCA) gave the Commission new powers to enable the benefit of NFI to be extended to Central Government and the private sector. The SCA inserted a new paragraph into the 1998 Audit Commission Act. The SCA imposed a new regulatory regime alongside existing fair processing and other compliance requirements of the Data Protection Act 1998. Any person or body conducting or participating in the exercise must by law, have regard to a statutory Code of Data Matching Practice.

4.1.3 Over time the exercise has evolved to extend across all Local Authorities in the United Kingdom and now includes pension details from the Police, Health Service and Fire Service. To date over £1.69bn has been identified in fraud and overpayments over the various exercises across the country. The exercise is now managed by the Cabinet Office following the dissolution of the Audit Commission in 2015. Each authority has a responsible officer and data coordinator specialist. These are Acting Corporate Director of Resources and the Chief Internal Auditor respectively.

#### 4.2 **NFI Exercise 2018 / 2019**

4.2.1 The current exercise commenced in autumn 2018 when data was supplied for matching purposes by all the relevant parties. These are coordinated centrally, some data quality checks are performed, for example, to ensure that forenames / surnames are not held in address fields and vice versa.

4.2.2 The data was submitted to the Cabinet Office in October 2019 and following data submissions by other organisations, verification that data met prescribed criteria, analysis and cross matching the outputs began to be released at the end of January 2019. These have been supplemented throughout the year as and when late data provider information is matched. The datasets provided:

Blue Badge Parking Permit	Concessionary Travel Pass;
Council Tax Reduction Scheme	Creditors (Addresses)
Creditors (Payments)	Housing Benefits (data provided by DWP)
Market Trader Licences	Payroll
Personal Alcohol Licence Holders	Personal Budgets
Private Residential Care Homes	Resident Parking Permits
Taxi Drivers	Waiting List

4.2.3 A separate annual exercise is also undertaken in relation to comparing the data from the full Council Tax records and the Electoral Roll.

4.2.4 The matched data is contained on a secure website and access is granted to selected officers. The NFI system has its own inbuilt risk assessment system and this is used as guidance to prioritise those matches which need attention. Each report type is subject to a preliminary assessment and the high risk matches are reviewed first. There are usually extremely large volumes of matches received and consequently the risk rating allocated by the NFI is essential in helping prioritise the workload.

### 4.3 Results To Date

4.3.1 The table below sets out the results which have been considered for review to date (as at 13 December 2019). Throughout the year, additional matches are provided as data records are updated elsewhere or new organisations are brought online. Excluding creditors, 2,391 matches were provided (see below).

	High	Medium	Low	Nil (*)	Total
Blue Badge Parking Permit	64	69	1	0	134
Concessionary Travel Pass	310	279	0	0	589
Council Tax Reduction Scheme	25	72	501	18	616
Housing Benefit Claimants (**)	75	18	481	11	585
Market Traders	0	0	0	0	0
Payroll	1	7	9	2	19
Personal Alcohol Licence	1	0	0	0	1
Personal Budgets	6	11	5	1	23
Private Residential Care Homes	14	10	0	0	24
Residential Parking Permit	8	0	3	0	11
Taxi Drivers	1	0	0	0	1
Waiting List	23	362	2	1	388
<b>TOTAL MATCHES</b>	<b>528</b>	<b>828</b>	<b>1,002</b>	<b>33</b>	<b>2,391</b>

(\*) As part of the exercise the data matching has identified a number of individuals for which no fraud factors were identified.

(\*\*) Additional matches were released on 23 December 2019 for this area. This has increased the number of matches to 83 High and 499 Low.

4.3.2 Work is ongoing to verify the data in relation to these datasets. Key points to date across all datasets are:

1. Data quality remains a key issue across the authority to be resolved. A large number of matches highlighted data being held in wrong fields. As part of this exercise we

have provided key officers for each dataset with details as to where these changes need to be made to the raw data, reducing future potential multiple erroneous matches and improving the quality of its data records.

2. Timeliness of records being updated e.g. DWP deceased. All the data is extracted on or around second week of October, inevitably there will be records which have not been amended for any circumstance changes.
3. Referrals have been made to other agencies where there are identified links, for example, where matches have found for student loans or housing benefits. Responses remain outstanding.
4. Notional savings have been established in relation to Blue Badge Parking Permits (£77,050); Concessionary Travel Passes (£14,136) and removing errors from the Housing Waiting List (£304,560).

4.3.4 Full analysis of progress against each dataset is highlighted in **Appendix A**.

#### 4.4 **Trade Creditors**

4.4.1 From the matching exercise, various anomalies were identified in relation to creditor payments.

Payroll to Creditors	18
Duplicate Creditors by: Creditor Name	275
Duplicate Creditors by: Address Details	202
Duplicate Creditors by: Bank Account	139
Duplicate Records by: Reference, Amount and Creditor Reference	195
Duplicate Records by: Amount and Creditor Reference	2,485
VAT Overpaid	251
Duplicate Records by: Name, Invoice No., Amount but different Creditor Reference	24
Duplicate Records by: Invoice No., Amount but different Creditor Reference and Name	94
Duplicate Records by: Postcode, Invoice Date and Amount but different Creditor Reference	2
Duplicate Records by: Postcode, Invoice Amount but different Creditor Reference	21
Procurement: Payroll to Companies House (Director)	51
<b>TOTAL MATCHES</b>	<b>3,757</b>

4.4.2 Having reviewed all the creditor matches, the following observations can be made:

- Payroll matches identify instances where an employee and creditor are linked by the same bank account or the same address which could indicate employees with interests in companies with which Peterborough is trading. This could indicate potential undeclared interests and possible procurement corruption or where a member of staff has set up a creditor with their own bank details in order to receive payments they are not entitled to. All matches have been reviewed and no issues identified.
- Duplicate creditors have been identified through a number of matches. Overwhelming, the majority of the matches can be linked to data quality. For example, the company name may have been misspelt or moved address but are linked by the same bank account. Similarly, a number of recurring quarterly payments have been identified, for example, energy payments. From the exercise, two duplicate payments have been identified totally £1,989-90 which is being recovered.

- 251 instances where VAT may have been overpaid were identified. This was based on the information provided within the NFI invoice history data submission and the output includes the level and scale of overpaid VAT. The VAT amount is compared to a calculated maximum VAT of 20%, the maximum VAT rate in the payment period covered by the NFI exercise. No such errors were established.
- Finally, Payroll to Companies House (Director) matches identify potential undeclared interests that have given a pecuniary advantage. The matches identified employees who appear to be registered directors of companies that Peterborough has traded with and those where the employees address appears to have links to the company directors or the company. All interests have been declared.

#### 4.5 **Council Tax Records (Single Person Discounts)**

4.5.1 As part of the annual data matching, there is a focus on Council Tax records. In order to look at an appropriate responses to the inherent risk of fraud / error in this area, various initiatives are undertaken. The Council is reliant on the customer to report any changes in circumstances which would affect their entitlement to an exemption / discount. Council taxpayers are under a duty to report within 21 days if they think they should no longer qualify for a discount. The Council has in excess of 26,000 households within Peterborough who currently receive the 25% discount.

4.5.2 While most residents are claiming the discount appropriately, there are likely to be a minority who are attempting to defraud the system. From the National Fraud Initiative, the potential anomalies for investigation to verify data held to look to cancel identified errors or fraudulent claims are shown below.

Council Tax to Electoral Register	1,784
Council Tax to Rising 18s	105

4.5.3 Matches identify addresses where the householder is claiming a SPD on the basis that they live alone yet the electoral register suggests that there is more than one person in the household aged 18 or over.

4.5.4 The electoral register also includes details of individuals who are approaching their 18th birthday. Unless there is an exemption, for example, a student, then the single person discount would need to be revoked from the date of their birthday.

4.5.5 There is ongoing dialogue / works with Revenues and Benefits to ensure that all cases are verified for accuracy, errors cancelled or fraudulent claims investigated. Where there are data quality issues, for example forename and surname transposed, similar discussions are being held with Electoral Services.

4.5.6 Unlike the rest of the NFI exercise, these datasets are provided annually. Outcomes to date are set out in **Appendix A**. As part of the exercise, some **£61,226-98** has been identified to date for recovery in relation to **147 cases**. Steps have been taken to recover this. A further **158 cases** have been cancelled with the total amount of discount awarded per annum for these where discount withdrawn is **£43,320**.

4.5.7 The next download of Council Tax (86,303 records) and the Electoral Register (144,633 entries) has been sent to the Cabinet Office and matches are awaited.

#### 4.6 **Pilot Studies: Additional Matches (HMRC)**

4.6.1 NFI undertake various pilot studies each year. In early August they announced that they now had agreement to compare Local Authority data with records held by HMRC. Subsequently, in mid-September (with the exception of SPD which was received later) they released matches to identify potential fraud grouped into three areas – property ownership; earnings and capital and household composition. None of these are risk assessed currently.

Fraud Risk	Property Ownership	Earnings and Capital	Household Composition
Housing Benefit	0		147
Council Tax Reduction	0	23	463
Housing Tenancy	0		0
Personal Budget	0	0	
Residential Care Homes	3	8	
Right To Buy	0		
Council Tax Single Person Discount			6,280

4.6.2 Sample testing to date has identified that:

- PCC is aware of where properties are held by residents if in a care home
- Earnings identified refer to previous years where there is no live claim in place for Council Tax Reduction Scheme; and
- Similarly, matches generated are linked by property. A number of matches have provided data for previous tenants / owners.

4.6.3 With the later arrival of SPD matches, these are being picked up as part of the new matches received in 2020.

#### 4.7 **Conclusions**

4.7.1 NFI continues to be an important exercise for detecting fraud across the public sector. With more and more datasets being requested and the increasing numbers of organisations matched against, there is a risk that this could become unmanageable to keep track of and do justice to the wealth of data and matches received.

4.7.2 Works are coordinated and investigated through Internal Audit currently but going forward greater ownership is required by the organisation to manage and regularly update its own records – enhancing the data quality so as to reduce the number of matches to those of highest fraud risk only.

4.7.3 Regular national studies report on the extent of fraud within local government. **Appendix B** sets out the latest position.

## **5. CONSULTATION**

- 5.1 This progress report is subject to consultation with the Acting Corporate Director of Resources and the Director of Law and Governance.

## **6. ANTICIPATED OUTCOMES OR IMPACT**

- 6.1 Raised Audit Committee awareness of the processes in place to investigate potential fraudulent activity against the Council and the successes to date.

## **7. REASON FOR THE RECOMMENDATION**

- 7.1 To enable Audit Committee to fulfil part of its role within its Terms of Reference.

## **8. ALTERNATIVE OPTIONS CONSIDERED**

- 8.1 None

## **9. IMPLICATIONS**

### **Financial Implications**

- 9.1 The investigation works undertaken to date have enabled the Council to look to recover additional monies to supplement the Councils budget.

### **Legal Implications**

- 9.2 None

### **Equalities Implications**

- 9.3 None

## **10. BACKGROUND DOCUMENTS**

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

- 10.1 None.

## **11. APPENDICES**

A: National Fraud Initiative Progress

B: Fraud and Corruption Tracker Report 2019

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