

AUDIT COMMITTEE

Audit Commission – National Fraud Initiative

19 September 2007

Report of Internal Audit Manager

PURPOSE OF REPORT

To inform the Committee of new arrangements being made to comply with future National Fraud Initiatives and to investigate any data matches and act upon instances of fraud or identified weaknesses in internal control.

This report is public

RECOMMENDATIONS

1. That Audit Committee notes the report and endorses the proposed arrangements to comply with the National Fraud Initiative (NFI) and to follow up and/or investigate matches arising from the NFI.
2. That the Head of Financial Services be appointed as the '*Senior Responsible Officer*' for NFI purposes with responsibility for ensuring compliance with the *Code of Data Matching Practice* and that the Principal Auditor be named as the Council's key contact with the NFI for all future data matching exercises.
3. That the Council's Financial Regulations and Procedures be amended in order to formalise the approach to future NFI exercises.
4. That following formalisation of the Council's NFI arrangements, the Information Management Group considers the proposed procedures with a view to inviting the Information Commissioner to review these for the purposes of monitoring compliance with data protection principles.

1 Introduction

- 1.1 The National Fraud Initiative (NFI) is the Audit Commission's data matching exercise, first launched in 1996, that tackles a broad range of fraud risks faced by the public sector. The NFI has been embedded in the statutory external audit process for audited and inspected bodies since 1998 and is currently run every two years. The Council's arrangements in relation to the NFI and other data matching exercises are now incorporated within the Use of Resources assessment.
- 1.2 Initial exercises mainly concentrated on data matching relating to housing benefit fraud and overpayment, but its success since its launch (more than £400m in savings for the organisations taking part) has led to new data matching exercises being introduced. These include matching elderly residents in private care with the Department for Work and Pensions' records of deceased persons and the 2007/08 NFI exercise matching Council Tax Single Persons' Discounts (SPD) to the Electoral register. (Members may

be aware that a similar sort of exercise on SPDs was undertaken during 2006, with other Lancashire authorities.)

- 1.3 The 2007/08 NFI exercise is currently being rolled out follow a successful pilot project. The exercise focuses on those declaring sole occupations (excluding people like students with council tax disregards), to identify those claiming SPD who do not, in fact, live alone. The pilot project, involving four London boroughs has identified more than £2 million of discounts incorrectly awarded.
- 1.4 Broadly, the timetable for the exercise is:
 - Extract Council Tax data and submit it to the Audit Commission during October
 - Extract Electoral registration data and submit it during December
 - Identified matches will be available for inspection during March 2008 (date to be confirmed), after which arrangements will be made to investigate any matches identified.
 - Following the joint advice of the Audit Commission and the Information Commissioner, it is proposed to notify Council Tax payers of the exercise when the council tax bills for 2008/09 are sent out in March 2008.
- 1.5 To help ensure that the use of data for NFI purposes is effectively controlled and complies with data protection and human rights legislation, the Audit Commission published its Code of Data Matching Practice (updating the previous code published in 1997) in May 2006.
- 1.6 The status of the Code of Data Matching Practice 2006 is such that it is a statutory requirement to supply personal data for the purpose of the NFI and to comply with the principles and provisions set out in the Code. This is to ensure that the NFI is conducted in a manner which meets the requirements of the Data Protection Act 1998 and achieves good practice. Statutory external audits will seek to ensure that Councils have put in place adequate measures to meet the Code's requirements.
- 1.7 Every two years since its launch, the practical steps required to comply with the NFI have been undertaken by Revenue Services, with the Council's Key Contact being the Principal Officer within the Claims Security Team. The NFI exercise for 2006/07 is now nearing completion, but given the new Code of Practice on Data Matching, changes in legislation and the introduction of new areas of data matching in addition to the two-yearly NFI exercise, it has now become necessary to review the Council's arrangements.

2 Proposal Details

Practical steps required to comply with the Code of Data Matching Practice

- 2.1 New governance arrangements within the Code require that the '*Director of Finance or equivalent senior named officer*' acts as the '*Senior Responsible Officer for NFI purposes*'. No specific reference is made to NFI exercises within the Council's Financial Regulations although this approach is consistent with the Section 151 Officer responsibilities relating to internal control arrangements for the prevention and detection of fraud and corruption.
- 2.2 The Code of Data Matching Practice goes on to state that '*The Senior Responsible Officer will authorise named officers responsible for data handling, for follow up investigations and to act as the key contact...*' for the data matching exercise.
- 2.3 For the purposes of future exercises undertaken by the Council it is proposed that the Head of Financial Services be authorised as the *Senior Responsible Officer* and that the Principal Auditor be named as the Council's key contact with the Audit Commission's NFI team, with overall responsibility for co-ordinating NFI exercises. A minor amendment needs to be made to Financial Regulations and Procedures to formalise the approach to future NFI exercises.

- 2.4 The key contact role is vital to getting the most from the NFI in terms of fraud and overpayment with the minimum input of resources. The key contact will be responsible for *project managing* the exercise throughout, including:
- Allocation of data handling and data quality responsibilities to relevant Council officers proportionate to the resources needed to undertake the work and the expected level of fraud and overpayment that can be prevented and detected
 - Ensuring compliance with the Code of Data Matching Practice and relevant legislation (principally the Data Protection Act 1998) including requirements for the fair collection and disclosure of personal data
 - Collation of data matching results and the secure reporting of the output to the Audit Commission within required timescales
 - Ensuring steps are taken to follow up or investigate matches arising from the NFI and to improve any control weaknesses identified
- 2.5 The NFI exercises involving the use of powerful data matching techniques raise substantial data protection and privacy concerns. In light of this, the Information Commissioner was consulted during the production of the Code of Data Matching Practice and has been invited by the Audit Commission to review its processes during all data matching exercises in the future. The published Code of Data Matching Practice encourages all bodies supplying data for the purposes of the NFI to invite the Information Commissioner to carry out an assessment of their processing of personal data also in order to monitor compliance with data protection principles.
- 2.6 Following formalisation of the Council's arrangements in respect of the NFI it is proposed, at this stage, to request the Council's Information Management Group to initially review the arrangements with a view to requesting the Information Commissioner to carry out an assessment of the arrangements some time in the future.

3 Details of Consultation

- 3.1 Consultation has been undertaken in compiling this report with the Chief Revenues Officer; the Principal Officer, within Revenue Services, currently acting as the Council's key contact for the purposes of the NFI, and with the Information Management Officer. They have no further comments to add.

4 Options and Options Analysis (including risk assessment)

- 4.1 The proposal is that the Committee endorses the proposed arrangements to comply with the National Fraud Initiative (NFI) and the Code of Data Matching Practice and for following up and/or investigating matches arising from the NFI. No alternative options are identified.

5 Conclusion

- 5.1 Over the last decade the National Fraud Initiative has successfully detected fraud and overpayments (totalling almost £300M nationally). This active detection and prosecution of fraudsters is a vital deterrent to those contemplating defrauding the public purse.
- 5.2 The introduction of the new Code of Data Matching Practice and the proposed arrangements to ensure this Council complies with its provisions will not only help to ensure compliance with the law but also help inspire public confidence that potentially intrusive activities are undertaken in a proportionate way with due respect for legitimate privacy concerns. Compliance with the Code should help ensure that those who are involved in fraudulent activities continue to be identified and held to account

and the majority who are not are protected from unwarranted intrusion into their private lives.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

Proposed arrangements for the conduct of future NFI data matching exercises will be conducted in accordance with the Code of Data Matching Practice ensuring compliance with data protection and human rights legislation.

FINANCIAL IMPLICATIONS

There are audit and other costs attached to the NFI exercise in the region of £2,000 for 2007/08. The exercise should result in savings to the Council through the detection of fraud and overpayment, though clearly these cannot yet be quantified

SECTION 151 OFFICER'S COMMENTS

The Section 151 officer has been consulted and has no further comments

LEGAL IMPLICATIONS

Legal Services have been consulted and have no further comments

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

NFI 2006/07 Handbook
Code of Data Matching Practice 2006
Internal Audit Files

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