

## **AUDIT COMMITTEE**

**19 NOVEMBER 2020**

### **NATIONAL FRAUD INITIATIVE PROGRESS REPORT**

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#### Summary

This report provides an update on the National Fraud Initiative (NFI) exercise.

#### 1. Budget and policy framework

- 1.1. The Audit and Counter Fraud Shared Service are responsible for the National Fraud Initiative exercise across council services. Council delegates responsibility for the oversight and monitoring the effectiveness of the Audit & Counter Fraud Shared Service to the Audit Committee.

#### 2. Background

- 2.1. The Council proactively takes part in the National Fraud Initiative (NFI) exercise, which is co-ordinated by the Cabinet Office. This is a nationwide data matching exercise, comparing computer records held by the Council against other computer records held by councils and other public bodies, with a view to identifying potential instances of fraud or irregularity.
- 2.2. There are two separate exercises, one matches council tax single person discount (SPD) to the electoral register and is run on an annual basis. Data is submitted between December, once the electoral register has been published, and February the following year, with the results received within hours.
- 2.3. The second exercise takes data from the Council in relation to;
  - housing (tenancies, right to buy, waiting list),
  - housing benefit,
  - council tax reduction,
  - residents parking permits,
  - creditors (historic and standing),
  - market traders,
  - personal alcohol licences,
  - payroll, and
  - private hire (taxi) licences,
  - blue badge,
  - private residential care homes,

- personal budgets
- concessionary passes,

and is run on a bi-annual basis with data submitted in October and the results identified from the subsequent data matching released to the authority in January the following year.

- 2.4. Matches can be reviewed by the individual services they relate to, with suspicious results referred to the Audit & Counter Fraud (A&CF) Service for investigation, or reviewed directly by the A&CF service.
- 2.5. This report provides a further update on the 2018-19 exercise, which includes the matches resulting from all the data sets mentioned above, and gives an overview of the activity undertaken across the council in response to the potential discrepancies identified.
- 2.5. There is also a brief update on the matches received as part of the 2019-20 exercise relating to Council Tax, as described in paragraph 2.2.

### 3. Progress

- 3.1. The matches received can be categorised in eight key areas of the council and progress as at 30 September 2020 is reported under each of those headings.

#### **Council Tax**

- 3.2. The matches relating to council tax (CTAX) were checked by the systems team within MRBS and initially 5,765 matches were received across the various reports in January 2019. These relate to persons with a single person discount where the data match has identified;
  - Electoral roll with more than one person at the address (2,357 matches),
  - Electoral roll suggesting an occupant who is about to reach 18 (187 matches), and
  - Other council records showing alternative persons registered at the address (3,221 matches).
- 3.3. The systems team focused on the matches to the electoral roll and all of the 2,348 matches indicating more than one individual at an address have been assessed and resulted in the following;
  - One match remains open while enquiries are conducted
  - 2,327 closed with no evidence of fraud
  - 203 SPD removed (10 replaced with an alternative discount)
- 3.4. This represents a success rate of 8.61% and has led to additional CTAX liability of £123,364 and an additional £72,722 in future years in relation to discounts that will no longer be applied.

- 3.5. The 187 matches relating to persons about to turn 18 resulted in the accounts being updated for enquiries to be made with the customer at the appropriate time.
- 3.6. The matches against other council data sets were not given priority due to the fact that the majority of the Council's data was submitted in October 2018 but the CTAX SPD data, on this occasion, was not submitted until February 2019. This meant there was likely to be a high number of false positives created by residents changing address in the period between data submissions.
- 3.7. In August 2019, the Cabinet office released new matches following a successful pilot for matching against PAYE data held by HMRC. This has produced an additional 6,458 matches where PAYE data indicates there may be additional occupants at addresses where an SPD is in place.
- 3.8. As with the matches against other council datasets, it has been established through the checking of other reports that the age of the HMRC data used in the matching process was much older than the council tax data, meaning that the potential for false positives was extremely high.
- 3.9. The temporary shutdown of the service during the emergency response period this year has meant that little progress has been made with those outstanding matches; with resources directed to other areas. Instead, it is intended to use the data for comparison with any matches received as part of the 2019-20 exercise in January 2020, with any of the new matches identified as requiring investigation being checked against the list of HMRC matches. This will identify individuals linked to the address by more than one data source, allowing for more effective investigation. It is intended that this work will commence in October 2020.

### **Housing Benefit**

- 3.10. Results linked to housing benefit (HB) are spread across 27 different reports. These reports identify potential employment, other income and additional residents that may not have been declared for the purpose of the benefit assessment. It should be noted that the majority of these people are also in receipt of council tax reduction as part of their claim.
- 3.11. The benefits section were responsible for reviewing the 1,074 matches linked to those reports, using the risk score provided by the Cabinet Office to target the high priority matches first. Any instances of potential fraud are referred directly to the Department for Work and Pensions (DWP) for further investigation.
- 3.12. As of 30 September 2020, enquiries linked to those matches have resulted in the following;
  - 874 matches awaiting initial checks
  - three matches referred to DWP for investigation,
  - 194 matches closed with no evidence of fraud or error

- two matches resulting in an overpayment of housing benefit/council tax reduction.
- 3.13. An additional 253 matches from two new reports were received in August 2019 linked to HMRC data, which identify potential additional occupants or capital in the form of property ownership that may not have been declared. These matches were reviewed by the Audit & Counter Fraud Service.
- 3.14. As of 30 September 2020, enquiries linked to those matches have resulted in the following;
- two matches open for further enquiries
  - 250 closed with no evidence of fraud or error
  - one match resulting in an overpayment of housing benefit/council tax reduction.
- 3.15. This represents an overall success rate of 0.23% in respect of the matches that have been checked and has led to the identification of housing benefit overpayments totalling £5,939.31 and excess council tax reduction awards of £1,010.87. In addition housing benefit awards have been reduced by a total of £51.30 per week (annual saving of £2,668).

### **Council Tax Reduction**

- 3.16. Results linked to Council Tax Reduction (CTR) are spread across 26 different reports. As with the HB dataset matches, these reports identify potential employment, other income and additional residents that may not have been declared for the purpose of the benefit assessment and the majority of those people are also in receipt of HB as part of the same claim.
- 3.17. As of 30 September 2020, enquiries linked to 1,147 matches have resulted in the following;
- 107 matches awaiting initial checks,
  - six matches open for further enquiries,
  - three matches referred to DWP for investigation,
  - 1,022 matches closed with no evidence of fraud or error
  - 12 matches resulting in an overpayment of housing benefit/council tax reduction.
- 3.18. An additional 537 matches from three new reports were received in August 2019 linked to HMRC data, which identify potential additional occupants or capital in the form of property ownership that may not have been declared. These matches were reviewed by the Audit & Counter Fraud Service.
- 3.19. As of 30 September 2020, enquiries linked to those matches have resulted in the following;
- 16 matches open for further enquiries
  - 508 matches closed with no evidence of fraud or error

- 13 matches resulting in an overpayment of housing benefit/council tax reduction.
- 3.20. This represents an overall success rate of 1.48% in respect of the matches that have been checked and has led to the identification of excess CTR awards of £34,366.84 and overpayments of housing benefit and council tax benefit totalling £16,555.87. CTR awards have been reduced by a total of £172.89 per week (annual saving of £8,990.28) and HB awards have been reduced by a total of £161.93 per week (annual saving of £8,420.36) In addition, six matches also resulted in the removal of single persons discounts, leading to an additional liability of £4,028.87 and an increase in liability for future years totalling £2,152.48.

### **Payroll & Procurement**

- 3.21. Payroll & procurement matches are aimed at identifying employees who may have undeclared secondary employment that could lead to a failure to work their contracted hours and also any employees that are creditors providing services to the Council, which could lead to potential undeclared interests or procurement corruption.
- 3.22. Due to the temporary shutdown of the service this year, it has not been possible to review these matches.

### **Housing**

- 3.23. Results linked to housing are spread across 25 different reports. These reports identify individuals who potentially have tenancies with more than one authority, discrepancies that suggest right to buy applications may be fraudulent, and individuals on the Council waiting list that appear to have tenancies with other local authorities/Housing Associations or are on the waiting list of other local authorities.
- 3.24. The A&CF service were responsible for checking the 80 matches received in respect of Housing Tenants and Right to Buy while the Housing Department reviewed the 347 matches relating to the waiting list. As of 30 September 2020, enquiries have resulted in the following;
- 18 matches awaiting initial checks,
  - one match open for further enquiries,
  - 407 matches closed with no evidence of fraud or error
  - One match resulted in the individual being removed from the housing waiting list.
- 3.25. An additional 81 matches from three new reports were received in August 2019 linked to HMRC data, which identify potential undeclared property ownership and household occupants. These matches were reviewed by the Audit & Counter Fraud Service.
- 3.26. As of 30 September 2020, enquiries linked to those matches have resulted in the following;

- 31 matches open for further enquiries,
  - 50 closed with no evidence of fraud or error
- 3.27. This represents an overall success rate of 0.20% in respect of the matches that have been checked and has led to an individual being removed from the housing waiting list.

### **Parking & Travel**

- 3.28. Residents Parking Permits, Blue Badges and Concessionary Passes are all matched to the deceased data held by the DWP to identify any active permits, badges or passes registered to customers who are now deceased. Blue badges are also matched against blue badge data from other authorities to identify instances where people have two badges from different authorities.
- 3.29. 625 matches were received in respect of blue badges across three reports and all were closed with no evidence of fraud/error.
- 3.30. 819 matches were received in respect of Concessionary Passes. With the assistance of the Council's software provider, a batch exercise was undertaken to cancel all passes where the subject was now known to be deceased and activity data indicated that the pass had not been used since the date of their death.
- 3.31. This resulted in the cancellation of 630 bus passes. A further 179 had already been cancelled as the Council had been notified of the death.
- 3.32. Five matches were received in respect of resident parking permits and all were closed with no evidence of fraud/error.

### **Finance**

- 3.33. Results linked to finance are spread across ten different reports. These reports identify potential duplicate payee records in the system, duplicate payments to creditors and overpayments of VAT.
- 3.34. A total of 4,405 matches were received and would normally be reviewed by the finance service. However, the finance service undertake a periodic review with an external company to identify duplicate payments and as such, it was not felt that it would be an effective use of resources to undertake a manual check of the individual matches.

### **Social Care**

- 3.35. Results linked to Social Care are spread across five different reports. Private Residential Care Home residents and individuals in receipt of direct payments matched are matched to the deceased data held by the DWP to identify any failure to notify the Council of a customer's death and direct payments are also matched to pension data to identify potentially undeclared income.

- 3.36. Initially a total of 78 matches were received across the three reports but an additional 32 matches from two new reports were received in August 2019 linked to HMRC data, which identify potential undeclared property ownership, earnings and capital for those in receipt of direct payment.
- 3.37. All matches were checked by the Audit & Counter Fraud service and as of 30 September 2020, these enquiries had resulted in the following;
- 109 matches closed with no evidence of fraud or error,
  - one match resulted in the identification of a deceased care home resident.
- 3.38. This represents an overall success rate of 0.91% in respect of the matches that have been checked. The failure to report the death of a care home resident resulted in an overpayment of £46,899.31 to the care home and steps have been taken to recover the debt.

### **Overall Summary**

- 3.39. Medway received a total of 21,898 matches as part of the 2018-19 NFI exercise between January 2019 and August 2019. Overall performance as of 30 September 2020 is as follows;
- 15,237 matches awaiting initial checks (70%),
  - 57 matches open for further enquiries (<1%),
  - 5,731 closed with no evidence of fraud or error (26%)
  - Six matches referred to DWP for formal investigation (<0.01%)
  - 863 matches have led to the identification of an error (4%)
    - 630 concessionary bus passes cancelled,
    - One person removed from the housing waiting list,
    - HB awards reduced by £213.23 per week (annual saving of £11,087.96),
    - Housing and council tax benefit overpayments of £22,708.41,
    - CTR awards reduced by £172.89 per week (annual increase in liability of £8,990.28),
    - Excess CTR awards creating additional historic liability of £35,377.71,
    - 209 single person discounts removed, creating additional historic liability of £127,393.07 and annual increase in liability of £74,874.34,
    - Care home overpayment of £46,889.31.
- 3.40. This demonstrates an overall success rate of 3.94% in respect of the matches checked and total financial values identified as £327,321.08.
- 3.41. Work to review the matches received ceased on 30 September 2020, to allow resources to be directed to checking the matches received as part of the 2019-20 SPD to the electoral register exercise and preparation for the 2020-21 exercise, which will have fresh data linked to the areas detailed in this report.

- 3.42. While there are a large number of matches that were unchecked, 4,405 relate to Finance where alternative action is taken to identify duplicate payments, 3,221 relate to potentially false SPD cases, where previous exercises have already identified that the quality of the matches is poor due to the time lag between submissions. This accounts for 7,626 of the 15,237 matches that are shown as unchecked.
- 3.43. In addition, the 6,458 matches that relate to SPD's matched to HMRC data, will be used to inform the working being undertaken as part of the 2019-20 exercise. This in effect means that only 1,153 matches have not been checked as part of the work carried out, which can be attributed to the temporary shutdown of the service.
- 3.44. In the coming months, the Cabinet Office will remove access to the data for the 2018-19 exercise as it prepares to release matches for the 2020-21 exercise. Anything that remains open at this time, is subject to ongoing investigations and will be reported to the Committee along with other counter fraud activity in the audit & counter fraud update reports but there will be no further update in respect of the 2018-19 exercise itself.

#### 4. Progress with the 2019-20 Council Tax Exercise

- 4.1 In January 2020, 3,003 matches were received across three reports, the largest of which (2,496) related to those with a single person discount where another individual was identified on the electoral roll.
- 4.2 The temporary shutdown of the service has meant that detailed work in this area could not commence prior to 1 October 2020 as resources were directed to clearing matches from the 2018-19 exercise. However, it was possible to identify matches that had been cleared during previous exercises and consequently 739 matches were rejected as not being suitable for investigation.
- 4.3 Work has now commenced on more detailed checking of the matches received and as mentioned previously in this report, any matches identified for investigation will be cross checked against the matches relating to HMRC data to see if the individuals are linked by more than one data source.

#### 5. Risk management

- 5.1. This report, summarising the NFI activity and outcomes, provides a key source of assurance for the council on the adequacy and effectiveness of its internal control arrangements to identify and tackle fraud and error.

#### 6. Climate change implications

- 6.1. There are no climate change implications in this report.



## 7. Financial implications

7.1. An adequate and effective Audit & Counter Fraud function provides the council with assurance on the proper, economic, efficient and effective use of council resources in delivery of services, as well as helping to identify fraud and error that could have an adverse effect on the financial statements of the council.

7.2. The report gives details of the NFI activity and outcomes to date which are summarised as follows;

• Council Tax additional liability	£162,770.78
• Council Tax future liability	£83,864.62
• Housing & Council Tax Benefit overpayments	£22,708.41
• Reduction in housing benefit awards (annually)	£11,087.96
• Care Home overpayment	£46,889.31
• <b>Total</b>	<b>£327,321.08</b>
• Concessionary Passes - cancellation of 630 permits	

## 8. Legal implications

8.1. The Accounts & Audit Regulations 2015 require local authorities to: undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The Section 151 Officer of a local authority is responsible for establishing the internal audit service.

## 9. Recommendations

9.1. The Committee is recommended to note the report.

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### Appendices

None

### Background papers

There are no background papers to this report.