	AUDIT AND ACCOUNTS COMMITTEE 24 SEPTEMBER 2008	**ITEM 10**
DERBY CITY COUNCIL	Report of the Head of Audit and Risk Management	

NATIONAL FRAUD INITIATIVE 2008/9

RECOMMENDATION

1.1   To note the requirements of the National Fraud Initiative 2008/9.

1.2   To request updates on the progress of the exercise at future meetings.

1.3   To note the progress to date on the internal data matching exercise.

SUPPORTING INFORMATION

National Fraud Initiative

2.1   The Audit Commission is responsible for managing the National Fraud Initiative (NFI) which seeks to combat fraud by comparing and exchanging data. This exercise, which has run every 2 years since 1998, is particularly successful in identifying housing benefit, occupational pension and tenancy rental irregularities. The last exercise, in 2006, led to the detection nationally of £140m in fraud and overpayments. Almost 1,500 organisations participated, including local authorities, police and fire authorities, NHS bodies and various government departments.

2.2   Data matching in the NFI involves comparing sets of data, such as the payroll or benefits records of a body, against other records held by the same or another body. This allows potentially fraudulent claims and payments to be identified. The Audit Commission regard NFI as a vital element in the proper control of public expenditure and the prevention and detection of fraud.

2.3   Under the NFI 2008/9 exercise, data must be extracted on 6 October 2008, and output from the data matching exercise will be directed to participating bodies for action along with guidance for checking the output and a protocol for contacting and responding to other participating bodies. Uploading the data and the subsequent data matches are available via the secure NFI website.

2.4   The risk based data sets from NFI 2006/7 have been re-classified as core data sets for 2008/9 and are therefore now mandatory. The complete list of datasets to be used for this NFI exercise is shown below:

- Payroll
- Pensions payroll
- Trade creditors' payment history and standing data
- Housing
- Housing benefits
- Students eligible for a loan
- Private supported care home residents
- Transport passes and permits (including residents' parking, blue badges and concessionary travel)
- Insurance claimants
- Licences - Market trader/operator, Taxi driver and Personal licences to supply
- alcohol.

2.5   The Housing Benefit data will be provided by Department for Work and Pensions (DWP), while the data for students eligible for a loan will be provided by Student Loan Company (SLC). Data on insurance claimants will be provided by Zurich Municipal.

2.6   Two additional datasets, Council Tax and the Electoral Register will not be required until October 2009.

2.7   The purpose of the creditors matching is not to detect fraud but rather general external audit work on duplicate payments so no data subject notification is required. As such the data will be required using our statutory audit powers. The data is not matched to that of other participating bodies, unlike all the other NFI data, but instead is matched to only itself, your payroll and information from Companies House. The outcomes from creditors matches will only be fed back to the body supplying the data.

2.8   As in prior exercises there is a responsibility on the Council to investigate the matches generated from the exercise. The majority of the investigations from the current exercise will be carried out by Internal Audit and the Benefits Investigation Unit. Where no match is found, the data matching process will have no material impact on those concerned. Where a match is found it indicates that there is an inconsistency that requires further investigation. In the NFI, participating bodies receive a report of matches that they should follow-up, and investigate where appropriate, to detect instances of fraud, over- or under-payments and other errors, to take remedial action and update their records accordingly.

2.9   The value to the Council of the NFI is in its role as a deterrent for fraud, the identification and recovery of costs and as a measure of the various systems to prevent and detect fraud or loss. Our External Auditors look at the output in its consideration of the Council's arrangements to prevent and detect fraud and as an element with the Use of Resources scores. The Audit Commission makes a charge for the NFI to meet the costs of the exercise.

2.10   The new framework for data matching prescribed by the Serious Crime Act 2007 contains a number of safeguards on the use and disclosure of data, in addition to the existing requirements under the Data Protection Act 1998 to process data fairly and lawfully. They include the duty on the Commission to prepare a Code of Data Matching Practice, in consultation with the Information Commissioner.

2.11 Participants in the Commission's data matching exercises should inform individuals that their data will be processed, as required by the Data Protection Act 1998. For data processing to be fair, the first data protection principle requires data controllers to inform individuals whose data is to be processed of:

a. The identity of the data controller;

b. The purpose or purposes for which the data may be processed; and

c. Any further information which is necessary to enable the processing to be fair.

2.12 The provision of this information is known as a fair processing notice. It enables people to know that their data is being used in order to prevent or detect fraud and to take appropriate steps if they consider the use is unjustified, or unlawful in their particular case.

2.13 The Information Commissioner recommends a layered approach to fair processing notices. Usually there are three layers: summary notice, condensed text and full text. Taken together, the three layers comprise the fair processing notice. To meet this recommendation, there should be notices on application forms or bills, with further information on the Council's website, and this should be linked to the detailed notice on the Audit Commission's website. Guidance is provided in the Audit Commission's Code of Data Matching Practice 2008.

2.14 All relevant officers who hold this information have been informed of the requirements as soon as they were available and have been asked to make arrangements for ensuring that there is a fair processing notice and that the data can be extracted as required. The Council's Data Protection Manager has also been involved.

Progress on Internal Data Matching

2.15 The report on the 2008/9 Internal Audit Plan to the meeting on 26 June 2008, outlined that Internal Audit were developing automated data capture, analysis, testing, matching and storage processes for the Council's key systems. It is intended that this will provide assurance that the key financial controls are operating effectively and it will seek to identify irregular data which could potentially identify incidences of fraud or error.

2.16 Internal Audit has created a set of exception tests and cross matches for 6 of our major financial systems that were identified as areas of high risk. This has involved reviewing the underlying database for each system and completing a data mapping exercise to ensure that only the data needed for the matches is extracted. The main driver for this exercise is to support continuous auditing, fraud detection and system assurance work. Internal Audit has drafted detailed procedures that address how they will obtain, use, store, process, disclosure and destroy the data that is matched. The Council's Data Protection Manager and Principal Solicitor have been consulted during the planning phases to help setup the correct procedures and legal framework to help drive improvement within the authority. Fair processing notices will cover the internal data matching exercise.

2.17 Internal Audit is in the process of finalising a data matching policy and strategy which will act as the overall framework. The internal data matching is being targeted

at areas of high risk and is not a phishing exercise. Subject to approval, it is anticipated that the first run of the testing and cross matching will begin in October 2008. Regular updates on the progress and outcomes from this exercise will be reported to the Committee.

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Background papers:	Audit Commission Code of Data Matching Practice 2008
	NFI Handbook 2008/9
List of appendices:	Appendix 1 – Implications

IMPLICATIONS

Financial

1. The charge for Unitary Councils participating in NFI 2008 will be £3650 excluding VAT. The cost for NFI 2006 was £2000. It is anticipated that any additional costs will be kept to a minimum as any extraction software is already in existence following previous NFI exercises.

Legal

2. The Audit Commission has designated the NFI to be part of the statutory external audit and authorities are legally obliged to provide the relevant data, which is required under the Audit Commission Act 1998. The Council will comply with Data Protection principles and advice regarding data matching issued by the Audit Commission. Much of this was done as part of the participation in previous NFI exercises. The steps we take prior to each NFI exercise are to inform staff and their representative bodies that payroll data is to be used

Personnel

3. The pay records of Council employees will be subject to data matching. Trade Unions have been consulted on this initiative and employees advised of the process. As with previous NFI exercises, a notification regarding the process of data matching of payroll information is being attached to the September payslips. Further information is available on the Council's website and the Audit Commission's website. If the volume of extra work generated from the data matching was large enough to affect the ability of staff required to investigate the matches to carry out their normal work, there may be a need to consider consequential staffing proposals as appropriate.

Equalities impact

4. None directly arising.

Corporate objectives and priorities for change

5. None directly arising.