Local Members Interest
N/A

Audit and Standards Committee – Tuesday 01 November 2022

Cabinet Office – National Fraud Initiative 2022 Update

Recommendation

I recommend that:

a. The Audit and Standards Committee receive the report on the requirements of the Cabinet Office's National Fraud Initiative (NFI) 2022.

Report of the County Treasurer / Section 151 Officer

Report

Background

1. The NFI is a data matching exercise conducted by the Cabinet Office under its data matching powers set out in the Local Accountability and Audit Act 2014. The NFI which started in 1996 continues to prove an effective tool for detecting and preventing fraud and error across the UK. The Cabinet Office have not released detailed outcomes from the 2020 NFI exercise, however, at Staffordshire county Council it identified £20,597 of fraud or error. Since its inception in 1996 the NFI has identified over £2billion in fraud and error across public sector bodies.

2. The NFI matches data provided by approximately 1,200 participating organisations from across the public and private sectors against data provided by other participants and key data sets provided by government departments and other national agencies to help prevent and detect fraud.

3. The NFI 2022 exercise will involve the County Council submitting payroll (and pension payroll) and other relevant data to the Cabinet Office on behalf of the County Council. Potential matches are then referred back to authorities for investigation.

4. The remainder of this committee report provides details of Internal Audit's work in relation to the notification and data extraction processes that underpin the latest NFI 2022 exercise.

Notification

5. Participants in the data matching exercise are required to inform individuals that their data will be processed; as required by Part 6 of the Local Audit and Accountability Act 2014, which is referred to as the 'fair processing' notice. For the NFI 2022 exercise, the fair processing notice for employees is 'layered', which comprised of 3 layers of notices as follows:

a. **Summary Notice** – to provide individuals whose data is to be matched, with the minimum of information but with links to where more detailed information can be found. Employees have been notified of our participation in the NFI via "The Knot" email news bulletin and a news story on the Council's intranet homepage. School employees were notified via the "School Bag" in September 2022. Pensioners were notified in the spring "In-Contact Magazine" distributed to all Local Government Pension Scheme (LGPS) members in Spring 2022. Notice for Blue Badge holders and Travel Pass holders is incorporated into the application processes

b. **Condensed Text** - A summary of the Cabinet Office's data matching exercise is located on the County Council's intranet and website (links/references to these are given in the summary notices) as well as in hard copy on request; and

c. **Full Text** – is on the Cabinet Office's website and includes an explanation of the legal basis for the data matching exercise. Condensed text directs readers to the Full Text source.

6. The benefit of applying the layered approach is to provide different audiences with appropriate fair processing information, for example individuals who require more than the summary explanations can access the 'condensed text' notices' or full details as required.

Data Submission

7. The Cabinet Office released guidance / instructions for the NFI 2022 data matching exercise and required submission of the following data from the County Council to perform the NFI exercise:

a. Payroll (which includes members' allowances and expenses).
b. Pension payroll.
c. Trade creditor's payment history and standing data; and
d. Transport passes & permits (Blue Badges).

8. In March 2020, the Cabinet Office identified an update to the NHS Act in 2006 which meant that the Direct Payment and Residential Care Home data sets now fall into the definition of patient data. There are restrictions on the NFI matching of patient data in the Local Audit and

Accountability Act 2014. The Cabinet Office NFI team are currently working with the Department of Health and Social Care to change the legislation to enable this data match going forwards. Whilst it is anticipated that this issue will be resolved to allow the re-inclusion of this data in future years, Direct Payment and Residential Care Home data will not be included in the 2022 exercise.

9. The principal benefit to the Council from these data sets was the identification of deceased persons who are still associated with direct payments/care home fees. To mitigate this loss, in March 2022 an internal data matching exercise was carried out between 'tell us once' deceased person data and direct payment/care home resident records, identifying a total of £124,576 in payments relating to deceased residents. As a result, this exercise will be repeated in 2022/23.

10. Both the payroll and pension data is being collated for the period 1 April to 30 September 2022.

11. The payroll data will be used to identify individuals who may be committing employment fraud by failing to work their contracted hours because they are employed elsewhere or are taking long-term sickness absence from one employer and working at another employer at the same time. Payroll data will also be matched against visitors with UK Visas. The aim of this match is to identify any instances of overseas persons working in this country where the UK visa has expired or does not permit them to be in employment.

12. The pension data will be used to identify instances where an occupational pensioner has died but the pension is still being paid.

13. Transport pass data will be collected as of 30 September 2022 from the County Council's Smartcitizen System. The data will be used to identify instances where the pass/permit holder has died to allow data cleansing and identification of potential misuse.

14. Blue Badge holder data will be submitted directly to the Cabinet Office by the badge issuing supplier, Valtech. The Blue Badge holder data will be matched against DWP records to identify blue badge holders who have died, and to other organisations to identify individuals who hold more than one Blue Badge.

15. Trade Creditors data will be collected from the Council's Financial Information System, My Finance for the three-year period 1 October 2019 to 30 September 2022. The data will be checked to identify instances of duplicate payments being made, duplicate creditor records and VAT overpayments. This data is also checked against payroll data to identify employees who have interests in businesses which may cause a conflict of interest.

16. Following completion of each data extraction, the data files will be uploaded to the Cabinet Office via a secure link by a suggested deadline

of 21 October 2022 (additional time is available in the event of complications to the data collection/submission process).

17. It is envisaged that the output will be returned to the County Council for filtering and examination on 26 January 2023 via the secure NFI software. Detailed enquiries on the matches identified will be undertaken by the County Council's staff. This work will be monitored on an on-going basis and progress reports will be presented to the Audit and Standards Committee at regular intervals.

Equalities Implications

18. There are no direct implications arising from this report.

Legal Implications

19. Participation in the 2022 data matching exercise is mandatory under Part 6 of the Audit and Accountability Act 2014.

Resource and Value for Money Implications

20. The Cabinet Office fee for participating in the exercise is £3,705, excluding VAT (a minor decrease on previous editions). This will be billed in one instalment in February 2023. To encourage organisations to submit data promptly a penalty fee system has been implemented that will result in addition costs for late or incomplete data. If applied to a County Council, this would represent a further cost of £185. We do not anticipate this applying to Staffordshire County Council. Internal Audit has allocated 8 days within the Council's counter fraud work plan 2022/23 for the facilitation of fair processing notices and data uploads prior to the data being submitted as well as commencing the review of potential matches towards the latter part of 2022/23.

Risk Implications

21. This work supports the Council's risk management processes.

Climate Change Implications

22. There are no recognised climate change impacts from the Council's Participation in the NFI.

List of Background Documents/Appendices:

1. Code of data matching practice for the National Fraud Initiative
2. Proposed Work Programme and Scale of Fees, including Covid-19 Counter Fraud Measures
3. Cabinet Office Report – 25 Years of the NFI – August 2021

Contact Details

County Treasurer / S151 Officer: Rob Salmon

Report Author: David Fletcher / Deborah Harris
Job Title: **Internal Audit Manager - Fraud / Chief Internal Auditor**

Telephone No.: 01795 890408 / 01785 276406
E-Mail Address: David.Fletcher@staffordshire.gov.uk / Deborah.Harris@staffordshire.gov.uk