

REPORT TO: Audit and Governance Committee

MEETING DATE: 19 January 2016

BY: Depute Chief Executive – Resources & People Services

SUBJECT: Internal Audit Report – National Fraud Initiative

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the work undertaken on the 2014/15 National Fraud Initiative.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the contents of the report.

3 BACKGROUND

- 3.1 The National Fraud Initiative (NFI) is a data matching exercise, which is led by Audit Scotland and runs every two years. The purpose of the exercise is to match electronic data (e.g. names, addresses, Dates of Birth, National Insurance Numbers), both within and between participating bodies, to detect fraud and overpayments.
- 3.2 East Lothian Council, along with other local authorities and public sector bodies, participates in the NFI data matching exercise. NFI seeks to help participating bodies identify possible cases of fraud and detect and correct any over or under payments. The data for NFI in Scotland is processed by the Cabinet Office on behalf of Audit Scotland.
- 3.3 As part of the 2014/15 NFI exercise, the Council submitted data for the following areas:
- Housing (Current Tenants and Right to Buy)
 - Payroll
 - Private Supported Care Home Residents
 - Transportation (Blue Badges and Residents Parking Permits)
 - Council Tax and Electoral Register
 - Direct Payments
 - Creditors (Standing Data and Payment History)
 - Licences (Street Trader, Taxi Drivers and Personal Alcohol Licences)
- 3.4 In addition, details of insurance claimants were submitted directly by the Council's insurers and Benefits details are submitted by the DWP.

- 3.5 The output of the data matching process (i.e. reports of data matches) is returned to the Council for consideration and investigation. Data matches do not in themselves indicate fraud, but rather identify cases, which may require further investigation.
- 3.6 This report outlines the outcome of the investigations undertaken in respect of NFI matches. The NFI reports identify recommended matches – matches that are most likely to indicate possible fraud or overpayments.
- 3.7 As part of the audit plan, we have reviewed the following reports. The findings from our audit work are outlined below:

Table 1

Report Number	Report Title	Total Matches	Recommended Matches	Investigations Complete
65	Payroll to Payroll	1	0	1
66	Payroll to Payroll	57	1	1
73	Payroll to UK Visas	2	2	2
80	Payroll to Creditors	3	1	3
100	Housing Tenants to Housing Tenants	10	10	7
101	Housing Tenants to Housing Tenants	11	0	-
102	Housing Tenants to Housing Tenants	9	9	4
103	Housing Tenants to Housing Tenants	11	8	-
113	Housing Tenants to Housing Benefit Claimants	12	9	5
151	Right to Buy to Housing Tenants	1	0	1
173	Private Residential Care Homes to DWP Deceased	32	3	32
180	Insurance Claimants to Insurance Claimants	11	2	8
701	Duplicate creditors by creditor name	72	0	-
702	Duplicate creditors by address detail	126	0	-
703	Duplicate creditors by bank account number	60	0	-
708	Duplicate records by amount and creditor reference	1,415	114	86
709	VAT overpaid	13	2	13
710	Duplicate records by name, invoice number and amount but different creditor reference	1	0	1
711	Duplicate records by invoice number and amount but different creditor reference and name	35	6	25
712	Duplicate records by postcode, invoice date and amount but different creditor reference and invoice number.	5	0	5
713	Duplicate records by postcode, invoice amount but different creditor reference and invoice number and date	10	0	10
Totals		1,897	167	204

Payroll to Payroll – Report 65

- 3.8 Report 65 identified one match of an employee who appeared on the Council's payroll twice. Although this was not a recommended match, we reviewed this case and found that the employee had not been paid twice – the employee's first position ended prior to the commencement of the second post.

Payroll to Payroll – Report 66

- 3.9 Report 66 identifies individuals who are employed by the Council and by another organisation and seeks to identify individuals who may be committing employment fraud by failing to work their contracted hours because they are employed elsewhere. We reviewed the one recommended match and a satisfactory explanation was received.

Payroll to UK Visas – Report 73

- 3.10 This report matches employees against visas to identify any cases where there was no entitlement to reside or work in the UK.
- 3.11 We examined both cases and found that in one case the employee was a citizen of another European country and in the other case the employee held a UK passport. In both cases we found that that appropriate checks had been carried out by the Council prior to the commencement of employment and that evidence was held of the employee's entitlement to work in the UK.

Payroll to Creditors – Report 80

- 3.12 This report identifies instances where a Council employee and creditor are linked by the same bank account. The purpose of the report is to identify undeclared interests, possible procurement corruption or creditor accounts being set up to receive unauthorised payments.
- 3.13 We reviewed the three matches and found that adequate explanations were available – in two cases employees had provided services on a self-employed basis prior to being employed by the Council and in the other case the service had been provided by a family member. However in this case we found that although the invoice had been paid, it had not been properly authorised – this has been highlighted to Management.

Housing Tenants to Housing Tenants – Reports 100 to 103

- 3.14 We examined four reports in this category – the reports identify individuals who appear to be resident at two different addresses suggesting possible cases of subletting or dual tenancies.
- 3.15 Of the 27 recommended matches, we found that satisfactory explanations were obtained in 11 cases and the remaining cases are currently being reviewed.

Housing Tenants to Housing Benefit Claimants – Report 113

- 3.16 We examined the nine recommended matches and found that no further investigation was required in two cases where the National Insurance Number did not match, indicating that the matches were from different claimants. Of the remaining seven cases, we found that in three cases no National Insurance Number was available and progress is being made in respect of the other four matches.

Right to Buy to Housing Tenants – Report 151

- 3.17 This report sought to identify cases where a person appeared to have disposed of a right to buy property as they were now claiming housing benefit or were living at a different address.
- 3.18 We examined the one match in this report and found that it related to two separate individuals.

Private Residential Care Homes to DWP Deceased – Report 173

- 3.19 This report matched payments made by the Council to private residential care homes with DWP deceased records. The report sought to highlight cases where a resident had died, but the Council may have continued to make payments to the care home.
- 3.20 All 32 matches identified in this report were reviewed as part of our audit on Frameworki – Payments on Schedule. In 30 cases we found that no overpayment to the provider had occurred as the appropriate adjustment had been made in a subsequent payment run. In two cases there had been a failure by the provider to inform the Council that the resident had died. In both cases the overpayments have been recovered by the Council from the provider.

Insurance Claimants to Insurance Claimants – Report 180

- 3.21 We examined 8 matches in this category – the reports identify claimants who appear to be making multiple claims.
- 3.22 We found that in two cases an individual submitted two separate claims for separate incidents, but in both cases no payments had been made by the Council for either claim. In one case, two members of the same family submitted claims for similar incidents, however payment was only made on the first claim. In five cases, only one claim was submitted although the claim classification was changed by the Council's Insurance Section, which led to the claimants name appearing twice.

Duplicate records by amount and creditor reference – Report 708

- 3.23 This report highlights possible duplicate payments that may have arisen as a result of poor controls or fraudulent activity by suppliers and/or staff.
- 3.24 A total of 1,415 matches were identified of which 114 were recommended matches. We have completed a review of 86 matches and in each case no duplicate payments had occurred. We are currently in the process of reviewing the remaining 28 recommended matches.

Duplicate records by name, invoice number and amount but different creditor reference – Report 710

- 3.25 This report highlighted possible duplicate payments for the same goods/services but to creditors with different creditor reference numbers.
- 3.26 This report highlighted one match where a duplicate payment had been made to a supplier. The duplicate payment had been identified internally and a refund was received from the supplier. However we note that the duplicate payment arose in part due to the supplier having two separate Creditor accounts – a second creditor account had been set up to process one of the payments, even

though the supplier already had an existing Creditor account. This has been highlighted to Management.

Duplicate records by invoice number and amount but different creditor reference and name – Report 711

- 3.27 This report highlighted possible duplicate payments for the same goods/services but to creditors with different creditor reference numbers and names.
- 3.28 The report highlighted 35 matches of which six were recommended matches. We reviewed all 35 matches. In one case we found that the match related to totally separate invoices, while in eight cases we found that the same amount of grant had been paid to two separate organisations and the payments were not duplicate payments. For the remaining 26 cases, we found that:
- in seven cases, invoices had been posted to the wrong creditor account, however the error was identified prior to payments being made and no duplicate payments were made;
 - in nine cases, the invoices had been posted to the wrong creditor account and payments had been made to the wrong creditor. However refunds had been received and payments were made to the correct creditor;
 - In ten cases, the invoices had been posted to the wrong account and payments had been made to the wrong creditor. Payments were subsequently made to the correct creditor, however there was a lack of evidence of refunds being received for the payments made in error. These cases are currently being followed up by Internal Audit.

Duplicate records by postcode, invoice date and amount but different creditor reference and invoice number – Report 712

- 3.29 This report highlights possible duplicate payments for the same goods/services but to creditors with different reference numbers, which may have arisen as a result of poor controls or fraudulent activity by suppliers and/or staff.
- 3.30 Five matches were reviewed as part of this report. In two cases we found that the matches related to annual contributions being made to the same organisation by two separate areas of the Council (Sheltered Housing and Homelessness). Although no duplicate payments had been made, we found that the organisation had two separate Creditor accounts. Two other matches related to another organisation with two separate Creditor accounts – in one of the cases the NFI exercise highlighted that an invoice for £1,449 had been paid twice, once through each of the Creditor accounts. This duplicate payment is currently being pursued. In the final case the payment was a duplicate and a refund was subsequently received.

Duplicate records by postcode, invoice amount but different creditor reference and invoice number and date – Report 713

- 3.31 This report highlights possible duplicate payments for the same goods/services but to creditors with different reference numbers, which may have arisen as a result of poor controls or fraudulent activity by suppliers and/or staff.
- 3.32 We investigated all ten matches in this report and found that in nine cases the payments made were not duplicate payments (although in two cases the organisations had two separate Creditor accounts). In the final case we found

that a duplicate payment of £1,976 had been made. This duplicate payment arose in part due to the organisation having two separate Creditor accounts – this duplicate payment has now been recovered.

VAT overpaid – Report 709

- 3.33 This report identifies instances where VAT may have been overpaid. This is based on the information provided within the NFI invoice history data submission and the output includes the level and scale of overpaid VAT.
- 3.34 We reviewed all 13 matches in this category, although only two matches were recommended. In four cases there was no overpayment, in one case the overpayment identified had been picked up by the previous NFI exercise and in seven cases VAT had been incorrectly accounted for resulting in VAT being overclaimed. In the final case VAT had been incorrectly entered resulting in both VAT being overclaimed and the supplier being overpaid – this case has been referred to the service area for the recovery of the overpayment.

Blue Badge Parking Permit /Resident Parking Permit

- 3.35 The following reports relate to Blue Badge Parking Permits and Resident Parking Permits and have been matched to DWP deceased records – the reports identify cases where the permit holder has died, but the Council may not have been notified and duplicate records held within the Council’s system.

Table 2

Report Number	Report Title	Total Matches	Recommended Matches	Investigations Complete
170	Blue Badge Parking Permit to Blue Badge Parking Permit	7	5	7
172.1	Blue Badge Parking Permit to DWP Deceased	172	152	172
172.8	Blue Badge Parking Permit to Blue Badge Parking Permit – Phone Number	19	19	19
172.3	Resident Parking Permit to DWP Deceased	3	0	3
Totals		201	176	201

- 3.36 The above reports were investigated by the Council’s Transportation Section and we are informed that appropriate action was taken by the service area to update their systems.

Council Tax and Electoral Register

- 3.37 Council Tax and Electoral Register matches form part of flexible matching and were released at an earlier date – these matches are reviewed directly by the Council’s Revenues Section. A summary of the work undertaken by the Revenues Section is outlined below.
- 3.38 The report identified 2,265 matches and the following action has been taken:
 - All accounts were checked including notes recorded on both the Council Tax and benefits systems.
 - Checks were undertaken on previous occupiers to eliminate those who have recently changed address.

- Letters were issued to relevant individuals – where no response was received the Single Person Discount was removed and a revised bill issued.
- In some cases Single Person Discount was withdrawn and a new bill issued based on the information gathered from the benefits system.
- Cases were recorded on the NFI system as fraud and new bills were issued. The NFI system was updated to record the amounts claimed.

3.39 The current status of the work undertaken is as follows:

- Of the 2,265 cases, eight have outstanding queries.
- 192 cases have been recorded as frauds.
- 19 cases were recorded as error, this is where the person had met the disregarded status (students or other) and an application has been received for that status.
- Revised bills amounting to £25,019 were issued to persons who had received a Single Person Discount award incorrectly.

Housing Benefits

3.40 We note that a new single Fraud Investigation Service has been set up to investigate frauds across the whole of the welfare system. The responsibility for investigating these matches now lies with the Department of Works and Pension (DWP).

3.41 We have undertaken a preliminary review of housing benefit matches and details of these will be provided to the DWP. In addition, consideration is currently being given to the possibility of systems access being provided to the former East Lothian Council fraud team who transferred to the DWP as part of the new arrangements.

4 POLICY IMPLICATIONS

4.1 None

5 EQUALITIES IMPACT ASSESSMENT

5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

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