
Report To:	Audit Committee	Date:	20.10.2020
Report By:	Corporate Director Environment Regeneration and Resources	Report No:	AC/10/20/SA/APr
Contact Officer:	Andi Priestman	Contact No:	01475 712251
Subject:	AUDIT SCOTLAND NATIONAL REPORT: NATIONAL FRAUD INITIATIVE 2018/19		

1.0 PURPOSE

- 1.1 The purpose of this report is to inform Members of the Audit Scotland Report “National Fraud Initiative 2018/19” published in July 2020 and to provide an overview of the key messages and recommendations raised in the report and how these issues are being addressed by the Council. Appendix 1

2.0 SUMMARY

- 2.1 The National Fraud Initiative (NFI) is now well established with the 2018/2019 exercise being the 7th biennial exercise since 2006. The NFI enables public bodies to take advantage of computer data matching techniques to detect fraud and error.
- 2.2 The NFI works by using data matching to compare a range of information held on bodies’ systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called ‘matches’. A match does not automatically mean that there is a fraud or error and investigations are required to enable the correct conclusion to be drawn for each match. Bodies investigate these and record on a secure web application appropriate outcomes based on their investigations.
- 2.3 In terms of key messages, the report identified the following:
- The Covid-19 pandemic has brought significant challenges across the public sector as bodies seek to deliver services for individuals, communities and businesses in an extremely difficult time. Since the start of the pandemic, the risk of fraud and error has increased as organisations become stretched and controls and governance are changing.
 - Since the last report in July 2018, outcomes valued at £15.3m have been recorded. The cumulative outcomes from the NFI in Scotland since the first exercise in 2006/07 are now £143.6m. Across the UK, the cumulative total of NFI outcomes are now £1.93bn.
 - NFI outcomes in Scotland have fallen by £2.4m in the 2018/19 exercise, despite an increase in participating bodies. Reduced levels of outcomes could be due to less fraud and error in the system, strong internal controls or less effective detection of fraud and error.
 - Most organisations demonstrate a strong commitment to counter-fraud and the NFI. Some could act more promptly and ensure that sufficient staff are in place to investigate matches, prevent frauds and correct errors.

2.4 Since the last exercise in 2016/17, the areas with significant changes are as follows:

- Council Tax Discounts – £4.9m, which is an increase of £0.5m
- Pensions – £3.2m, which is a reduction of £2.2m
- Housing Benefit - £2.8m, which is an increase of £0.7m
- Blue badges – £1.8m, which is a reduction of £0.7m
- Housing Waiting Lists - £0.7m which is an increase of £0.5m
- Creditors - £0.6m, which is a reduction of £0.5m
- Residential Care homes - £0.4m, which is a reduction of £0.5m
- Council Tax Reduction Scheme - £0.3m, which is a reduction of £0.2m

2.5 From a local perspective, outcomes valued at £36,545 have been recorded for the 2018/2019 exercise:

Area	No of Cases	Fraud	Error	Financial Outcome
HB Claimants	12	11	1	£18,283
Council Tax Reduction Scheme	16	10	6	£16,706
Payroll	3	0	3	£1,556
Blue Badges	117	0	117	-

2.6 The report recommends that:

- All participants should be aware of emerging fraud risks, e.g. due to Covid-19, and take appropriate preventative and detective action.
- All participants in the NFI exercise should ensure that they maximise the benefits of their participation. They should consider whether it is possible to work more efficiently on the NFI matches by reviewing the guidance section within the NFI secure web application.
- Audit committees, or equivalent, and staff leading the NFI should review the NFI self-appraisal checklist. This will ensure they are fully informed of their organisation's planning and progress in the 2020/21 NFI exercise.
- Where local auditors have identified specific areas for improvement, participants should act on these as soon as possible.

2.7 In response to the recommendations, a copy of the completed self-appraisal checklist is attached at Appendix 2. This highlights the good progress the Council has made in undertaking counter-fraud activities. Appendix 2

2.8 In relation to council tax single person discount (SPD) matches, the Council has participated in a recheck exercise through the NFI. To date, this has resulted in overpayments of £30,615 which are in the process of being recovered.

3.0 RECOMMENDATIONS

3.1 It is recommended that the Audit Committee notes the contents of this report and agrees that a further update report is submitted to the February 2021 Audit Committee outlining the Council's progress with the 2020-2021 exercise.

Scott Allan
Corporate Director Environment Regeneration and Resources

4.0 BACKGROUND

4.1 The NFI in Scotland is now well established with this being the 7th biennial exercise since 2006/07. The NFI enables public bodies to take advantage of computer data matching techniques to detect fraud and error. The NFI remains the largest national fraud detection and prevention scheme that can provide data matches within and between public bodies. Its key features are that it:

- acts as a deterrent to potential fraudsters.
- identifies errors and fraud thus enabling appropriate action to recover money and/or press criminal charges.
- can provide assurances, similar to a regular health check, that systems are operating well and can also identify where improvements are required.
- operates across boundaries between public bodies in different sectors and countries.
- represents value for money in terms of the efficiencies deliverable through centralised data processing and identifying targeted high priority matches.

4.2 The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. A match does not automatically mean that there is a fraud or error and investigations are required to enable the correct conclusion to be drawn for each match. Bodies investigate these and record on a secure web application appropriate outcomes based on their investigations.

4.3 Public bodies spend billions of pounds of taxpayers' money for the benefit of the Scottish population, providing services and financial assistance to all citizens including those that need them the most. Systems underpinning public spending can be complex and errors can happen. Unfortunately, there are also some individuals who seek to exploit the systems and fraudulently obtain services and benefits to which they are not entitled.

4.4 Data sharing enables bodies to match data internally and externally. Technology provides an efficient way to connect discrete data sets and can therefore limit the gaps available for fraudsters to manipulate and can help identify those that have. It also supports bodies to identify and implement process and control improvements that should reduce future errors and the costs of correcting these errors.

4.5 Audit Scotland, working closely with public bodies, external auditors and the Cabinet Office, has completed another major data sharing and matching exercise. The National Fraud Initiative (NFI) exercises make a significant contribution to the security and transparency of public sector finances by confirming that services are provided to the correct people and by reducing fraud and error.

5.0 CURRENT STATUS

5.1 In terms of key messages, the report identified the following:

- The Covid-19 pandemic has brought significant challenges across the public sector as bodies seek to deliver services for individuals, communities and businesses in an extremely difficult time. Since the start of the pandemic, the risk of fraud and error has increased as organisations become stretched and controls and governance are changing.
- Since the last report in July 2018, outcomes valued at £15.3m have been recorded. The cumulative outcomes from the NFI in Scotland since the first exercise in 2006/07 are now £143.6m. Across the UK, the cumulative total of NFI outcomes are now £1.93bn.
- NFI outcomes in Scotland have fallen by £2.4m in the 2018/19 exercise, despite an increase in participating bodies. Reduced levels of outcomes could be due to less fraud and error in the system, strong internal controls or less effective detection of fraud and error.

5.0 CURRENT STATUS (CONTINUED)

- Most organisations demonstrate a strong commitment to counter-fraud and the NFI. Some could act more promptly and ensure that sufficient staff are in place to investigate matches, prevent frauds and correct errors.

5.2 Since the last exercise in 2016/17, the areas with significant changes are as follows:

- Council Tax Discounts – £4.9m, which is an increase of £0.5m
- Pensions – £3.2m, which is a reduction of £2.2m
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- All participants should be aware of emerging fraud risks, e.g. due to Covid-19, and take appropriate preventative and detective action.
- All participants in the NFI exercise should ensure that they maximise the benefits of their participation. They should consider whether it is possible to work more efficiently on the NFI matches by reviewing the guidance section within the NFI secure web application.
- Audit committees, or equivalent, and staff leading the NFI should review the NFI self-appraisal checklist. This will ensure they are fully informed of their organisation's planning and progress in the 2020/21 NFI exercise.
- Where local auditors have identified specific areas for improvement, participants should act on these as soon as possible.

5.5 In response to the recommendations, a copy of the completed self-appraisal checklist is attached at Appendix 2. This highlights the good progress the Council has made in undertaking counter-fraud activities. Appendix 2

5.6 In relation to council tax single person discount (SPD) matches, the Council has participated in a recheck exercise through the NFI. To date, this has resulted in overpayments of £30,615 which are in the process of being recovered.

6.0 IMPLICATIONS

6.1 Finance

There are no direct financial implications arising from this report.

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
N/A					

Annually Recurring Costs/(Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (if Applicable)	Other Comments
					Housing Benefits/Council Tax reduction stopped or reduced – total overpayments being recovered at 5.3.

6.2 Legal

There are no direct legal implications arising from this report.

6.3 Human Resources

There are no direct HR implications arising from this report.

6.4 Equalities

There are no direct equalities implications arising from this report.

6.5 Repopulation

There are no direct repopulation implications arising from this report.

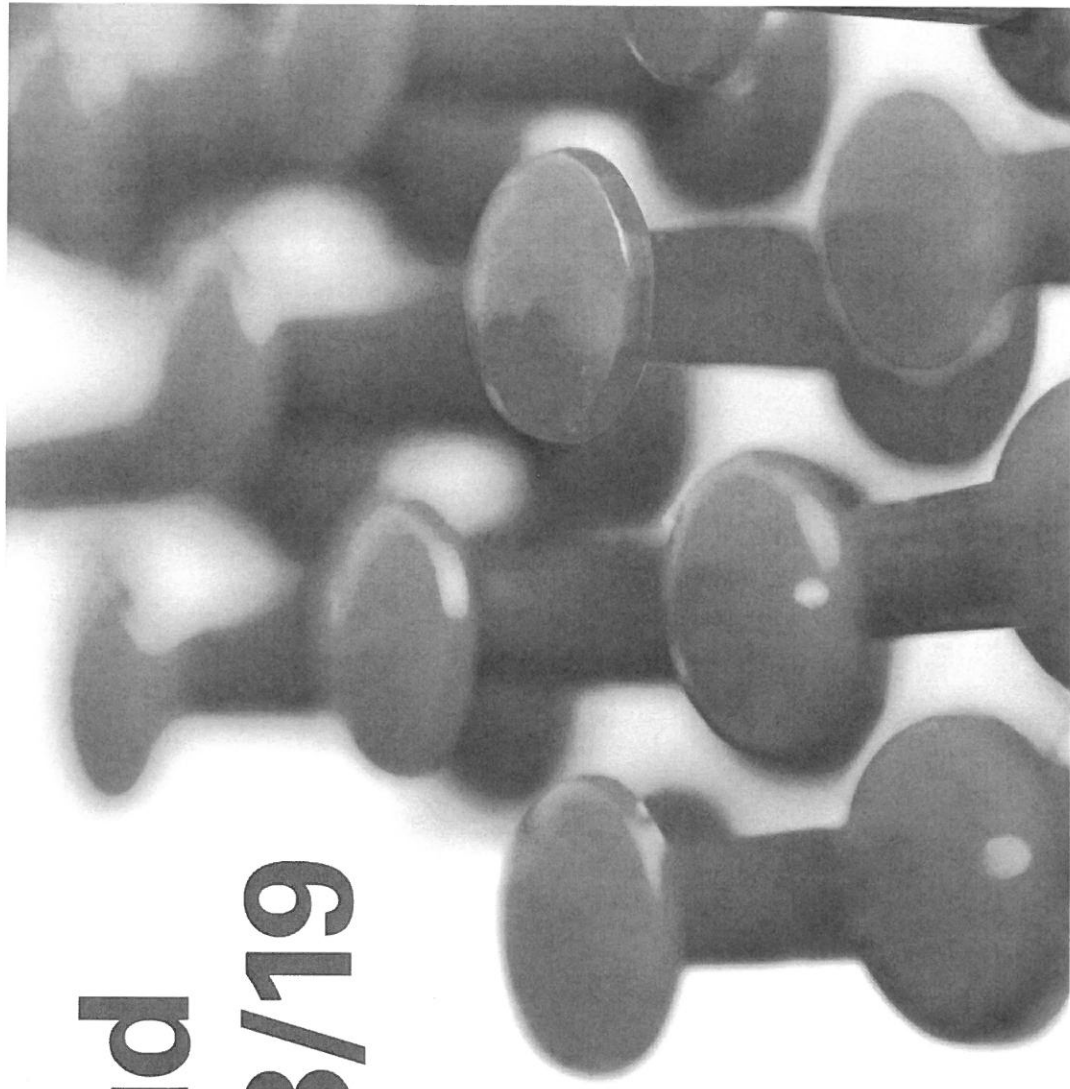
7.0 CONSULTATIONS

7.1 Relevant Officers were asked to provide updates to the report as appropriate.

8.0 LIST OF BACKGROUND PAPERS

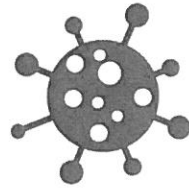
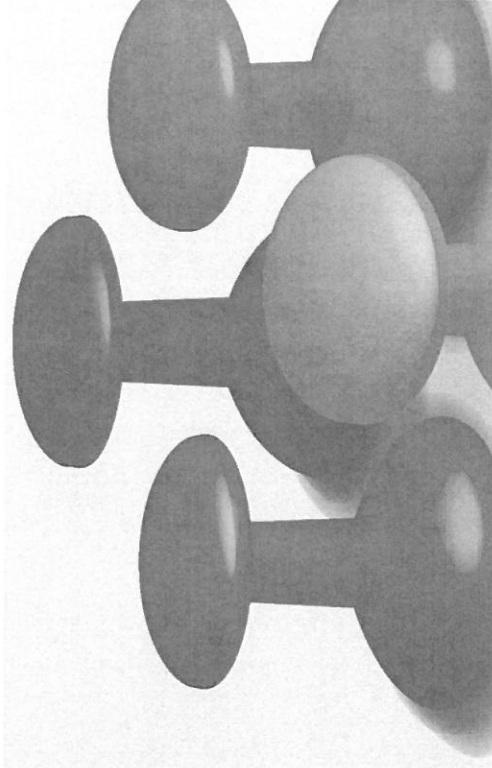
8.1 Audit Scotland National Report: National Fraud Initiative 2018/19 – July 2020

National Fraud Initiative 2018/19



Prepared by Audit Scotland
July 2020

Covid-19 raises risk of public-sector fraud



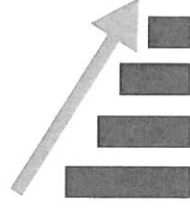
1. Covid-19

The Covid-19 pandemic has brought significant challenges across the public sector as bodies seek to deliver services for individuals, communities and businesses in an extremely difficult time. Since the start of the pandemic, the risk of fraud and error has increased as organisations become stretched and controls and governance are changing.



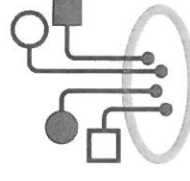
2. Outcomes

Since we last reported on the National Fraud Initiative (NFI) in Scotland in June 2018, outcomes valued at £15.3 million have been recorded. The cumulative outcomes from the NFI in Scotland since the first exercise 2006/07 are now £143.6 million. Across the UK, the cumulative total of NFI outcomes are now £1.93 billion.



3. Results

NFI outcomes in Scotland have fallen by £2.4 million to £15.3 million in the 2018/19 exercise, despite an increase in participating bodies. Reduced levels of outcomes could be due to less fraud and error in the system, strong internal controls or less effective detection of fraud and error.



4. Process

Most organisations demonstrate a strong commitment to counter-fraud and the NFI. Some could act more promptly and ensure that sufficient staff are in place to investigate matches, prevent frauds and correct errors.

Recommendations

1. Covid-19 risks

All participants should be aware of emerging fraud risks, eg due to Covid-19, and take appropriate preventative and detective action.

2. Maximise the benefits

All participants in the NFI exercise should ensure that they maximise the benefits of their participation.

They should consider whether it is possible to work more efficiently on the NFI matches by reviewing the guidance section within the NFI secure web application.

3. Self-appraisal checklist

Audit committees, or equivalent, and staff leading the NFI should review the [NFI self-appraisal checklist](#) .

This will ensure they are fully informed of their organisation's planning and progress in the 2020/21 NFI exercise.



4. Take action

Where local auditors have identified specific areas for improvement, participants should act on these as soon as possible.

1. Fraud risks associated with Covid-19

The Covid-19 pandemic has brought significant challenges across the public sector as bodies seek to continue to deliver services for individuals, communities and businesses in an extremely difficult time. This includes additional fraud risks that will be important for public bodies to identify and manage.

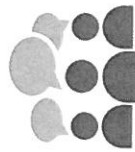
Good governance and sound controls are essential in such crisis situations. The risks include, but are not limited to:



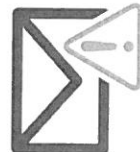
public-sector staff working remotely



an increase in cyber-crime as more public-sector staff connect remotely



public-sector staff working under extreme pressure



an increase in phishing emails and scams trying to get staff working under pressure to click on links which allow fraudsters access to public-sector systems



government stimulus packages to support individuals and businesses being provided quickly with a lower level of scrutiny and due diligence than has previously been in place for similar schemes.

2. National Fraud Initiative outcomes


The NFI is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The NFI uses data sharing and matching to help confirm that services and payments are provided to the correct people. An NFI outcome describes the overall amounts for fraud, overpayments and error that are detected by the NFI exercise and an estimate of future losses that it prevents.

NFI outcomes

18/19
£15.3 million
 NFI outcomes in Scotland
 from the 2018/19 exercise

These are split between outcomes for the 2018/19 exercise (£13.5 million) and late outcomes from the 2016/17 exercise (£1.8 million)

Since 06/07
£143.6 million
 NFI outcomes cumulatively in Scotland since 2006/07


UK NFI outcomes
£244.7 million
 from the 2018/19 exercise
£1.93 billion
 cumulatively since 2006/07

The background of the NFI is contained in [Appendix 1](#).

Trends in outcomes between 2016/17 and 2018/19 exercises



Outcomes in Scotland have fallen by £2.4 million to £15.3 million



Number of matches generated has fallen by 76,562 to 580,393



Number of participating bodies has increased by 11 to 124

The decrease in outcomes is partly down to immigration data not being included in the 2018/19 exercise due to restrictions placed on it by the Home Office following the recent review into the treatment of the Windrush generation. Following the review, the Home Office decided to temporarily suspend sharing immigration data until it had considered the findings of the review and reflected those findings in its policies and procedures. Reduced levels of outcomes and matches could be due to less fraud and error in the system, strong internal controls or less effective detection of fraud and error.

Having fewer matches provides some assurance there do not appear to be significant problems in the areas covered by the exercise. However, participants still benefit from the deterrent effect the NFI creates.

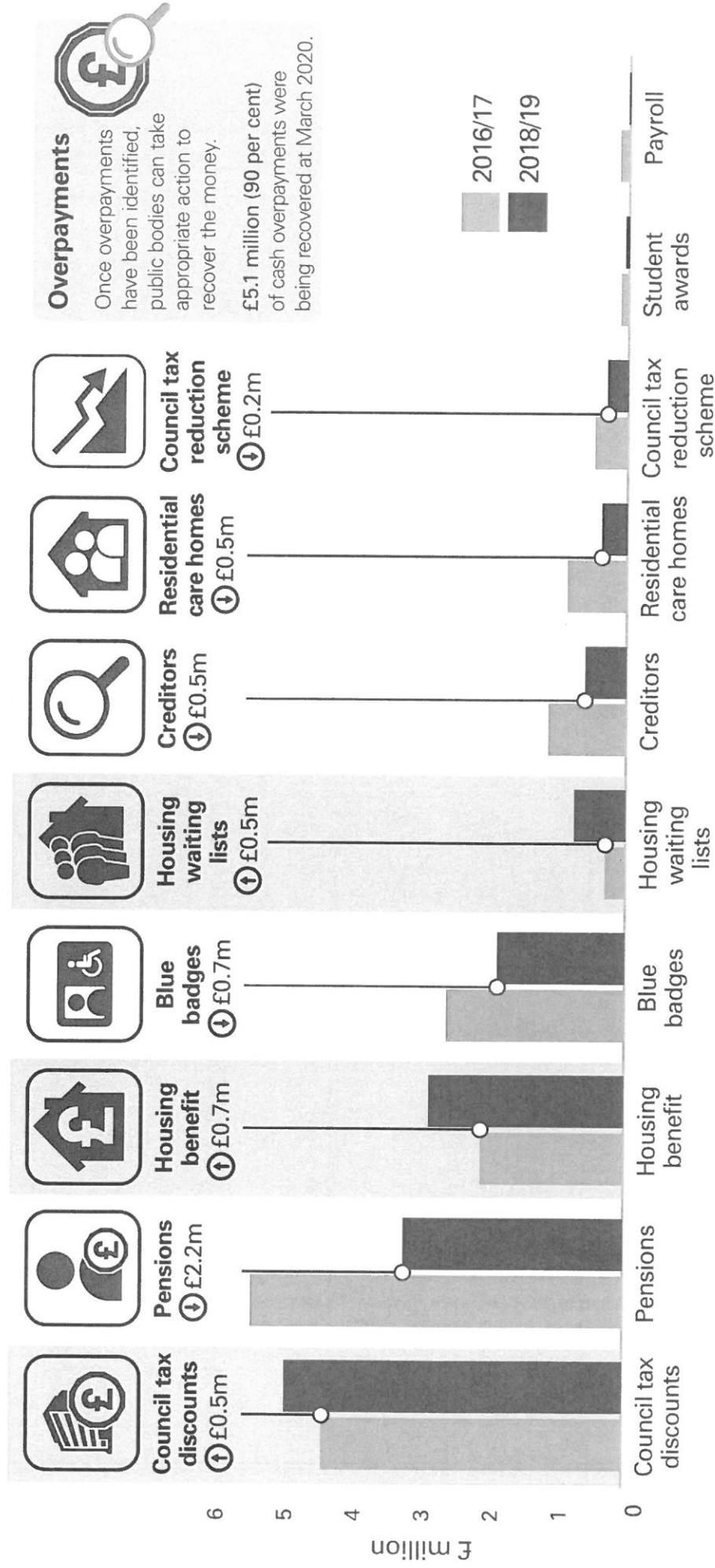
Although the main purpose of the NFI is to ensure funds and services are provided to the correct people, the review of NFI matches may also identify that a customer is entitled to additional services or payments.

Details of the Scottish NFI participants are on our [FraudHub](#)

3. Results

How the latest outcomes compare to the last exercise

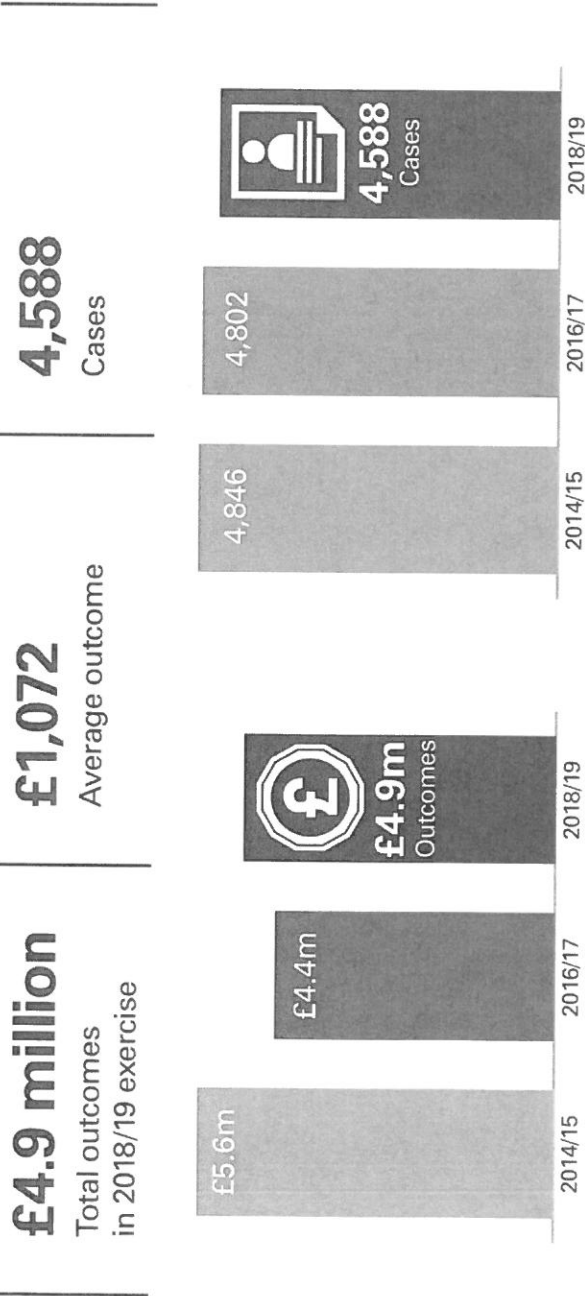
The areas with significant changes are:





Council tax discounts

People living on their own, or with no countable adults in the household, are eligible for a 25 per cent single person discount (SPD) on their annual council tax bill.



The 2018/19 NFI exercise found that the total council tax discount incorrectly awarded across Scottish councils totalled £4.9 million. This is an average outcome of £1,072 for each case compared with £916 per case in the 2016/17 NFI.

Five councils used alternative data matching or verification for SPD data matching during 2018/19.

Council tax data is matched to:



Electoral register



Case study

East Dunbartonshire Council



An NFI match between a council tax reduction claimant and a pension recipient identified that a second undeclared adult was residing with the council tax reduction claimant.

Investigations identified that the pension recipient had been staying in, and jointly owned, the property since 1983. The pension recipient moved out of the property in 2013 and later returned in 2018.

As a result a council tax reduction overpayment of £2,200 plus a council tax SPD outcome of £9,800 were identified.



Pensions

For the Scottish Public Pensions Agency (SPPA) and councils that administer pensions, the NFI is an efficient and effective way of checking that they are only paying pensions to people who are alive.

£3.2 million

Total outcomes in 2018/19 exercise

£2.2 million

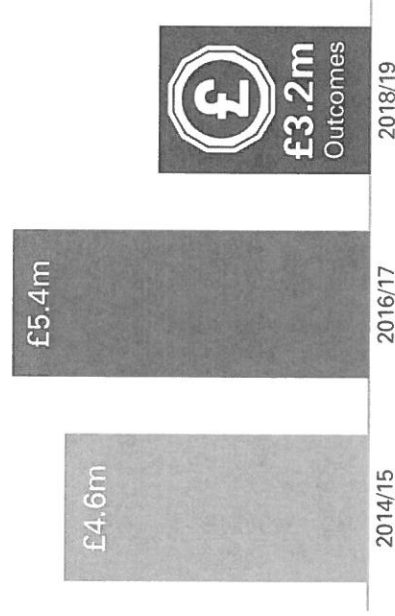
Reduction on the 2016/17 NFI exercise

£32,600

Average outcome for each case

Pension outcomes have fallen due to the 'tell us once' reporting process having become more embedded over the last two years, and SPPA carrying out 6-monthly mortality screening.

Pension outcomes across the UK have fallen by 59 per cent from £143.7 million in 2016/17, to £59.1 million in 2018/19.



Note: Due to a formula error in the NFI computer system, pension outcomes in the 2016/17 exercise were overstated by £0.9 million. The figure has been adjusted accordingly.

Pension data is matched to:



Deceased person



Payroll



Housing benefits



Injury benefits



Amberhill data

Amberhill is a system used by the Metropolitan Police to authenticate documents presented for identity.

Case study

Dundee City Council

An NFI match indicated that a pensioner had died. Investigations revealed that the pensioner had been living in Canada and had died in 2016.

A pension of just under £22,000 had been paid since the date of death. It was also established that the pensioner's widow has also since died. The overpaid pension has been partially offset against the widow's pension.

Tell us once

'Tell us once' is a service that lets you report a death to most government organisations when registering the death.



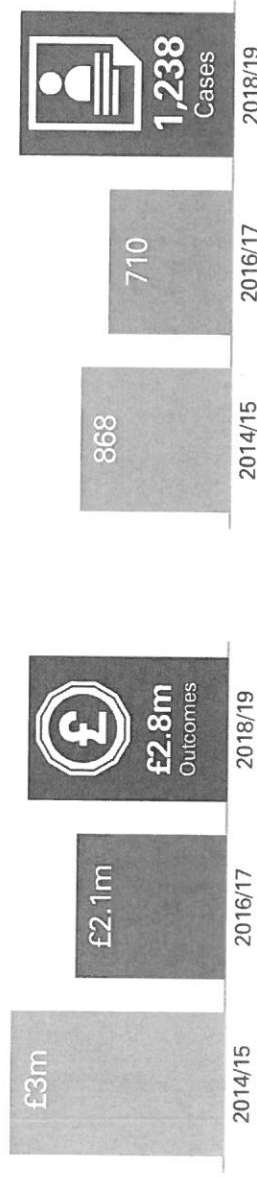
Housing benefit

The NFI provides councils and the Department for Work and Pensions (DWP) with the opportunity to identify a wide range of benefit frauds and errors. Housing benefit helps people on low incomes pay their rent.

£2.8 million
Total outcomes
in 2018/19 exercise

£2,292
Average individual
value of overpayments

1,238
Cases

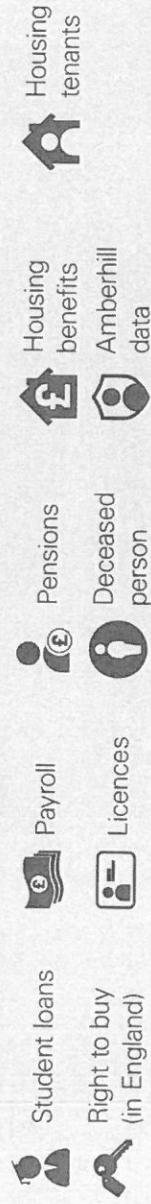


The value and number of housing benefit cases recorded with overpayments has risen from £2.1 million from 710 cases in the 2016/17 NFI, to £2.8 million from 1,238 cases in the 2018/19 NFI.

Although the number of benefit cases has risen, along with an increase in outcomes, the average individual value of overpayments has fallen from £2,923 in the 2016/17 NFI exercise to £2,292 in 2018/19.

One possible reason for the decline in the average value of individual overpayments of the 2018/19 outcomes is that the DWP and councils are now using real-time information (RTI) payroll and pension information, to help ensure any overpayments are picked up more quickly.

Housing benefit data is matched to:



Case study

Renfrewshire Council

An NFI match resulted in a joint investigation by the council and the Department for Work and Pensions. This investigation identified that a benefit claimant had failed to declare their occupational pension since 2013, their earnings while working as a 'bank staff' employee and all of their bank accounts.

The undeclared occupational pension and earnings resulted in a housing benefit overpayment of £6,682.35 and a council tax reduction adjustment of £1,633.91.

The council has reported the matter to the Procurator Fiscal, for consideration of proceedings.



Blue badges

The blue badge parking scheme allows people with mobility problems to park for free at on-street parking meters, in 'pay and display' bays, in designated blue badge spaces, and on single or double yellow lines in certain circumstances.

£1.8 million

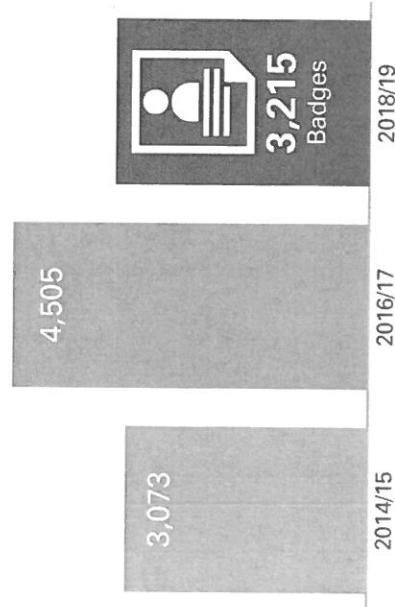
Total outcomes in 2018/19 exercise

3,215

Total number of blue badge outcomes in 2018/19 exercise

1,290

Decrease from NFI 2016/17 exercise



The 2018/19 NFI exercise identified 3,215 blue badge outcomes, which is a decrease of 1,290 (40 per cent) since the last exercise.

Badges are sometimes used or renewed improperly by people after the badge holder has died. It is an offence for an unauthorised person to use a blue badge.

Blue badge data is matched to:



Deceased person



Amberhill data



Housing waiting lists

The aim of the NFI using housing waiting list data is to identify possible cases of waiting list fraud. This happens when an individual has registered on the waiting list but there are possible undisclosed changes in circumstances or false information has been provided. This was a new data set for the 2016/17 NFI exercise. Social housing provides affordable accommodation, allocated according to need. It usually provides a more secure, long-term tenancy when compared to private renting.

£0.7 million

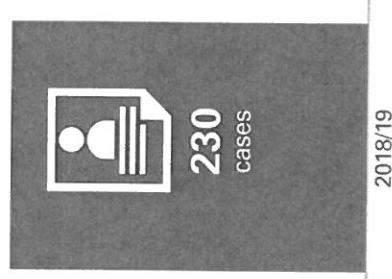
Total outcomes in 2018/19 exercise

230

Cases

Councils identified 230 cases where applicants were removed from waiting lists. Stirling Council identified 185 (80 per cent) of these cases.

The estimated value of these cases is £0.7 million. This is based on a calculation of the annual estimated cost of housing a family in temporary accommodation and the likelihood a waiting list applicant would be provided a property.



Housing waiting list data is matched to:



Waiting list



Housing benefit



Housing tenants



Right to buy
(in England)



Deceased persons



Amberhill data



Creditors

The NFI provides an efficient way to check for duplicate payments and that payments are only made to appropriate creditors. A creditor is a person or an organisation that a public body pays money to for a good or service.

£0.6 million

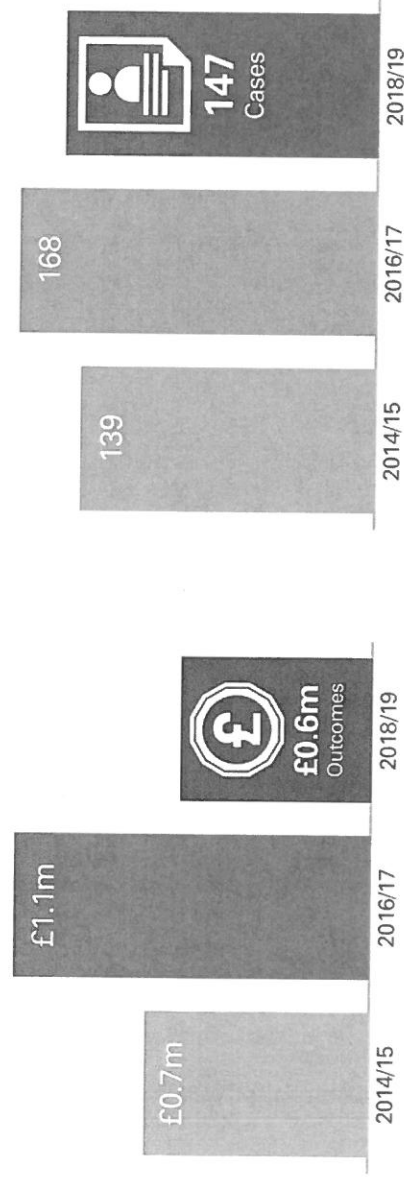
Total outcomes
in 2018/19 exercise

100%

Recovery action
is taking place

147

Cases



The 2018/19 NFI exercise has resulted in 147 creditor outcomes of £0.6 million compared to 168 outcomes worth £1.1 million in 2016/17. Recovery action is taking place for 100% of these overpayments.

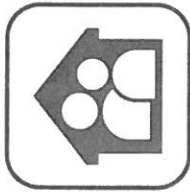
Creditor data is matched to:



Creditor data



Payroll



Payments to residential care homes

The NFI identifies cases where a care home resident has died, but the council may not have been notified and so continue to make payments.

£0.4 million

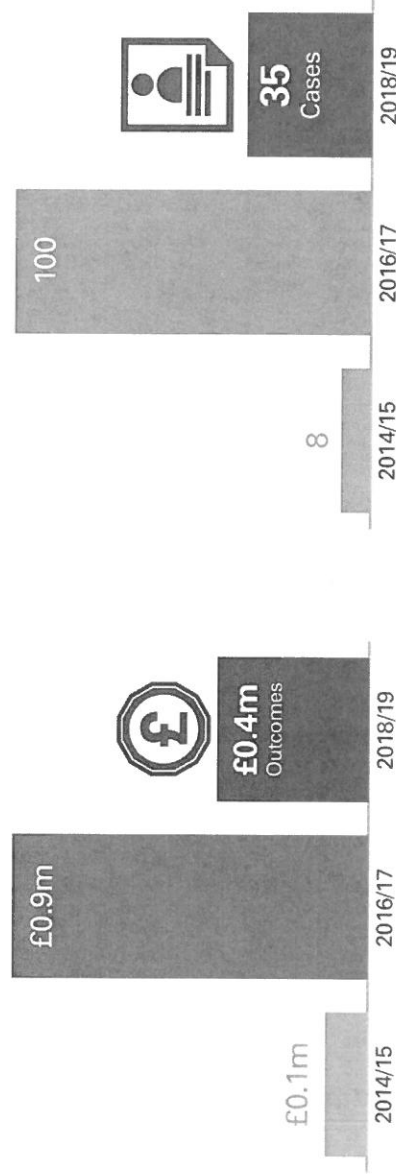
Total outcomes
in 2018/19 exercise

71%

Overpayments are being
recovered

35

Cases



Councils have identified 35 cases of overpayments valued at £0.4 million to care providers for residents who have died.

71 per cent of these overpayments are being recovered.

Despite the number of overpayments having fallen since 2016/17, the average value of overpayment has risen from £8,651 to £10,500.

Residential care home data is matched to:



Deceased persons



Amberhill data



Council tax reduction

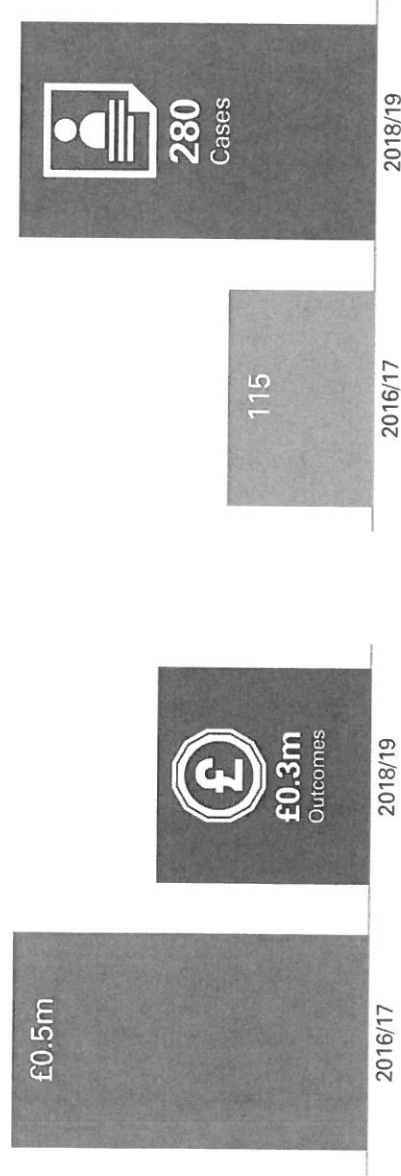
Council tax reduction helps those on low incomes to pay their council tax bills. The NFI provides councils with the opportunity to identify a range of council tax reduction frauds and errors.

£0.3 million

Total outcomes in 2018/19 exercise

280

Cases



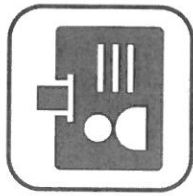
The 2016/17 NFI was the first time council tax reduction data sets were included within the NFI.

Outcomes of £0.3 million were identified in the 2018/19 NFI, a fall of £0.2 million from the £0.5 million reported in 2016/17.

Councils have identified more than double the number of cases in 2018/19 but each with a smaller value, suggesting fraud and error is being picked up more quickly.

Council tax reduction data is matched to:





Other data matches

Payroll

£20,000

Total outcomes in
2018/19 exercise

8

Cases

The NFI also matches all participating bodies' employee payroll data as well as those of MSPs and councillors in order to identify cases of potential payroll fraud. The 2018/19 NFI identified eight cases valued at £20,000 compared to 13 cases valued at £0.1 million in the 2016/17 exercise.

Past NFI exercises have identified larger outcomes in both payroll and student awards. This is partly due to immigration data not being included in the 2018/19 exercise.

Student awards

£50,000

Total outcomes in
2018/19 exercise

2

Case

The NFI provides the Student Awards Agency Scotland (SAAS) with matches identifying cases where individuals may not be eligible for student funding, for example, through identity fraud. The 2018/19 NFI exercise only identified two outcomes, a reduction of 3 from the 2016/17 exercise.

Case study

Student Award Agency Scotland (SAAS)



An individual applied for student funding with a counterfeit Slovakian identity card. The applicant was awarded a tuition fee loan of £5,500.

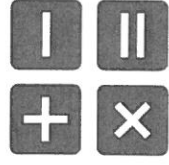
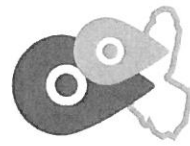
The applicant was arrested, and facial recognition software identified a second false identity that had also been used by this individual.

The applicant made a full admission and is currently being detained in prison. It is expected that they will be deported from the UK following completion of their 12 month prison sentence.

4. Process

Matches benefiting other public bodies

One key benefit of a UK-wide data matching exercise is that it enables matches to be made between bodies and across national borders. Data provided by Scottish participants for the 2018/19 NFI exercise helped other public bodies, both within and outwith Scotland, to identify 884 outcomes worth £1.7 million. This is an increase of £0.6 million from 2016/17.



	Local government	Central government	NHS	Colleges	Total
	£854,760	£759,879	£120,408	£12,672	£1,747,719
	415	388	75	6	884
2016/17	2016/17	2016/17	2016/17	2016/17	2016/17
£520,948	£438,206	£155,566	£7,073	£1,121,793	
232	254	77	5	568	

Most of these outcomes relate to housing benefits, housing waiting lists and council tax reductions where, for example, payroll data from a health board may allow a council to identify a housing benefit overpayment.

Matches

For those public bodies taking part in the NFI which may not always identify significant outcomes from their own matches, it is important to appreciate that other bodies and sectors may do so.



Costs and benefits of participating in the NFI



£123,000+

Average outcome for each public body in Scotland for the 2018/19 NFI



£120 – £30,000

Estimated costs of NFI to public bodies



£213,750





Audit Scotland costs

Audit Scotland funds the cost of the NFI system and the biennial data matching for Scottish public-sector bodies

Participating bodies incur costs following up and investigating matches. Participating bodies also incur costs for pilot work and additional services such as the AppCheck¹ pre-application screening.

Many bodies do not keep separate records for NFI costs as it is just one of many counter-fraud activities they are doing. Those that did have records were able to estimate that their costs ranged from £120 to £30,000. This compares favourably with the average outcome for each public body in Scotland of over £123,000 for the 2018/19 NFI.

Overall, the £15.3 million of outcomes from the 2018/19 NFI outweigh the costs.

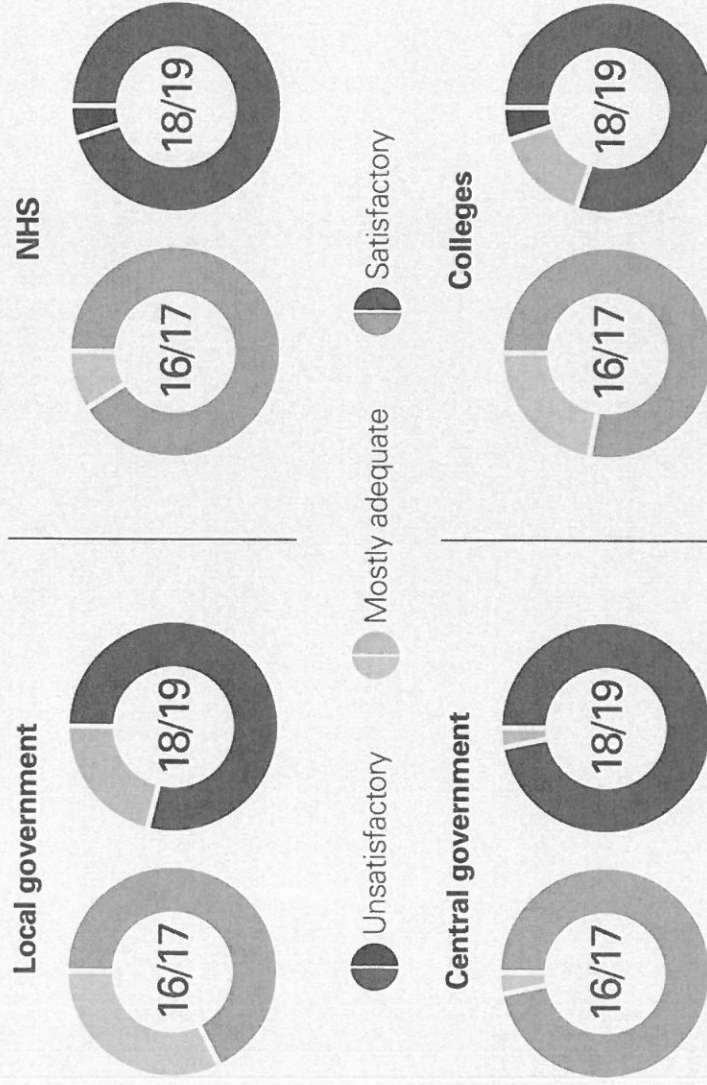
	No. of bodies reported	Cost range
 Local government	●●●● 4	£10,000 – £30,000
 NHS	●●●●●●●● 8	£120 - £6,000
 Central government	●●●●●●●●●● 10	£400 - £10,179
 Colleges	●●●●●●●● 7	£150 - £10,000

Note: 1. Appcheck is a data matching service used at point of applications for a service or benefit.

How bodies work with the NFI

External auditor review of NFI arrangements

A higher percentage of participating public bodies managed their roles in the 2018/19 NFI exercise satisfactorily compared to the 2016/17 NFI exercise.



Auditors reviewed each body's planning and progress with the NFI, and provided recommendations for improvement where appropriate.

Some bodies could be more pro-active in their approach to the NFI. All colleges were included in the 2018/19 exercise for the first time. Three colleges only submitted data after receiving several prompts from auditors. They cited resourcing and IT issues as the reasons. One of these colleges did not subsequently review any matches it received.

We recommend that all bodies use [our checklist](#) to self-appraise their involvement in the NFI before and during the 2020/21 NFI exercise.

NFI pilot activity – non-domestic rates

A pilot  was undertaken with the Scottish Government and seven Scottish councils in order to help identify businesses inappropriately claiming Small Business Bonus Scheme (SBBS) relief. The SBBS assists small businesses in Scotland to pay their rates.

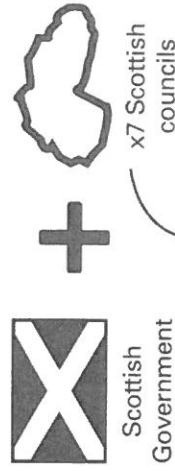
The seven participating councils provided 81,827 ratepayer records which were matched across councils and with data from Companies House in order to identify SBBS fraud. The pilot identified £412,974 in incorrect awards being identified.

If similar levels of incorrect awards were identified across all Scottish councils, the extrapolated value could be in the region of £1.9 million.

Some system weaknesses were also identified, and recommendations have been issued for improvements where appropriate.

Due to the success of this pilot, the Scottish Government is considering a national roll-out of this data matching exercise across all Scottish councils.

Small Business Bonus Scheme fraud



81,827
ratepayer
records



£412,974
incorrect awards identified

Future developments



The Covid-19 pandemic and the resulting emergency support packages have led to a greater risk of fraud.

Audit Scotland has been working with the Cabinet Office to identify, develop and promote data matching facilities to help address some of this increased fraud risk. Work will continue in this area into the 2020/21 NFI exercise.



The 2020/21 NFI is due to start in late summer 2020. Data sets have been reviewed following a period of consultation with participants.



Audit Scotland continues to work with the Cabinet Office in developing new ways to prevent and detect fraud. This includes piloting new data matching in respect of NHS patient prescription exemptions.



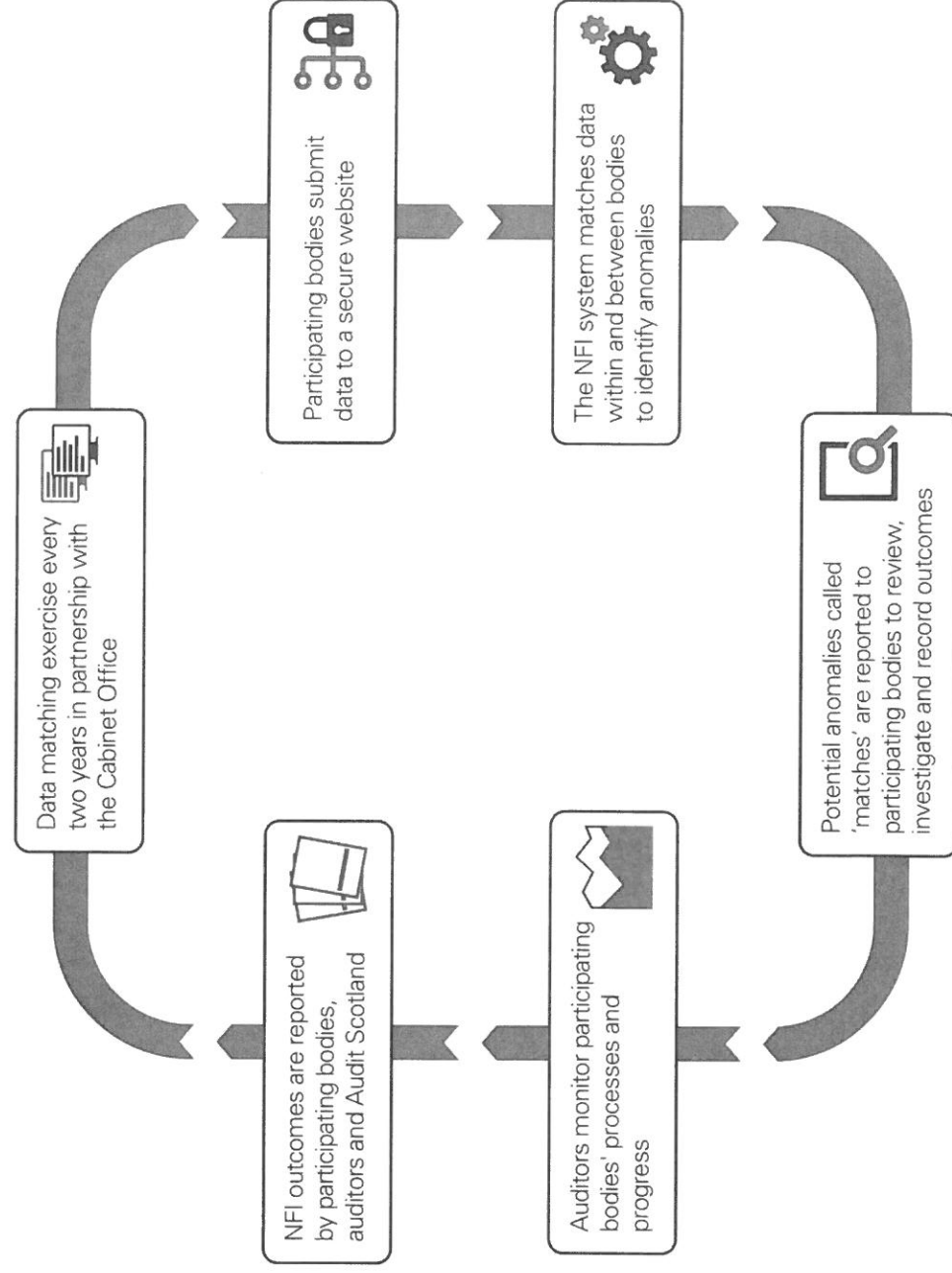
Audit Scotland continues to work with the Scottish Government in promoting and enhancing participation in the NFI across Scotland.

Appendix 1. Background to the NFI

The NFI is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The Cabinet Office oversees it and Audit Scotland leads the exercise in Scotland, working with a range of Scottish public bodies and external auditors. The NFI takes place every second year.

The NFI enables public bodies to use computer data matching techniques to detect fraud and error.

We carry out the NFI process under powers in The Criminal Justice and Licensing (Scotland) Act 2010. It is important for all parties involved that this exercise is properly controlled and data handled in accordance with the law. The Audit Scotland **Code of Data Matching Practice** [\(PDF\)](#) includes a summary of the key legislation and controls governing the NFI data matching exercise.



Appendix 2. Estimation bases

The figures used in this report for fraud, overpayments and errors include outcomes already delivered (actual amounts participants have recorded) and estimates. Estimates are included where it is reasonable to assume that incidents of fraud, overpayments and errors would have continued undetected without NFI data matching.

Details of estimate calculations used in the report are shown below.

Data match

Basis of calculation of estimated outcomes

Council tax single person discount

Annual value of the discount cancelled multiplied by two years.

Housing

£93,000 per property recovered, based on average four-year fraudulent tenancy. Includes: temporary accommodation for genuine applicants; legal costs to recover property; re-let cost; and rent foregone during the void period between tenancies.

Housing benefit

Weekly benefit reduction multiplied by 21 weeks.

Pensions

Annual pension multiplied by the number of years until the pensioner would have reached the age of 85.

Payroll

£5,000 for each employee who is dismissed or resigns as a result of NFI matching, or £10,000 for each resignation or dismissal for employees who have no right to work in the UK.

Council tax reduction scheme

Weekly change in council tax discount multiplied by 21 weeks.

Housing waiting lists

£3,240 for each case based on the annual estimated cost of housing a family in temporary accommodation and the likelihood a waiting list applicant would be provided a property.

Residential care homes

Weekly cost of residential care multiplied by 14 weeks.

Social care/personal budgets

Monthly social care payment multiplied by three months. Monthly reduction in personal budget payment multiplied by three months.

Blue badges

Number of badge holders confirmed as having died multiplied by £575 to reflect lost parking and congestion charge revenue.

Other immigration

£50,000 for someone removed from the UK.

National Fraud Initiative 2018/19

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Part A for those charged with Governance Leadership Commitment and Communication	Yes/No/Partly	Is action Required?	Who and By When
1. Are we aware of emerging fraud risks, eg due to Covid-19, and taken appropriate preventative and detective action?	Yes	Yes - regular updates are received through NAFN which are circulated to relevant services within the Council. The Internal Audit Annual Audit Plan for 2020/21 includes an allocation of resource to undertake post-assurance work in relation to Covid-19. Ongoing support has also been provided to services involved in the Business Grants process and through the CRMT.	Chief Internal Auditor Ongoing
2. Are we committed to NFI? Has the council/board, audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff?	Yes	The responsibility for overseeing the NFI lies with Internal Audit. Internal Audit will review all aspects of NFI for the coming 2020/2021 exercise. A report will be presented to the February Audit Committee outlining how the Council is engaging with the 2020/2021 exercise.	Chief Internal Auditor 28 February 2021
3. Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error ?	Yes	The NFI is included within the Council's Anti-Fraud, Corruption and Irregularity Policy which was last updated in 2017.	N/A
4. Have we considered using the point of application data matching service offered by the NFI team, to enhance assurances over internal controls and improve our approach to risk management?	Yes	This has been trialled by the Corporate Fraud team as appropriate but did not appear to yield any additional results. This will be considered again as part of the 2020/21 NFI exercise.	Chief Internal Auditor Ongoing
5. Are the NFI progress and outcomes reported regularly to senior management and elected/board members (eg, the audit committee or equivalent)?	Yes	Regular reports on NFI progress are presented to Audit Committee at each Committee cycle. Reports are presented to senior management on an annual basis regarding progress in each exercise.	Chief Internal Auditor Ongoing
6. Where we have not submitted data or used the matches returned to us, eg council tax single person discounts, are we satisfied that alternative fraud detection arrangements are in place and that we know how successful they are?	N/A	All required data sets are submitted.	N/A
7. Does internal audit, or equivalent, monitor our approach to NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?	Yes	The responsibility for overseeing the NFI lies with Internal Audit. Internal Audit will review all aspects of NFI for the coming 2020/2021 exercise. A report will be presented to the Audit Committee outlining how the Council is engaging with the 2020/2021 exercise. Outcomes of the NFI exercise are used to inform potential audit areas for future annual audit plans.	Chief Internal Auditor 28 February 2021
8. Do we review how frauds and errors arose and use this information to improve our internal controls?	Yes	Outcomes of the NFI exercise are used to inform potential audit areas for future annual audit plans. As part of the 2020/21 Annual Internal Audit Plan we will carry out a review of Creditors and post-assurance work in relation to Business Grants.	Chief Internal Auditor 28 February 2021
9. Do we publish, as a deterrent, internally and externally the achievements of our fraud investigators (eg, successful prosecutions)?	Yes	Published on website and during fraud awareness training internally.	N/A

Part B For the NFI Key contacts and users Planning and Preparation			
1. Are aware of emerging fraud risks, eg due to Covid-19, and taken appropriate preventative and detective action?	Yes	Yes - regular updates are received through NAFN which are circulated by the Corporate Fraud team to relevant services within the Council.	Chief Internal Auditor Ongoing
2. Are we investing sufficient resources in the NFI exercise?	Yes	As part of the 2020/21 exercise the Corporate Fraud team will carry out review of dataset owners across the Council to ensure sufficient resources are in place.	Chief Internal Auditor Ongoing
3. Do we plan properly for NFI exercises, both before submitting data and prior to matches becoming available? This includes considering the quality of data.	Yes	Quality checks on data are carried out regularly.	N/A

4. Is our NFI Key Contact (KC) the appropriate officer for that role and do they oversee the exercise properly?	Yes	The responsibility for overseeing the NFI lies with Internal Audit. Internal Audit will review all aspects of NFI for the coming 2020/2021 exercise. A report will be presented to the Audit Committee outlining how the Council is engaging with the 2020/2021 exercise.	Chief Internal Auditor 28 February 2021
5. Do KCs have the time to devote to the exercise and sufficient authority to seek action across the organisation?	Yes	Sufficient allocation of resource for the NFI work is included within the 2020/21 Internal Audit Annual Audit Plan. Progress reports are submitted to Audit Committee on a regular basis.	Chief Internal Auditor Ongoing
6. Where NFI outcomes have been low in the past, do we recognise that this may not be the case the next time, that NFI can deter fraud and that there is value in the assurances that we can take from low outcomes?	Yes	This is recognised in terms of the matches received. Resources for the Corporate Fraud team's workplan are reviewed in light of the matches received and the level of outcomes for earlier exercises.	Chief Internal Auditor Ongoing
7. Do we confirm promptly (using the online facility on the secure website) that we have met the fair processing notice requirements?	Yes	This exercise was carried out and confirmed using the online facility.	Chief Internal Auditor Complete
8. Do we plan to provide all NFI data on time using the secure data file upload facility properly?	Yes	Internal Audit co-ordinates the NFI exercise and a timetable is in place to meet timescales for data upload for the 2020-2021 exercise.	Chief Internal Auditor 31 October 2020
9. Have we considered using the the point of application data matching service offered by the NFI team to enhance assurances over internal controls and improve our approach to risk management?	Yes	This has been trialled in the past but did not yield many results. This will be considered as part of the 2020/21 NFI exercise.	Chief Internal Auditor 28 February 2021
Effective Follow up Matches			
10. Do all departments involved in NFI start the follow-up of matches promptly after they become available?	Yes	Progress is monitored and followed up by the Corporate Fraud Team.	Chief Internal Auditor Ongoing
11. Do we give priority to following up high-risk matches, those that become quickly out-of-date and those that could cause reputational damage if a fraud is not stopped quickly?	Yes	A full review of protocols for all services has been carried out by Internal Audit to ensure compliance. High risk matches have been fully discussed with all services and they are aware to prioritise these. This will be monitored by the Corporate Fraud Team.	Chief Internal Auditor Ongoing
12. Are we investigating the circumstances of matches adequately before reaching a 'no issue' outcome, in particular?	Yes	A full review by Corporate Fraud team has been conducted to ensure all services are investigating adequately. We are satisfied that all services are full investigating matches before reaching a "no issue" outcome.	N/A
13. (In health bodies) are we drawing appropriately on the help and expertise available from NHS Scotland Counter-Fraud Services?	N/A		
14. Are we taking appropriate action in cases where fraud is alleged (whether disciplinary action, penalties/cautions or reporting to the Procurator Fiscal)? Are we recovering funds effectively?	Yes	Appropriate reports to PF, disciplinary action are taken, debt recovery procedures in place.	N/A
15. Do we avoid deploying excessive resources on match reports where early work (eg, on high-risk matches) has not found any fraud or error?	Yes	Reviews of results undertaken and resources based on the outcomes achieved will be deployed to other recommended or high risk matches. The Corporate Fraud team will review all services to ensure compliance.	Chief Internal Auditor Ongoing
16. Where the number of high-risk matches is very low, are we adequately considering the medium and low-risk matches before we cease our follow-up work?	Yes	The Corporate Fraud team have reviewed each service to ensure they consider the "All Matches" report. All services are aware of the "all matches" report.	N/A
17. Overall, are we deploying appropriate resources on managing the NFI exercise?	Yes	The Corporate Fraud team review resources to ensure appropriate resources are being deployed.	N/A
Recording and Reporting			
18. Are we recording outcomes properly in the secure website and keeping it up to date?	Yes	The Corporate Fraud team have carried out a full review of this area to ensure compliance.	N/A
19. Do staff use the online training modules and guidance on the secure website, and do they consult the NFI team if they are unsure about how to record outcomes (to be encouraged)?	Yes	Officers have found the online training helpful and if required they have been informed to consult with Internal Audit for further training/assistance. Internal Audit have also raised awareness of the online training modules with all services.	N/A
20. If, out of preference, we record some or all outcomes outside the secure website, have we made arrangements to inform the NFI team about these outcomes?	N/A	All outcomes are reported in secure website.	N/A