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| <b>Report To:</b>       | <b>Audit Committee</b>                                    | <b>Date:</b>       | <b>18 October 2022</b> |
| <b>Report By:</b>       | <b>Interim Director, Finance and Corporate Governance</b> | <b>Report No:</b>  | <b>AC/14/22/AP/APr</b> |
| <b>Contact Officer:</b> | <b>Andi Priestman</b>                                     | <b>Contact No:</b> | <b>01475 712251</b>    |
| <b>Subject:</b>         | <b>NATIONAL FRAUD INITIATIVE – UPDATE REPORT</b>          |                    |                        |

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**1.0 PURPOSE**

1.1  For Decision  For Information/Noting

1.1 The purpose of this report is to inform Members of the Audit Scotland Report “National Fraud Initiative 2020/21” published in August 2022 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.

**2.0 RECOMMENDATIONS**

2.1 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 2023 Audit Committee outlining the Council’s progress with the 2022-2023 exercise.

**Alan Puckrin**  
**Interim Director**  
**Finance and Corporate Governance**

### 3.0 BACKGROUND AND CONTEXT

3.1 The NFI in Scotland is now well established with this being the 8th 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.

3.2 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.

3.3 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.

3.4 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.

3.5 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.

3.6 The latest report was published in August 2022 and can be found here:

[The National Fraud Initiative in Scotland 2022 \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/publications/the-national-fraud-initiative-in-scotland-2022)

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

- The 2020/21 NFI exercise has identified outcomes valued at £14.9 million. The cumulative outcomes from the NFI in Scotland since 2006/07 are now £158.5 million.
- The overall level of fraud identified by the NFI has fallen by £0.4 million since the last report in July 2020. The reduction in outcomes could be due to less fraud and error in the system, strong internal controls or due to some key data sets from previous exercises not being included in the latest exercise.
- Most organisations that participate in the NFI continue to demonstrate a strong commitment to counter-fraud and the NFI. However a lower percentage of participating public bodies managed their roles in the 2020/21 NFI exercise satisfactorily compared to the 2018/19 exercise.

- Pilot work to look at potential data matches for future NFI exercises identified £2.2 million in incorrect non-domestic rates relief. The report can be found here:

[National Fraud Initiative: Non-domestic rates: Small Business Bonus Scheme \(audit-scotland.gov.uk\)](https://audit-scotland.gov.uk)

3.7 Since the last exercise in 2018/19, the areas with significant changes are as follows:

- Council Tax Discounts – £4.6m, which is a reduction of £0.3m
- Pensions – £1.5m, which is a reduction of £1.7m
- Housing Benefit - £1.2m, which is reduction of £1.6m
- Blue badges – £2.7m, which is an increase of £0.9m
- Housing Waiting Lists - 01.6m which is a decrease of £0.1m
- Creditors - £0.5m, which is a reduction of £0.1m
- Pensions - £1.5m which is a reduction of £1.7m
- Council Tax Reduction Scheme - £0.7m, which is an increase of £0.4m

3.8 From a local perspective, outcomes valued at £98,316 have been recorded for the 2020/2021 exercise:

| Area                         | No of Cases | Fraud | Error | Financial Outcome |
|------------------------------|-------------|-------|-------|-------------------|
| HB Claimants                 | 4           | 2     | 2     | £3,898            |
| Council Tax Reduction Scheme | 11          | 8     | 3     | £10,933           |
| Creditors                    | 27          | 0     | 27    | £73,909           |
| Blue Badges                  | 182         | 0     | 182   | -                 |
| Small Business Bonus Scheme  | 2           | 0     | 2     | £9,576            |

3.8 The report recommends that:

- All participating bodies in the NFI exercise should ensure that they maximise the benefits of their participation. This includes reviewing matches timeously and prioritising high-risk matches. NFI users should review the guidance within the NFI secure web application to help ensure the most effective use of limited resources when reviewing and investigating NFI matches.
- The NFI self-appraisal checklist should be reviewed by the audit committee, or equivalent, and staff leading the NFI process. This is to ensure that their organisation's planning, approach and progress during the next NFI exercise is appropriate.
- Where local auditors have identified specific areas for improvement, participating bodies should act on these as soon as possible.

3.9 In response to the recommendations, a copy of the completed self-appraisal checklist is attached at Appendix 1. This highlights the good progress the Council continues to make in undertaking counter-fraud activities.

3.10 In relation to council tax single person discount (SPD) matches, the Council continues to participate in annual recheck exercises through the NFI with results/outcomes reported on a regular basis to Audit Committee.

#### 4.0 PROPOSALS

4.1 The Audit Committee is asked to note the continued good progress made by the Council in relation to its participation in the National Fraud Initiative.

## 5.0 IMPLICATIONS

5.1 The table below shows whether risks and implications apply if the recommendation is agreed:

| SUBJECT                                      | YES | NO | N/A |
|--|-----|----|-----|
| Financial                                    | X   |    |     |
| Legal/Risk                                   | X   |    |     |
| Human Resources                              |     | X  |     |
| Strategic (LOIP/Corporate Plan)              | X   |    |     |
| Equalities & Fairer Scotland Duty            |     | X  |     |
| Children & Young People's Rights & Wellbeing |     | X  |     |
| Environmental & Sustainability               |     | X  |     |
| Data Protection                              |     | X  |     |

## 5.2 Finance

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  |
|-------------------|----------------|------------------|-------------------|-------------------------------|---|
| Finance (various) |                |                  |                   |                               | Housing Benefits/Council Tax reduction stopped or reduced. In addition, errors in creditor payments are in the process of being recovered.<br><br>Total overpayments being recovered set out at 3.8 (£98,316) |

## 5.3 Legal/Risk

The NFI enables public bodies to take advantage of computer data matching techniques to detect fraud and error. This can lead to process risks being identified during the investigation of matches and internal controls being strengthened to reduce the risk of fraud and error recurring in the future and improve the Council's control environment.

## 5.4 Strategic

This report relates to strong corporate governance.

## 6.0 CONSULTATIONS

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

## **7.0 LIST OF BACKGROUND PAPERS**

- 7.1 Audit Scotland National Report: National Fraud Initiative 2020/21 – August 2022
- Audit Scotland National Report: Non-domestic rates - Small Business Bonus Scheme Pilot evaluation – June 2022

| <b>Part A</b><br><b>for those charged with Governance</b><br><b>Leadership Commitment and Communication</b>   | <b>Yes/No/Partly</b> | <b>Is action Required?</b>  | <b>Who and By When</b>                     |
|---|----------------------|---|--|
| 1. Are we aware of emerging fraud risks and taken appropriate preventative and detective action?  | Yes                  | Yes - regular updates are received through NAFN which are circulated to relevant services within the Council.<br><br>The Internal Audit Annual Audit Plan for 2022/23 is constructed through risk-based planning and discussions with wider groups such as Scottish Local Authority Chief Internal Auditors Group.  | Chief Internal Auditor<br>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 2022/23 exercise. A report will be presented to the February Audit Committee outlining how the Council is engaging with the 2022/2023 exercise.  | Chief Internal Auditor<br>28 February 2023 |
| 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 2022/23 NFI exercise.  | Chief Internal Auditor<br>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<br>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 2022/2023 exercise. A report will be presented to the Audit Committee outlining how the Council is engaging with the 2022/2023 exercise.<br><br>Outcomes of the NFI exercise are used to inform potential audit areas for future annual audit plans. | Chief Internal Auditor<br>28 February 2023 |
| 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.  | Chief Internal Auditor<br>Ongoing          |
| 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 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.<br><br>The Internal Audit Annual Audit Plan for 2022/23 is constructed through risk-based planning and discussions with wider groups such as Scottish Local Authority Chief Internal Auditors Group. | Chief Internal Auditor<br><br>Ongoing          |
| 2. Are we investing sufficient resources in the NFI exercise?  | Yes | As part of the 2022/23 exercise the Corporate Fraud team will carry out reviews of dataset owners across the Council to ensure sufficient resources are in place. The Council has an excellent track record in investigating and reporting on matches received.  | Chief Internal Auditor<br><br>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 2022/2023 exercise.<br><br>A report will be presented to the Audit Committee outlining how the Council is engaging with the 2022/2023 exercise.   | Chief Internal Auditor<br><br>28 February 2023 |
| 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 Internal Audit Annual Audit Plans. Progress reports are submitted to Audit Committee on a regular basis.   | Chief Internal Auditor<br><br>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<br><br>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<br><br>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 2022-2023 exercise.  | Chief Internal Auditor<br><br>31 October 2022  |
| 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 2022/23 NFI exercise.  | Chief Internal Auditor<br><br>28 February 2023 |
| <b>Effective Follow up Matches</b>   |     |  |  |
| 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.<br><br>Progress is regularly reported to the Audit Committee. The Council has an excellent track record in following up relevant matches in a timely manner.  | Chief Internal Auditor<br><br>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<br><br>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<br><br>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 engaged in these exercises.   | N/A |
| <b>Recording and Reporting</b>  |     |   |     |
| 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 |