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<b>Report To:</b>	<b>Audit Committee</b>	<b>Date:</b>	<b>21 August 2012</b>
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/51/12/AP/FB</b>
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<b>Subject:</b>	<b>Audit Scotland Report – National Fraud Initiative</b>		

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## **1.0 PURPOSE**

- 1.1 The purpose of this report is to advise Committee of the outcome of the recent National Fraud Initiative (NFI) and to present the resulting Audit Scotland report to Members for information.

## **2.0 SUMMARY**

- 2.1 The NFI is controlled and reported by Audit Scotland. The National Fraud Initiative is one of the tools that Audit Scotland use to ensure that public bodies are held to account for the proper, efficient and effective use of public funds.
- 2.2 The exercise is undertaken every two years as part of the statutory audits of the participating bodies. The latest exercise started in October 2010 and the results collated as at the outcomes recorded as at 31 March 2012. Outcomes recorded include detected fraud, overpayments and recoveries. In NFI 2010/11, 81 bodies took part from local government, health and central government sectors. The final report based on the 2010/11 exercise is attached as Appendix 1.
- 2.3 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'. All outcomes start from when a match is made between two sets of data. However a match does not automatically mean that there is a fraud and investigations are required to enable the correct conclusion to be drawn for each match.
- 2.4 In addition to the main NFI exercise, a separate exercise has been undertaken to match electoral registers against those households where council tax single person discounts are being claimed.
- 2.5 Cumulative outcomes from the NFI in Scotland are now at £78 million and represent a significant return to the public finances of Scotland.
- 2.6 The Revenues and Customer Services Manager is the Key Contact for Inverclyde Council's involvement in the NFI and has responsibility to ensure that the appropriate person(s) from participating Services are given access to the secure web site in order that matches can be identified, investigated and results recorded.
- 2.7 Audit Scotland also assess each organisations readiness in respect of NFI via a "traffic light" assessment model. This is attached as Appendix 2 and it can be seen that of the 30 findings there are no reds and only one amber.

## **3.0 RECOMMENDATIONS**

- 3.1 That the Committee notes the importance of the NFI process, the work involved in carrying out this role and the Councils high level of compliance with the standards expected.

**Alan Puckrin**  
**Chief Financial Officer**

## 4.0 BACKGROUND

- 4.1 The National Fraud Initiative is controlled and reported by Audit Scotland. The National Fraud Initiative is one of the tools that Audit Scotland uses to ensure that public bodies are held to account for the proper, efficient and effective use of public funds. The NFI is an important regular check on the robustness of public sector arrangements for identifying and taking action to stop, reduce and recover fraud and error.
- 4.2 The exercise is undertaken every two years as part of the statutory audits of the participating bodies. The latest exercise started in October 2010 and the results collated as at the outcomes recorded as at 31 March 2012. Outcomes recorded include detected fraud, overpayments and recoveries. In NFI 2010/11, 81 bodies took part from local government, health and central government sectors. The final report based on the 2010/11 exercise is attached as appendix 1.

Examples of the types of data set matches are shown in the table below:

4.3

Type of data match	Potential fraud or error
Housing benefit claimants To Payroll	To identify cases where Housing benefit claimants have failed to declare income that may remove entitlement to benefit or reduce the amount payable.
Insurance claimants to Insurance claimants	This match involves matching insurance claimant details held by Local Authorities to identify serial claimants either between or within Local Authorities.
Payroll to Creditors	This match identifies where an employee and a creditor are linked by bank account or by the same address to identify employees with interests in companies with which the Local Authority is trading.
Blue badges to Deceased persons records	The permit holder's death may not have been reported to the council. The permit may continue to be used fraudulently or sold for improper use.
Private residential homes to Deceased persons records	This match identifies where a resident has died but the Local Authority may not have been notified so continue to make payment.

The matches shown above are a sample of those participated in by Inverclyde Council.

- 4.4 The Revenues and Customer Services Manager is the Key Contact for NFI in Inverclyde. The Key contact is the conduit between Audit Scotland and the Council and is also responsible for giving the appropriate person(s) from each participating Service access rights to the secure NFI web site in order that matches can be identified, investigated and results recorded. The Key Contact also has responsibility to send returns to Audit Scotland at set periods in the process confirming that certain mandatory tasks have been performed.

## 5.0 THE OUTCOMES

- 5.1 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'. Where matches are identified these are made available to bodies to investigate via a secure web application. Participating bodies then investigate these and record appropriate comments and outcomes based on the result of investigations.
- 5.2 The data supplied by participating bodies for NFI 2010/11 returned 287,559 matches. Of these, 33,846 were identified as recommended matches, being matches with a higher risk of fraud and error. It is up to individual bodies to determine which matches and the number of matches to investigate.

- 5.3 Since Audit Scotland last reported on the NFI in May 2010, outcomes valued at £19.8 million have been recorded. Cumulative outcomes from the NFI in Scotland are now at £78 million and represent a significant return to the public finances of Scotland.
- 5.4 External Audit performed a scrutiny of Inverclyde's performance in the NFI exercise and produced a series of questions for the Key Contact to answer. Audit Scotland then produced a governance report which listed the main findings. The traffic light methodology of reporting was used to assess the Council's results and response to questions. From 30 findings, 29 were marked green. One finding was marked as amber which relates to the Council's use of internal audit in the NFI process. The key contact has discussed this with the Chief Financial Officer and Chief Internal Auditor and it was agreed that this may be considered for future NFI exercises although it is not viewed as a priority due to the robustness of the processes in place. Inverclyde Council received an 'approved' status for its participation in the 2010/11 NFI exercise.

## **6.0 THE WAY FORWARD FOR NFI**

- 6.1 Audit Scotland has advised that the NFI will continue and is seen as a key tool in the prevention of fraud and error in the public sector. The 2012/13 exercise commenced in July 2012.

- 6.2 In order to meet the overall aims of the NFI, it is expected that the exercise for 2012/13 will involve work under three broad themes:

1. Continuing with successful batch data matches and developing the service to offer more flexibility and meet new risks.
2. Putting more emphasis on fraud prevention through the development of real-time data-matching services.
3. Extending data matching for fraud purposes to a broader range of organisations and services.

## **7.0 IMPLICATIONS**

7.1 **Financial** - None

7.2 **Legal** - None

7.3 **Personnel** - None

**8.0 CONSULTATION** - None

**9.0 EQUALITIES** – no issues

# The National Fraud Initiative in Scotland



 AUDIT SCOTLAND

Prepared by Audit Scotland  
May 2012



Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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# Summary

## Key facts



<sup>1</sup> For national reporting purposes outcomes are collated as at 31 March 2012. Outcomes recorded by participants after this date are included in subsequent reports. Outcomes figures referred to cover detected fraud, overpayments and recoveries and includes those already delivered as well as ones that have been estimated where this is appropriate.

The NFI is an important regular check on the robustness of public sector arrangements for identifying and taking action to stop, reduce and recover fraud and error.

**Key messages**

- Audit Scotland, working closely with public bodies, external auditors and the Audit Commission, has completed another major counter-fraud exercise.
- The National Fraud Initiative (NFI) exercises make a significant contribution to the security of public sector finances by confirming that services are provided to the correct people and by eliminating fraud and error.
- Eighty-one bodies took part being the largest and most diverse group since the NFI began.

1. Public bodies spend billions of pounds of taxpayers' money on the Scottish population providing services and financial assistance to those that need them the most. These systems are 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.

2. The recent Annual Fraud Indicator published by the National Fraud Authority has put the loss to the UK economy from fraud at £73 billion.<sup>2</sup> Of this total some £6.3 billion<sup>3</sup> has been attributed to fraud within central government, the NHS, local government, and the benefits and tax credits systems.

3. Audit Scotland has coordinated another major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. These exercises, known as the National Fraud Initiative in Scotland (NFI), are undertaken every two years as part of the statutory audits of the participating bodies. The latest exercise (NFI 2010/11) started in October 2010 and is now nearing completion.

4. The success of the NFI comes primarily from the public servants who:

- investigate the NFI data matches
- identify and stop frauds and errors
- recover overpayments
- hold fraudsters accountable
- improve their systems.

5. The role of external auditors in the NFI is vital. They review and conclude on the effectiveness of local arrangements in terms of how well the NFI is integrated into counter-

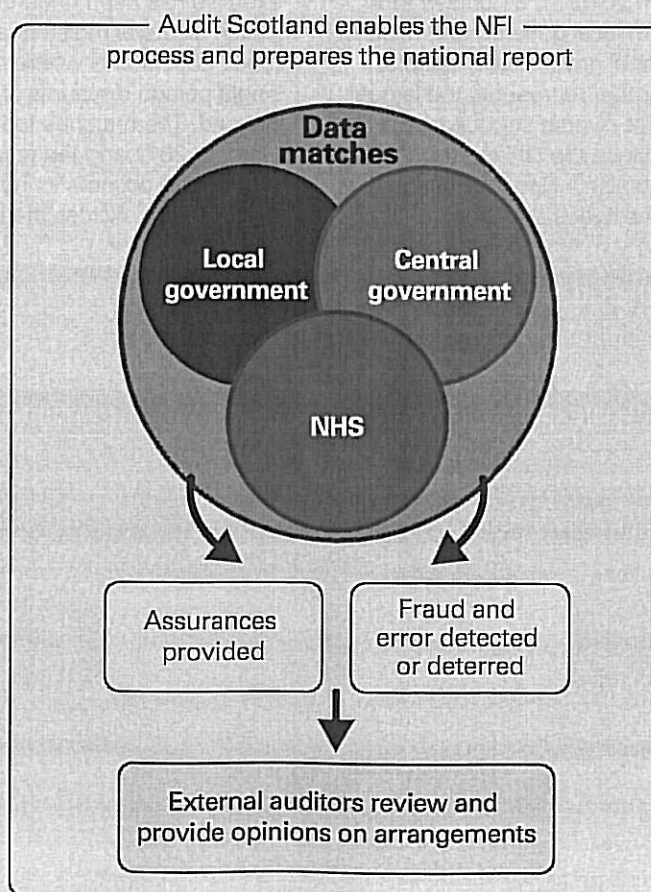
fraud polices. They also provide assurance on the progress being made on NFI investigations. Auditor conclusions provide the evidence for Part 2 of this report.

6. Exhibit 1 summarises the relationships and responsibilities within the NFI in Scotland.

7. The NFI in Scotland is now well established and has been operating for over a decade since it was first piloted. 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

**Exhibit 1**

Relationships and responsibilities within the NFI in Scotland



Source: Audit Scotland

2 Annual Fraud Indicator, National Fraud Authority, March 2012.  
 3 Ibid.



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 enabling appropriate action to recover money and/or press criminal charges
- can provide assurances, similar to a regular health check, that all is well and can also identify where improvements are required
- represents value for money in terms of the efficiencies deliverable through centralised data processing and identifying targeted high-priority matches.

**8.** In NFI 2010/11, 81 bodies took part from local government, health and central government sectors. This number represents the largest and most diverse set of participating bodies since the NFI started. Audit Scotland also includes data about its own employees and those of audit

firms carrying out external audit work for the Auditor General for Scotland and the Accounts Commission.

**9.** 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'. Where matches are identified these are made available to bodies to investigate via a secure web application. Bodies investigate these and record appropriate outcomes based on their investigations.

**10.** Exhibit 2 provides some examples of the types of data set matches undertaken.

**11.** In addition to the main NFI matching exercise, a separate exercise has been undertaken to match electoral registers against those households where council tax single person discounts are being claimed. The matches took place in October 2011 and the results were provided to councils in February 2012 to investigate. Across the UK, Angus

and Perth and Kinross Councils were the only ones that decided not to participate due to their interpretation of data protection and electoral legislation. The NFI is one of the ways which councils can address fraud and error in this area. A number of councils also employ credit reference agencies to match single person details against a wider range of data sets such as credit and utility records.

**12.** Audit Scotland carries out the NFI process under powers in the Criminal Justice and Licensing (Scotland) Act 2010. It is important for all concerned that this exercise is properly controlled and data handled in accordance with the law. The governance arrangements for the NFI are summarised in Appendix 1.

**13.** The NFI is important in the context of the current economic climate and fiscal projections for future public sector expenditure. NFI exercises make a significant contribution to the security of public sector finances by ensuring that services and benefits are provided only to the correct people and by identifying and eliminating fraud and error.

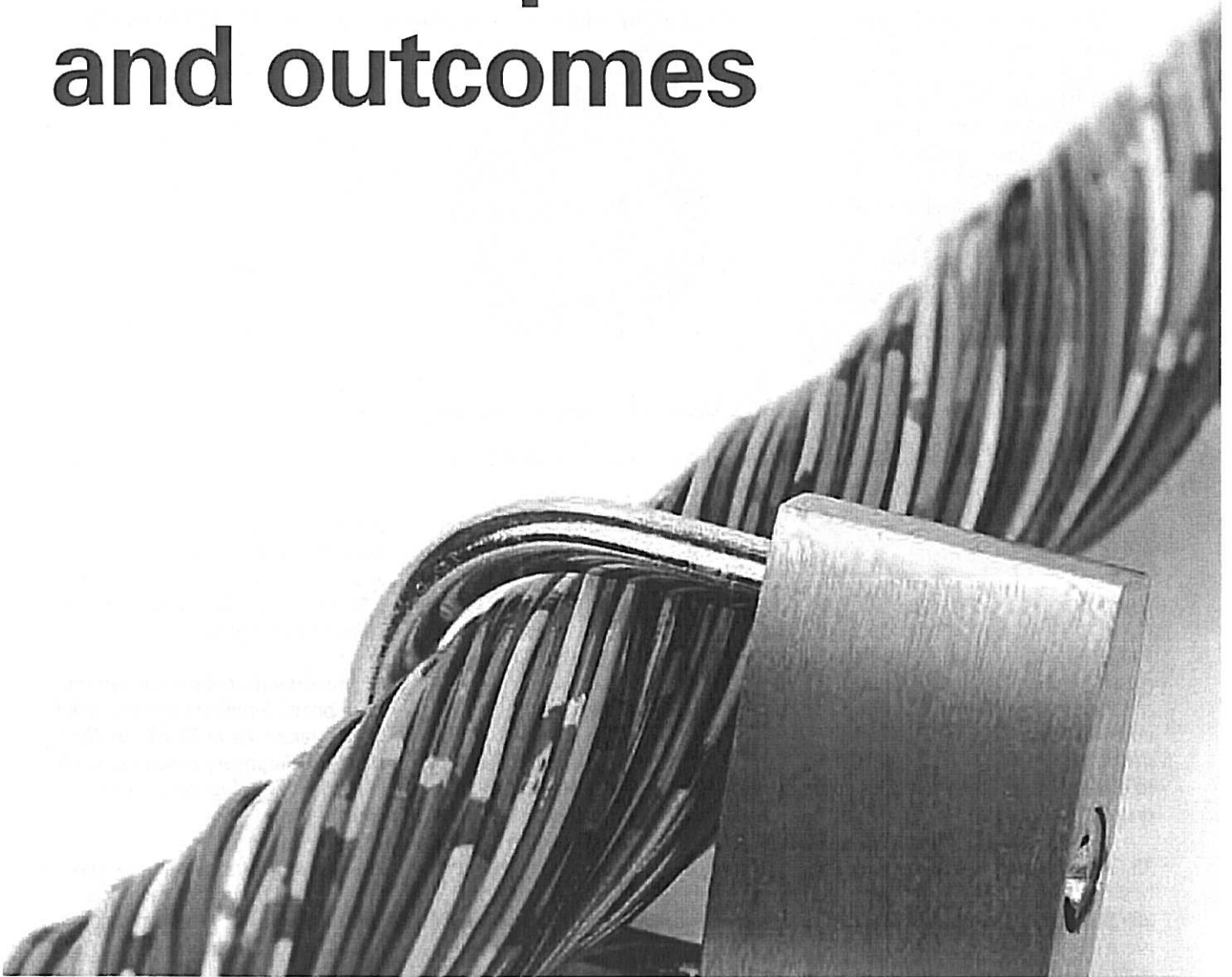
## Exhibit 2

Examples of the types of data set matches undertaken

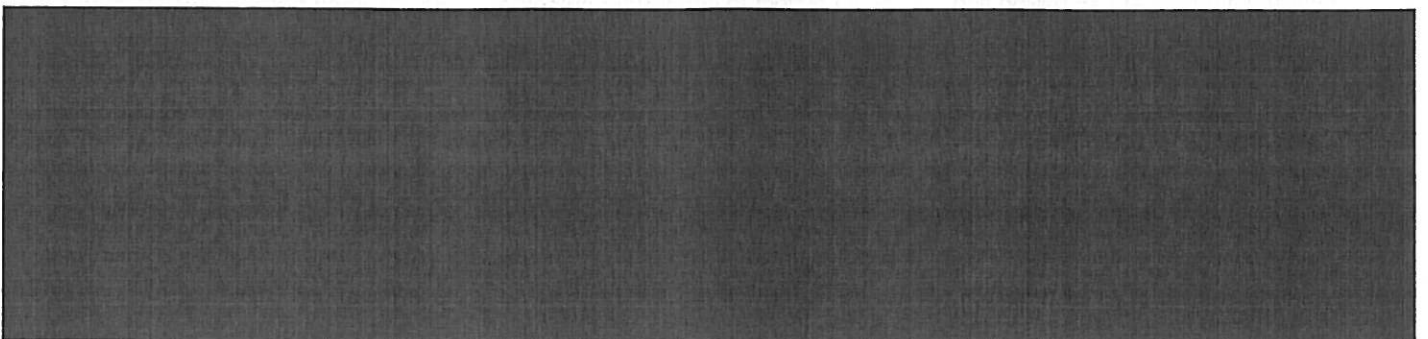
Type of data match	Potential fraud or error
Housing benefit claimants to Employees and public sector occupational pensions	Employees or occupational pensioners may claim benefit without declaring their income or by under-declaring the amounts.
Employees to Employees	An employee may be on long-term sick leave while working at another body.
Public sector pensions to Deceased persons records	A pensioner's death may not have been reported to the pension authority. The pension continues to be paid to a bank account or may be collected by a relative.
Blue badges to Deceased persons records	The permit holder's death may not have been reported to the council. The permit may continue to be used fraudulently or be sold for improper use.
Employees to Failed asylum seekers or expired visas	It is unlawful for any body to employ persons who are not entitled to reside or work in the UK.

Source: Audit Scotland

# Part 1. Impact and outcomes



Cumulative NFI outcomes are now at £78 million for Scotland and represent a significant return to Scotland's public finances.



## Key messages

- Outcomes from NFI 2010/11 are £19.8 million.
- £14.1 million have been identified directly from NFI 2010/11 investigations.
- £5.7 million are further savings from NFI 2008/09.
- £3.1 million overpayments are being recovered.
- Cumulative NFI outcomes are now at £78 million for Scotland and represent a significant return to Scotland's public finances.
- Across the UK, £939 million NFI outcomes have now been recorded.

## Outcomes

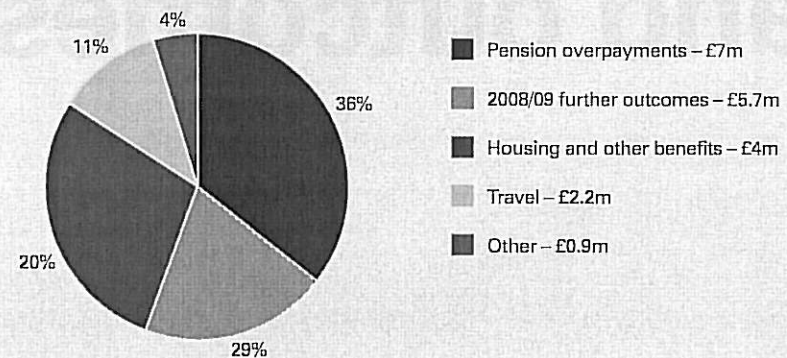
**14.** All outcomes start from when a match is made between two sets of data. However, a match does not automatically mean that there is a fraud and investigations are required to enable the correct conclusion to be drawn for each match.

**15.** The data supplied by participating bodies for NFI 2010/11 returned 287,559 matches. Of these, 33,846 were identified as recommended matches, being matches with a higher risk of fraud or error. It is up to individual bodies to determine which matches and the number of matches to investigate.

**16.** Since we last reported on the NFI in May 2010, outcomes valued at £19.8 million have been recorded. Cumulative outcomes from the NFI in Scotland are now at £78 million and represent a significant return to the public finances of Scotland.

## Exhibit 3

Detail of key outcome areas recorded by bodies as at 31 March 2012



Source: Audit Commission NFI secure web application

**17.** The 2010/11 outcomes are split:

- £14.1 million of NFI 2010/11 matches.
- £5.7 million of outcomes from further follow-up work on NFI 2008/09 matches.

**18.** Exhibit 3 provides more detail of key outcome areas recorded by bodies as at 31 March 2012.

**19.** Investigations from NFI 2010/11 are ongoing. The evidence from previous exercises is that between reports significant outcomes continue to be delivered. The last two NFI reports showed that:

- 30 per cent of 2008/09 outcomes arose after NFI March 2010
- 45 per cent of 2006/07 outcomes arose after NFI March 2008 .

**20.** If this pattern is continued, we could expect to see further outcomes in the region of £4 to £6 million from NFI 2010/11. Further, the electoral register to council tax single person discounts matches were only released in February 2012. The

2008/09 exercise, which included 16 councils whereas 30 are taking part in the 2010/11 exercise, resulted in 4,322 discounts being cancelled at a value of £1.4 million.

**21.** Importantly, once overpayments have been identified recovery action can be taken. As at 31 March 2012, there was recovery action being taken in 82 per cent of cases which had an overpayment.

**22.** The NFI is more than the value of the financial outcomes recorded. Exhibit 4 sets out the main results from the 2010/11 matches.

**23.** What cannot be measured directly is the value of the deterrent effect that the planned biennial NFI data matching has on potential fraudsters. Its significance should not be overlooked and is a key benefit to the Scottish public and taxpayers.

**24.** No obvious national trend can be assumed from the results of the last four NFI exercises because of changes in the scope of the exercise and in the approach by bodies to tackling fraud and error.



25. The most successful matches in terms of financial outcomes accounting for 94 per cent of the total, are:

- pensioners, 50 per cent
- housing benefits, 28 per cent
- transport, 16 per cent.

26. It is worth noting that one of the more unusual matches the NFI undertakes – housing benefits to personal alcohol licences – has led to one of the largest potential multiple frauds that the NFI has ever detected in Scotland (see Case study 1).

27. This investigation illustrates clearly that where a fraud has been perpetrated by a person this can lead to the identification of further frauds and crimes. Determination and commitment are required on the part of the investigators to deliver successful outcomes such as in this case.

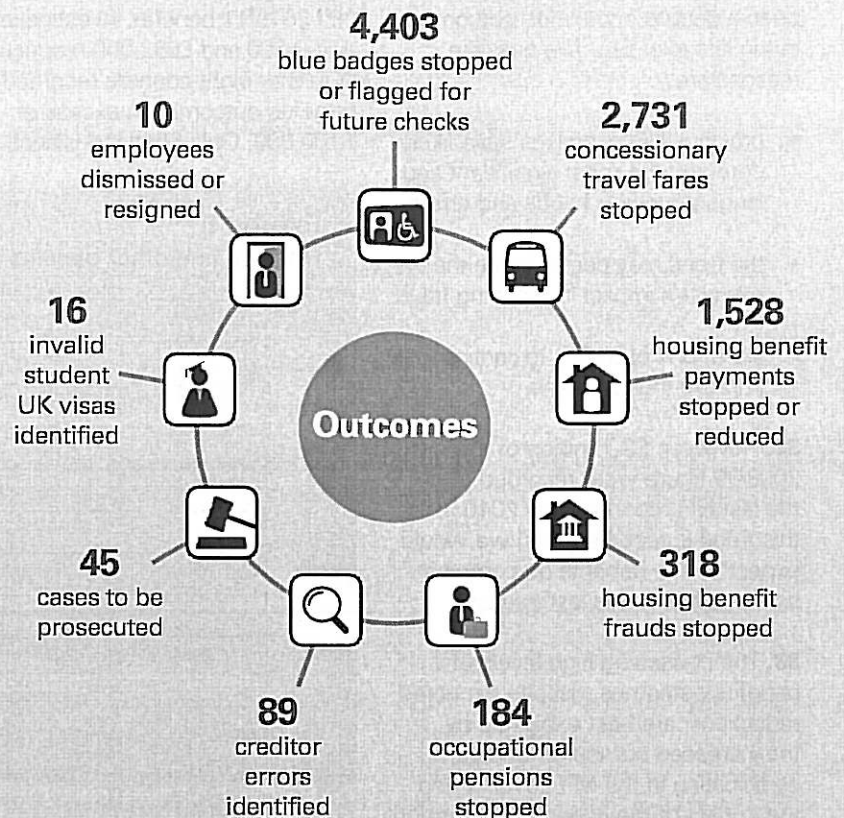
#### Benefit outcomes

28. The NFI provides councils with the opportunity to identify a wide range of benefit frauds and errors. The most common are caused by undeclared occupational pensions and undeclared earnings from public sector employment.

29. Where other benefits such as income support and Jobseeker's Allowance are also in payment, councils liaise with the Department for Work and Pensions and joint investigations may be carried out. The amounts in this report include these other benefits, where relevant.

#### Exhibit 4

Main results from the 2010/11 matches



Source: Audit Commission NFI secure web application

#### Case study 1

As a result of NFI data received an investigation was undertaken in respect of the benefit claimant. The investigation established that the claimant:

- was a personal licence holder and named premises manager, on the premises licence, in respect of a local public house
- was claiming incapacity benefit on the basis of being unfit for work
- had a spouse who was also a personal licence holder and had used the claimant's address on licence applications and had previously claimed housing benefits. This was potentially fraudulent as they failed to declare both their relationship to their landlord and that they had paid the deposit and legal fees for the property while also running another public house.

As a result of the investigation, the claimant and spouse were reported to the Procurator Fiscal Service with six potential benefit frauds totalling £50,804.

Following legal advice a further charge relating to the potential fraudulent use of the premises licence was also reported to the Procurator Fiscal Service estimated at £536,995. Charges have also been instigated regarding any proceeds of crime.

Source: Local authority



**30.** Exhibit 5 summarises the benefit outcomes from all NFI exercises to date.

**31.** This would indicate that there has been a decline in benefits outcomes in the last exercise. The possible reasons are:

- previous NFI exercises have likely detected the most significant and longest-running frauds and errors
- the trend may demonstrate the exercise's impact in deterring fraud.
- the efforts of bodies to continuously improve their systems.

**32.** However, £2.7 million of the 2008/09 figure were recorded after the last NFI report in May 2010. If this trend is repeated then we would expect to see benefits outcomes at similar levels to the last exercise.

**33.** The continuing high levels of benefits outcomes, despite expected reductions, are best explained by the increased number of bodies participating in the NFI 2010/11 and the impact of the economic recession resulting in increased numbers of benefits claims.

**34.** By the end of March 2012, councils had identified benefits overpayments from their NFI 2010/11 matches relating to (2008/09 figures are in brackets):

- 997 (1,042) public sector pensioners
- 322 (331) local government employees
- 100 (74) persons working in the NHS in Scotland.

**35.** While no overpayments are desirable, Exhibit 6 puts these figures in the context of the populations involved and it does provide some overall assurance that these areas do not have high levels of fraud and error.

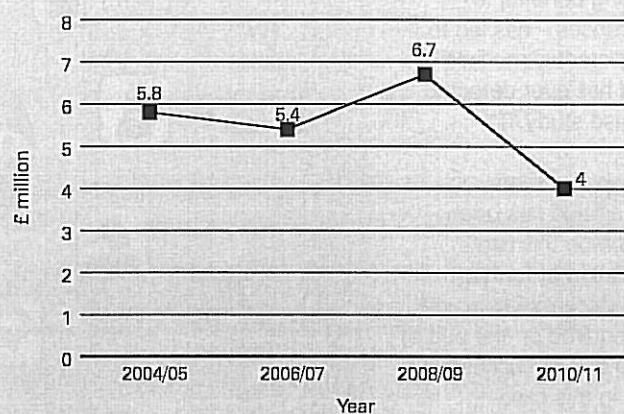
**36.** In terms of value, East Dunbartonshire and South Lanarkshire Councils have so far achieved the highest levels of outcomes from their NFI 2010/11 benefits investigations (£709,000 and £682,000 respectively). A further eight councils recorded benefits outcomes in excess of £100,000. Only Shetland Islands

Council and Comhairle nan Eilean Siar recorded no benefits outcomes.

**37.** Another measure of success is the yield in terms of benefits outcomes to total housing benefit expenditure. Exhibit 7 provides details of the top three councils in terms of yield ranking.

### Exhibit 5

#### Housing and other benefits outcomes



Source: Audit Commission NFI secure web application

### Exhibit 6

#### NFI benefits outcomes compared to source populations

Sector	Number	Overpayments identified
Public sector pensioners	300,000	997
Local government employees	283,491	322
NHS employees	154,424	100

Source: Audit Commission NFI secure web application, Scottish Government and Scottish Public Pensions Agency

### Exhibit 7

#### Housing benefit yield by outcomes

Council	Total expenditure	2010/11 outcomes
East Dunbartonshire Council	£21,376,508	£708,895
South Lanarkshire Council	£109,638,063	£682,418
Falkirk Council	£46,725,600	£209,730

Source: DWP and Audit Commission NFI secure web application

38. Care must be taken when analysing these yield rankings as there are a number of factors that can influence movement. These factors are discussed later in this section. Generally councils need to consider whether finding significant outcomes indicate effective detection of fraud and error, or whether improvements to controls within systems could be made to reduce errors.

### Pension outcomes

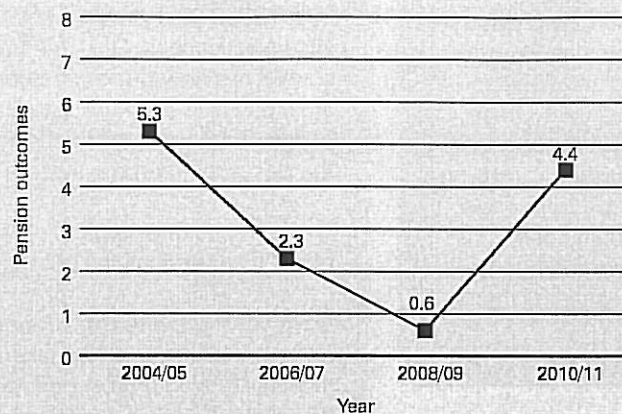
39. The NFI provides pensions administering councils and the Scottish Public Pensions Agency (SPPA) with an efficient and effective means of checking that payments are only being made to living persons. NFI 2010/11 helped these bodies identify 184 pensioners whose deaths had not been reported to them. Including other pension-related outcomes (for example, cases where early retirees have returned to work but not reported circumstances that require their pension to be reduced) and forward savings, the amounts for NFI 2010/11 total £7.1 million.

40. As in previous NFI exercises the majority of the outcomes in local government are in the:

- Strathclyde Pension Fund (SPF), administered by Glasgow City Council, which has a membership of 195,000 with outcomes of £1.5 million. SPF administers about 42 per cent of all the local government pensions in Scotland
- Lothian Pension Fund, administered by City of Edinburgh Council, which has 66,000 members with outcomes of £0.8 million.

41. The SPPA recorded outcomes of £4.4 million from its 2010/11 matches where 95 outcomes were identified. In 85 of these cases recovery is in progress. Exhibit 8 summarises pension outcomes since the NFI started.

**Exhibit 8**  
Pension outcomes



Source: Audit Commission NFI secure web application

### Case study 2

The NFI matched housing benefit claim details against council payroll details. Following investigations of this match it transpired that a housing benefit claimant had failed to declare the fact that they had a partner living with them who was also working. Further investigations revealed that in fact both partners were employed by the council.

The overpayment value was £8,886 and the case was prosecuted by the procurator fiscal. After pleading guilty the claimant was sentenced to eight months' imprisonment and has resigned.

Source: Local authority

### Case study 3

A man was sentenced to six months in jail in February 2012 for failing to disclose that he had received a lump sum payment from a pension fund totalling £27,000. Total overpayment of housing and council tax benefits and income support, obtained between October 2009 and March 2010, was £15,000. This fraud was discovered following an investigation of an NFI match.

Source: Local authority

42. The SPPA continues to work closely with the General Registers Office for Scotland<sup>4</sup> following a successful exercise between the NFI 2006/07 and 2008/09. This significantly reduced the number of unknown deceased pensioners that remained to be detected from their NFI 2008/09 matches.

43. While the absence of notification of the death of a member still accounts for the majority of overpayments in the 2010/11 exercise, there has been an increase in the number that were due to members returning to work but not informing the SPPA that they had done so. The 2010/11 savings also capture legacy matches for reemployed

teachers that had not been included in previous NFI exercises.

"NFI was the catalyst, on the back of the experience of a previous exercise, for what has become a very successful relationship with General Registers Office for Scotland. SPPA reports that, with a view to further improving controls, they hope to engage with a data cleansing and mortality screening company, to improve processes further."

External auditor SPPA

### Blue badges outcomes

**44.** The 'blue badge' scheme allows individuals with mobility problems, and who may have difficulty using public transport, to park free at on-street parking meters and pay-and-display machines. Holders are also allowed to park in designated blue badge spaces and may also be permitted to park on single or double yellow lines in certain circumstances.

**45.** Badges are sometimes used or renewed improperly by people after the death of the badge holder. The use of a blue badge by an unauthorised person is an offence. Importantly, by using a blue badge to park without need the space is denied to people with real mobility issues. This is the true social cost of this type of fraud.

**46.** Councils do not always attempt to recover a badge relating to a deceased person to avoid causing distress but, by 'flagging' the relevant records, they can at least ensure that badges are not improperly renewed in the future. By sharing information with other departments councils can also recover valuable equipment and aids if they have not been informed of a person's death.

**47.** Scottish councils have reported correcting 4,403 blue badge records where NFI helped them to identify that

### Good practice 1

#### Perth and Kinross Council

In the 2008/09 exercise, over 1,000 badges were cancelled following NFI investigations. Only 242 were cancelled in the 2010/11 exercise. The council has now put in a process whereby the registration of a death in their area results in an immediate check into whether the deceased had a blue badge. If the registration check shows that a blue badge had been issued to the deceased then the system is updated and the blue badge is cancelled.

This demonstrates a good example of a positive outcome that can arise from NFI investigations but that do not result in large financial outcomes.

By reviewing the reasons for outcomes and taking action to strengthen systems, this council has taken steps to ensure that blue badge parking is available only to eligible people in its area.

Source: Perth and Kinross Council

the holder was deceased. Edinburgh and West Lothian Councils collectively corrected over 1,800 records.

**48.** The Audit Commission first identified the problem of blue badge fraud in a report published in September 2009 and also in their subsequent annual *Protecting the Public Purse* reports. They identified how criminals forge blue badges or steal genuine ones from cars, and how a blue badge can be sold on the black market for as much as £500.

**49.** On 1 January 2012, the new Blue Badge Improvement Scheme (BBIS) procured by the Department of Transport as part of the Blue Badge Reform Programme was made available to local authorities. The BBIS, which is being phased in over the next three years, is designed to help to prevent fraud and enable more effective monitoring of cancelled, lost or stolen badges.

**50.** These new arrangements are welcomed and the NFI will continue to undertake the deceased data matching to assist in identifying potential abuse of the badge scheme.

### Other matches

#### Payroll

**51.** The NFI matches data to identify cases of potential payroll fraud. But investigations can also lead, for example, to the discovery that employees are in breach of conditions of service or EU working time limits. Apart from other consequences, excessive working hours may pose public safety risks.

**52.** The NFI also matches payroll data to UK Border Agency information about failed asylum seekers and expired and granted visas where there is no entitlement to work in the UK. It is unlawful to employ anyone who is not entitled to reside or work in the UK and NFI provides bodies with a means of supplementing their recruitment checks.

**53.** As a result of NFI 2010/11 matches, ten public sector employees in Scotland have so far been dismissed or resigned after bodies confirmed that they did not have permission to reside or work in the UK.



**54.** A key data match is between authorities to ensure that staff are not being paid twice or are continued to be paid after they have left one organisation. Case study 5 represents, by value, one of the most significant payroll irregularities since we made these matches available in 2004/05.

#### Student matches

**55.** Information about full-time students was initially used by the NFI to help councils check for invalid awards of housing benefit. Except in limited circumstances, full-time students are not entitled to housing benefit. Over the last three exercises, NFI matches have helped councils identify hundreds of cases where housing benefit was being paid improperly to students.

**56.** Since NFI 2006/07, the Student Awards Agency for Scotland (SAAS) has been provided with its own matches, identifying cases where students may be failed asylum seekers or may not hold valid permissions to reside or study in the UK.

**57.** The SAAS has recorded 16 cases of students that were found, after investigating NFI matches with the UK Border Agency, not to be entitled to receive support. This was because either these individuals were not entitled to be in the UK or they had lied about their personal circumstances. These students had received student support amounting to £180,113.

#### Payments to private residential care homes

**58.** The NFI matches information about private residential care home payments to data about deceased persons. This can identify where payments may be continuing for people who have died.

**59.** The NFI helped councils identify 39 cases from these data matches and overpayments worth £29,206. All of these overpayments are being recovered.

#### Case study 4

Investigations into an NFI match between payroll and expired UK visas identified that an employee had no right to work in the UK but was still being paid. This was confirmed with the UK Border Agency. The employee was dismissed and an overpayment of £1,847.29 identified for recovery.

Source: Local authority

#### Case study 5 – update

We reported in the NFI 2008/09 report about a significant match involving a salaried professional who had been paid by two councils at the same time after they had left one council to work in another for over two years. The total net cost to the council which the employee left has since calculated to be £99,907.

A substantial portion of the overpayment has now been repaid. Importantly, revised procedures have been put in place in the council to prevent this from happening again.

Source: Local authority

#### Case study 6

An NFI match between student loans and UK visas identified that £28,531 of financial support was obtained by a student after they had provided counterfeit documentation. The UK Border Agency is also pursuing this person.

Source: Student Awards Agency for Scotland

#### What bodies actually save or recover because of the NFI

**60.** The estimated value of the NFI to the public purse since we last reported in May 2010 is £19.8 million. However, some of this represents overpayments that will never be recovered and estimated values that have been attached, for example, to cancelling a blue badge. These amounts may not translate into cash savings, but they are valuable outcomes nonetheless.

**61.** During 2009, we canvassed bodies and established from those that responded that NFI overpayments are usually subject to the same recovery processes that apply to other debt. Most bodies do

not keep separate records of NFI recoveries. Indeed, Audit Scotland would prefer that bodies devoted their resources to investigation work, rather than require them to record NFI amounts that are often recovered by frequent small payments over long periods of time.

**62.** Historically, the average level of housing benefit overpayment recoveries in Scottish councils is around 31 per cent. Assuming, very conservatively, that this is typical of all NFI recoveries, and if we add the estimated forward savings from areas such as benefits and pensions, we can reasonably estimate that the actual cash savings or recoveries for the public purse are at least half of the total outcomes of £19.8 million.

### What does the level of outcomes tell us?

**63.** The NFI impacts on a number of levels and across a number of bodies. These levels can be summarised as shown in Exhibit 9.

**64.** A key benefit of the NFI is the fact that by identifying fraud and error the opportunity is provided to bodies to establish why they occurred and then improve their systems. This can be done by:

- simplifying system processes
- reviewing and strengthening the internal controls that failed to stop or capture errors or fraud.

**65.** While it would be difficult to eliminate all errors and prevent all frauds the NFI can provide the focus for such reviews to take place. Exhibit 10 summarises the circumstances where fraud and error are most likely to be found.

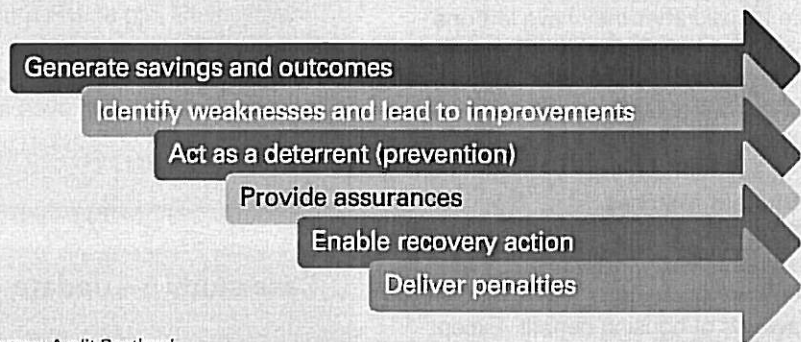
**66.** System complexity can result in errors made by either the individual wishing to obtain a service or by the public servant processing the data. Where an individual knowingly exploits systems and controls by providing incorrect information then this is fraud. Both fraud and error can be reduced by public bodies establishing sound systems of internal controls.

**67.** Audit Scotland does not take a view on whether high levels of NFI outcomes are a good result or not. High levels of outcomes could be due to increased fraud and error in the system or to poor internal controls in operation.

**68.** An important feature of the NFI is the deterrent effect created by the NFI exercise taking place and the communication of this to those whose data is included.

### Exhibit 9

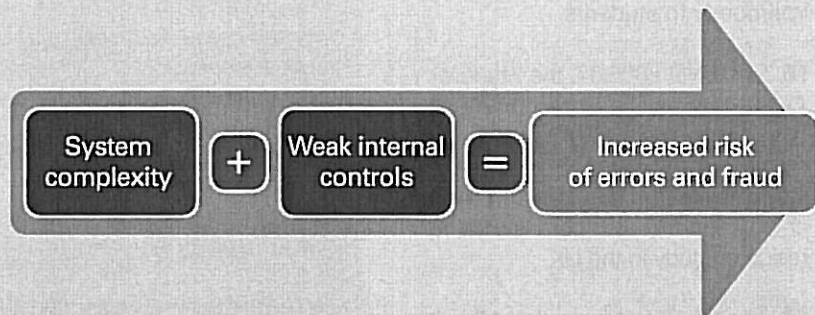
The NFI impacts on a number of levels and across a number of bodies



Source: Audit Scotland

### Exhibit 10

Circumstances that increase the risk of error and fraud



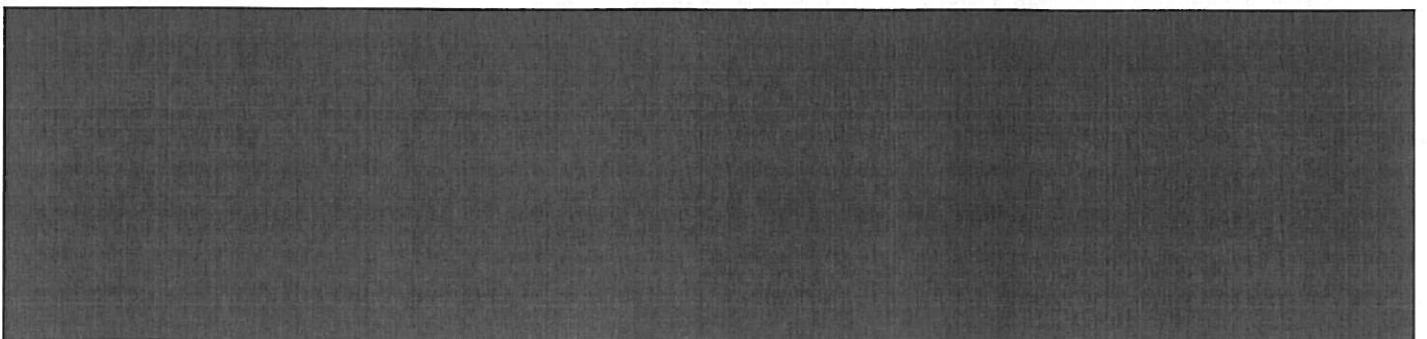
Source: Audit Scotland

**69.** Equally important is the assurance given to those bodies with few matches that in the areas covered by the NFI there does not appear to be significant problems. This work can provide assurances to the Accountable Officers about the effectiveness of their control arrangements, and therefore strengthen the evidence for the Annual Governance Statements.

# Part 2. Helping to improve, holding to account



External auditors concluded that 85 per cent of participating bodies managed their roles in the NFI 2010/11 exercise satisfactorily.



### Key messages

- 85 per cent of participating bodies managed their roles in the NFI 2010/11 exercise satisfactorily.
- 31 per cent of bodies need to follow up their matches more promptly.
- A third of bodies need to integrate the NFI into their corporate policies and strategies for preventing and detecting fraud and error.
- Five bodies were considered not to have deployed sufficient resources on managing the NFI.
- Eight bodies did not use the NFI self-appraisal checklist.

### Overall findings

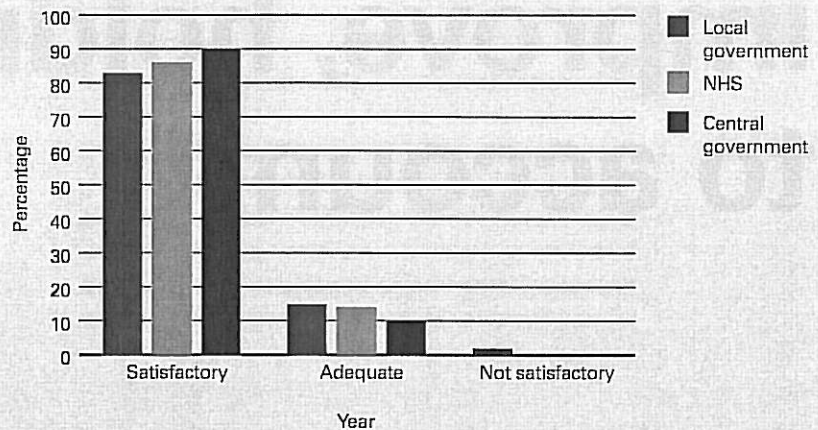
**70.** External auditors concluded that the 85 per cent of participating bodies had managed their role in the NFI 2010/11 exercise satisfactorily. However, a few showed scope for significant improvement. Appendix 2 includes a checklist that we encourage all bodies to use to self-appraise their involvement in the NFI prior to NFI 2012/13.

**71.** Auditors also provided up-to-date information about each body's NFI performance and progress at the end of February 2012. In reaching their conclusions, auditors do not attach significant weight to the value of NFI outcomes achieved by bodies (Exhibit 11).

**72.** While 85 per cent is slightly down on the 2008/09 exercise ratings, it continues to indicate a high degree of commitment to the NFI. Local auditors are providing strong assurance that all sectors are taking the NFI seriously by putting adequate arrangements in place. Central government bodies have slightly

### Exhibit 11

#### External auditor review of NFI arrangements



Source: External auditors

better arrangements in comparison with NHS and local government sectors.

**73.** Local government has the largest number of matches across the range of data sets. It is not entirely unexpected, therefore, that they have been identified as having more scope to improve.

**74.** Almost all of the officers directly involved in preparing for the NFI and following up matches demonstrate commitment, while 90 per cent of the officers nominated to coordinate the exercise were considered suitable for the role.

**75.** Other key aspects of auditor reviews:

- 91 per cent of bodies submitted their data on time.
- 88 per cent of bodies gave priority to following up recommended matches.
- Five bodies were considered not to have deployed sufficient or appropriate resources on managing the NFI exercise.

### Areas that need improvement

**76.** Exhibit 12 summarises the key areas where local auditors indicated that there was room for improvement.

**77.** While a number of bodies could improve aspects of their approach to the NFI, Comhairle nan Eilean Siar is the only body where auditors rated their NFI arrangements as not satisfactory overall and that require improvement as a matter of priority. Disappointingly this is the same rating auditors gave the council two years ago.

**78.** We are pleased to report that auditors have identified improvements by the following bodies to NFI arrangements since the 2008/09 report:

- Argyll and Bute Council
- East Renfrewshire Council
- Moray Council
- Orkney Council
- Shetland Island Council
- Stirling Council.



**79.** Auditors confirmed that appropriate arrangements had been made for issuing fair processing notices to those individuals whose data is submitted for the exercise.

**80.** Auditors reported that nine per cent of bodies submitted data for NFI 2010/11 after the specified processing deadline. This creates a need for another processing run at a future date, and thereby increases unnecessarily the cost of processing data. These bodies fell several months behind the other participants while waiting for their matches, as well as causing other bodies to receive further matches.

**81.** Twenty-one per cent of bodies did not record their outcomes fully on the NFI secure web application. Many could also improve the way they record their investigations and conclusions on the NFI application. Audit Scotland will work with colleagues in the Audit Commission to improve the clarity of recording requirements. However, the likely effect is that the value of the outcomes referred to in this report is understated in some areas.

### Exhibit 12

Areas of concern

Areas of concern	Percentage of bodies needing to improve
There is no internal audit monitoring of NFI approach and outcomes to ensure identified weaknesses are addressed	41
Fraud and error polices and strategy did not integrate NFI arrangements	33
Bodies are slow to follow up matches	31
Reporting NFI progress and outcomes to senior management and board/members is limited	15
Self-appraisal checklist was not used to improve arrangements	10

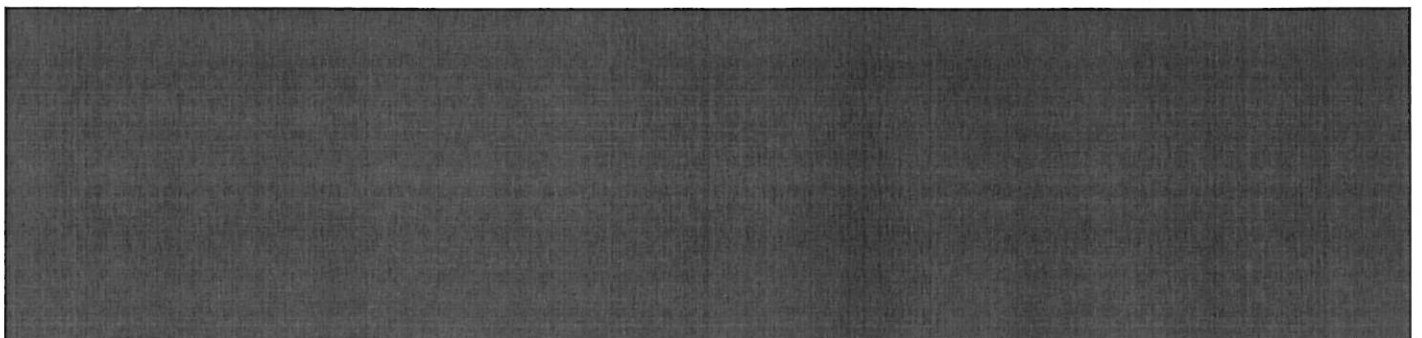
Source: External auditors



# Part 3. Future of the National Fraud Initiative



The NFI 2012/13 exercise is due to commence in June 2012.



### Key messages

- The NFI will continue and is seen as a key tool in the prevention of fraud and error in the public sector.
- The NFI 2012/13 exercise is due to commence in June 2012.
- The next exercise will look to expand the range of bodies and data sets.
- The NFI is developing real-time data matching aimed at fraud prevention.

**82.** The Scottish Government (SG) has recently updated its counter-fraud strategy<sup>5</sup> including its zero tolerance approach to fraud. This strategy has five strategic objectives:

- **Awareness:** SG will prevent fraud by raising awareness of fraud and its safeguards among public organisations in Scotland, our partner organisations in the private and voluntary sectors and our stakeholders.
- **Prevention:** SG will prevent fraud through improving our systems and controls to support our business and public services.
- **Teamwork:** SG will prevent fraud by removing silos and working together across organisations and the public sector to share information and develop combined approaches to countering fraud.
- **Investigation:** SG will handle fraud by being proactive in analysing data to identify areas at risk of fraud, by being effective and professional in our investigations of specific cases and by maintaining a robust whistle-blowing procedure.

- **Enforcement:** SG will handle fraud by continuing to be tough on fraudsters by punishing them more efficiently and effectively.

**83.** The NFI has a clear contribution to make in assisting the Scottish Government deliver these objectives. This strategy identifies data matching as a key component in delivering these aims and also recognises the efficiencies that can be delivered.

**84.** There are ongoing discussions about which organisation is best placed to enable the NFI to be most effectively delivered once the Audit Commission is wound up. There is every indication from government that it will continue and be expanded in the future.

**85.** The overall aims of the NFI are to serve the public interest by:

- safeguarding public money against losses from fraud or misappropriation
- contributing effectively to the fight against fraud.

**86.** To meet these aims the NFI 2012/13, which will be launched in June 2012, will involve work under three broad themes:

- Continuing with successful batch data matches and developing the service to offer more flexibility and meet new risks.
- Putting more emphasis on fraud prevention through the development of real-time data-matching services.
- Extending data matching for fraud purposes to a broader range of organisations and sectors.

**87.** Audit Scotland looks forward to the next NFI exercise and continuing to work with the Audit Commission and participating bodies to successfully deliver these aims.

# Appendix 1.

## Governance arrangements

### Background

The following summarises the key legislation and controls governing NFI data matching.

### Legislation

The NFI 2010/11 exercise was carried out under new powers given to Audit Scotland for data matching included in the Criminal Justice and Licensing (Scotland) Act 2010 passed by the Scottish Parliament. Under the new legislation:

- Audit Scotland may carry out data matching exercises for the purpose of assisting in the prevention and detection of fraud or other crime and in the apprehension and prosecution of offenders (referred to hereafter as the 'permitted purposes')
- Audit Scotland may require specified persons to provide data for data matching exercises. These include all the bodies to which the Auditor General for Scotland (AGS) or the Accounts Commission appoints auditors, licensing boards, and officers, office holders and members of these bodies or boards
- other persons or bodies may participate in Audit Scotland's data matching exercises on a voluntary basis. Where they do so, the statute states that there is no breach of confidentiality and generally removes other restrictions in providing the data to Audit Scotland
- the requirements of the Data Protection Act 1998 continue to apply
- Audit Scotland may disclose the results of data matching exercises where this assists the purpose of the matching, including disclosure to bodies that have provided the data and to the auditors appointed by the Auditor General for Scotland and the Accounts Commission
- Audit Scotland may disclose both data provided for data matching and the results of data matching to the AGS, the Accounts Commission, the Audit Commission, or any of the other UK public sector audit agencies specified in Section 26D of the Public Finance and Accountability (Scotland) Act 2000, for the purposes described above
- wrongful disclosure of data obtained for the purposes of data matching by any person is a criminal offence
- Audit Scotland must prepare and publish a Code of Practice with respect to data matching exercises. All bodies conducting or participating in its data matching exercises, including Audit Scotland itself, must have regard to this Code
- Audit Scotland may report publicly on its data matching activities.

### Code of Data Matching Practice

The Criminal Justice and Licensing (Scotland) Act 2010 Act includes important data protection safeguards such as a requirement for Audit Scotland to prepare a Code of Data Matching Practice, and to consult with the UK Information Commissioner and others before publication. Our Code was updated in November 2010 to reflect the new legislation and to ensure that NFI exercises continue to comply with data protection requirements and best practice in notifying individuals about the use of their information for NFI purposes. The code can be found on the Audit Scotland website.

### Training

Audit Scotland provided guidance and held NFI training events for Scottish participating bodies and their auditors, in conjunction with colleagues in the Audit Commission.

### NFI web application

Bodies access the application via the internet using password access and encryption controls similar to internet banking. The secure website is the safest method of providing the data matches to bodies. The Audit Commission regularly reviews the application and implements developments to improve its functionality, ease of use, and security.

### **Security review and accreditation**

In 2009, the whole of the Audit Commission's NFI system was subjected to a stringent security review. This covered infrastructure, information storage, handling and processing when under the control of the Audit Commission's data processing contractor and the NFI team. The review was undertaken by a CLAS consultant from Hewlett Packard who confirmed compliance with government information standards.

This accreditation involved demonstrating to key government departments that the NFI is suitably secured and that information risks are managed to government standards. The National Computing Centre also undertook independent penetration testing of the NFI systems and concluded that the NFI was '...well implemented and robust from a security perspective'.

As well as regular internal reviews by the Audit Commission, the other UK audit agencies (ie, Audit Scotland, the Wales Audit Office, the Northern Ireland Audit Office and the National Audit Office) now also share a programme of independent audits of the different aspects of NFI data security. The Information Commissioner's Office has also conducted an NFI data security audit at the invitation of the Audit Commission.

All of these measures provide current and future NFI participants with assurances that data is processed according to rigorous government security standards.

# Appendix 2.

## Self-appraisal checklist

	Yes/no/ partly	Is action required?	Who by and when?
<b>Leadership and commitment</b>			
1. Are we committed to the NFI? Has the council/board, audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff?			
2. Do officers directly involved in preparing for the NFI and following up matches demonstrate commitment?			
3. Where NFI outcomes have been low in the past, do we recognise that this may not be the case the next time, that the NFI can deter fraud and that there is value in the assurances that we can take from low outcomes?			
4. Is our NFI key contact (KC) the appropriate officer for that role and do they oversee the exercise properly?			
5. Do KC's have the time to devote to the exercise and sufficient authority to seek action across the organisation?			
6. Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error?			
<b>Planning</b>			
7. Do we plan properly for NFI exercises, both before submitting data and prior to matches becoming available?			
8. Do we confirm promptly (using the on-line facility on the secure website) that we have met the fair processing notice requirements?			
9. Do we plan properly to provide all NFI data on time using the secure data file upload facility?			
10. Do we adequately consider the submission of any 'risk-based' datasets in conjunction with our auditors?			
<b>Effective follow-up of matches</b>			
11. Do all departments involved in the NFI follow-up of matches promptly after they become available?			
12. Do we give priority to following up recommended matches, high-quality matches, those that become quickly out of date and those that could cause reputational damage if a fraud is not stopped quickly?			
13. Do we recognise that the NFI is no longer predominantly about preventing and detecting benefit fraud? Have we recognised the wider scope of the NFI and are we ensuring that all types of matches are followed up?			



	Yes/no/ partly	Is action required?	Who by and when?
14. Are we investigating the circumstances of matches adequately before reaching a 'no issue' outcome, in particular?			
15. In health bodies are we drawing appropriately on the help and expertise available from NHS Scotland Counter-fraud Services?			
16. Do all departments follow up their NFI matches on a reasonable timescale?			
17. Are we taking appropriate action in cases where fraud is alleged (whether disciplinary action, penalties/cautions or reporting to the Procurator Fiscal)?			
18. Do we avoid deploying excessive resources on match reports where early work (eg, on recommended matches) has not found any fraud or error?			
19. Where the number of recommended matches is very low, are we adequately considering the related 'all matches' report before we cease our follow-up work?			
20. Overall, are we deploying appropriate resources on managing the NFI exercise?			
<b>Recording and reporting</b>			
21. Are we recording outcomes properly in the secure website and keeping it up to date?			
22. Do staff use the online training modules in the secure website and do they consult the NFI team if they are unsure about how to record outcomes?			
23. 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?			
24. Do we review how frauds and errors arose and use this information to improve our controls?			
25. Does internal audit, or equivalent, monitor approach to the NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?			
26. Are NFI progress and outcomes reported regularly to senior management and elected/board members (eg, the audit committee or equivalent)?			
27. Do we publish internally and externally the achievements of our fraud investigators (eg, successful prosecutions)?			

# The National Fraud Initiative in Scotland

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## **Audit Results**

**Sector:** Local Government

**Client:** Inverclyde Council

**Audit Activity:** C - Governance

**Audit File:** C10 - NFI Work

**Audit Period:** 2010/2011

**Status:** Audit Approved



**Audit Report**  
**C10 - NFI Work – 2010/11**

**Compliance Test:**  
Completion Checklist

**Finding:** *Green*

1. - Is the body committed to NFI (eg has the council/board, audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff)?

**Finding:** *Green*

2. - Do officers directly involved in preparing for NFI and following up matches demonstrate commitment?

**Finding:** *Green*

3. - Where NFI outcomes have been low in the past, does the body 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 can be taken from low outcomes?

**Finding:** *Green*

4. -Is the NFI key contact (KC) an appropriate officer for that role and do they oversee the exercise properly (eg does the KC have the time to devote to the exercise and sufficient authority to seek action across the organisation)?

**Finding:** *Green*

5. - Is NFI an integral part of the body's corporate policies and strategies for preventing and detecting fraud and error?

**Notes:**

Reviewed the councils Anti-Fraud and Irregularity Policy to ensure that NFI is suitably incorporated.

**Recommendations:**

The council's current anti-fraud and corruption strategy does not incorporate NFI.

**Finding:** *Green*

6. - Did the body plan properly for NFI 2010/11, both before submitting data and prior to matches becoming available?

**Finding:** *Green*

7. - Did the body meet the privacy notice requirements for NFI 2010/11 and confirm this promptly to the NFI team using the online facility on the NFI secure web-site?

**Finding:** *Green*

8. - Did the body plan for and submit all NFI data on time using the secure data file upload (DFU) facility?

**Finding:** *Green*

9. - Did the body adequately consider the submission of any 'risk-based' datasets in conjunction with its external auditors?

**Finding:** *Green*

10. - Were decisions about submitting risk based datasets (and, in councils, the electoral register) taken at an appropriately senior level?

**Finding:** *Green*

11. - Did ALL departments involved in NFI commence the follow up of matches promptly after the matches became available and have they made (or are they making) good progress with following up matches?

**Finding:** *Green*

12. - Did the body give priority to following up recommended matches, high quality (red report) matches, those that become quickly out of date and those that could cause reputational damage if a fraud is not stopped quickly?

**Finding:** *Green*

13. - COUNCILS ONLY - does the council recognise that NFI is no longer predominatly about preventing and detecting benefit fraud (eg have staff recognised the wider scope of NFI and are they ensuring that ALL types of matches are followed up)?

**Finding:** *Green*

14. - COUNCILS ONLY - is the council liaising sufficiently with local DWP/JCP fraud investigation staff about matches where IS, JSA or ESA is in payment and are arrangements in place for NFI outcomes from these matches to be recorded in the secure web-site?

**Finding:** *Green*

15. - Is the body investigating the circumstances of matches adequately before reaching a 'no-issue' outcome, in particular?

**Finding:** *Not Applicable*

16. - HEALTH BODIES ONLY - is the body drawing appropriately on the help and expertise available from NHS Scotland Counter Fraud Services?

**Finding:** *Green*

17. - Did ALL departments/sections of the body follow up their NFI matches on a reasonable timescale?

**Finding:** *Green*

18 - Is the body taking appropriate action in cases where fraud is alleged (whether disciplinary action, issuing penalties or cautions, or reporting to the Procurator Fiscal)

**Finding:** *Green*

19. - Has the body avoided deploying excessive resources on any match reports where early work (eg on recommended matches) has not found any fraud or error?

**Notes:**

Reviewed the progress of matches to identify where excessive resouces might have been used for little or no results.

**Recommendations:**

A sample approach was not taken with regard to investigating creditors matches (where there are not recommended filters). The investigations did result in some errors being found and the experience gained may allow for the future development of a sample approach.

**Finding:** *Green*  
20. - Correspondingly, where the number of recommended matches is very low, did the body adequately consider the other matches in each report before ceasing its follow up work?

**Finding:** *Green*  
21. - Overall, has the body deployed sufficient/appropriate resources on managing the NFI exercise?

**Finding:** *Green*  
22. - Is the body recording outcomes properly in the secure website and keeping it up to date?

**Finding:** *Green*  
23. - Have staff used the online training modules in the secure website and are they consulting the NFI team if they are unsure about how to record outcomes?

**Finding:** *Green*  
24. - If, out of preference, the body is recording some or all outcomes outside the secure website, are arrangements in place to inform the NFI team about these outcomes?

**Finding:** *Green*  
25. - Is the body reviewing how frauds and errors arose and using this information to improve its controls?

**Finding:** *Amber*  
26. - Is internal audit monitoring the body's approach to NFI and its main outcomes, to ensure that any weaknesses are addressed in relevant cases?

**Recommendations:**

Internal audit have not been involved in monitoring the council's approach to NFI and its main outcomes to ensure that any weaknesses are addressed. The key contact has indicated that this is an issue for consideration in future years.

**Finding:** *Green*  
27. - Is NFI progress and outcomes reported regularly to senior management and elected/board members (eg the audit committee or equivalent)?

**Finding:** *Green*  
28. - Does the body publicise (internally and externally) the achievements of its fraud investigators (eg successful prosecutions)?

**Finding:** *Green*  
29. - Overall, how do you rate the body's arrangements for NFI 2010/11 including the progress it has made with following up matches?

**Finding:** *Green*  
30. – Please provide details of the two most significant or interesting frauds (or other outcomes) that arose in this body from the 2010/11 NFI exercise. Please provide sufficient information to allow a short case study to be written – as a guide see examples in the 2008/09 national report published in May 2010.