

Item: 9

Policy and Resources Committee: 3 December 2020.

National Fraud Initiative.

Report by Head of Finance.

1. Purpose of Report

To present the national audit report “The National Fraud Initiative 2018/19”, prepared by Audit Scotland.

2. Recommendations

The Committee is invited to note:

2.1.

The national audit report, The National Fraud Initiative 2018/19, issued in July 2020 by Audit Scotland, attached as Appendix 1 to this report.

2.2.

The key messages contained within the national audit report, as detailed in section 5 of this report.

3. Introduction

3.1.

Audit Scotland requires that the Council participates in the National Fraud Initiative which is a data matching exercise to assist in the prevention and detection of fraud.

3.2.

This data matching involves comparing computer records held by one body against other computer records held by the same or another body. The data matching allows potentially fraudulent claims and payments to be identified. Where a match is found it indicates that there is an inconsistency which requires further investigation. No assumption can be made as to whether there is fraud, error or other explanation until an investigation is carried out.

4. Background

4.1.

The National Fraud Initiative is a counter-fraud exercise carried out across the United Kingdom public sector which aims to prevent and detect fraud.

4.2.

Data matching is an effective and efficient way to identify areas for further investigation by connecting discrepancies between different data sets.

4.3.

The success of the National Fraud Initiative comes primarily from the public servants who investigate the data matches and the external auditors who review their arrangements.

5. Key Messages

The messages highlighted in the national audit report, attached as Appendix 1 to this report, are as follows:

5.1.

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.

5.2.

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

5.4.

National Fraud Initiative 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.

5.5.

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

6. Next Steps

6.1.

There is no specific mention of Orkney Islands Council in the national audit report.

6.2.

The 2020/21 National Fraud Initiative got underway in autumn 2020 with instructions for participants issued in August 2020. Data collection has started and, from 28 January 2021, the Cabinet Office's NFI team will make the 2020/21 National Fraud Initiative exercise matches available for investigation by participating bodies.

6.3.

Audit Scotland will continue to work with participants in the National Fraud Initiative to develop new ways to prevent and detect fraud and consider data matching across additional data sets.

7. Corporate Governance

This report relates to governance and procedural issues and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

8. Financial Implications

Services have directed resources towards investigation of matches identified in the National Fraud Initiative reports. There has been no requirement for additional staff resources, however completion of the whole exercise involves a considerable number of staff hours.

9. Legal Aspects

The 2018/19 National Fraud Initiative exercise was carried out under powers contained in Section 26A of the Public Finance and Accountability (Scotland) Act 2000, as amended, which provides that Audit Scotland may carry out data matching exercises or arrange for these to be carried out on its behalf.

10. Contact Officer

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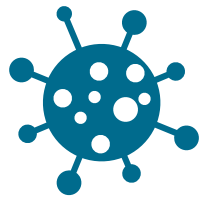
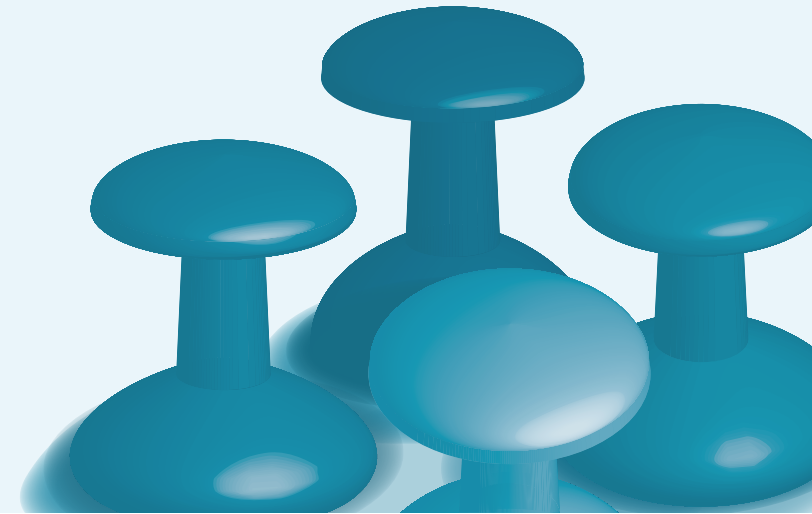
11. Appendix

Appendix 1: Audit Scotland national audit report, The National Fraud Initiative 2018/19.

National Fraud Initiative 2018/19



Covid-19 raises risk of public-sector fraud



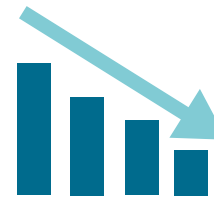
1. Covid-19

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.



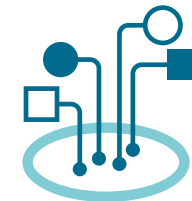
2. Outcomes

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



£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)



£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.

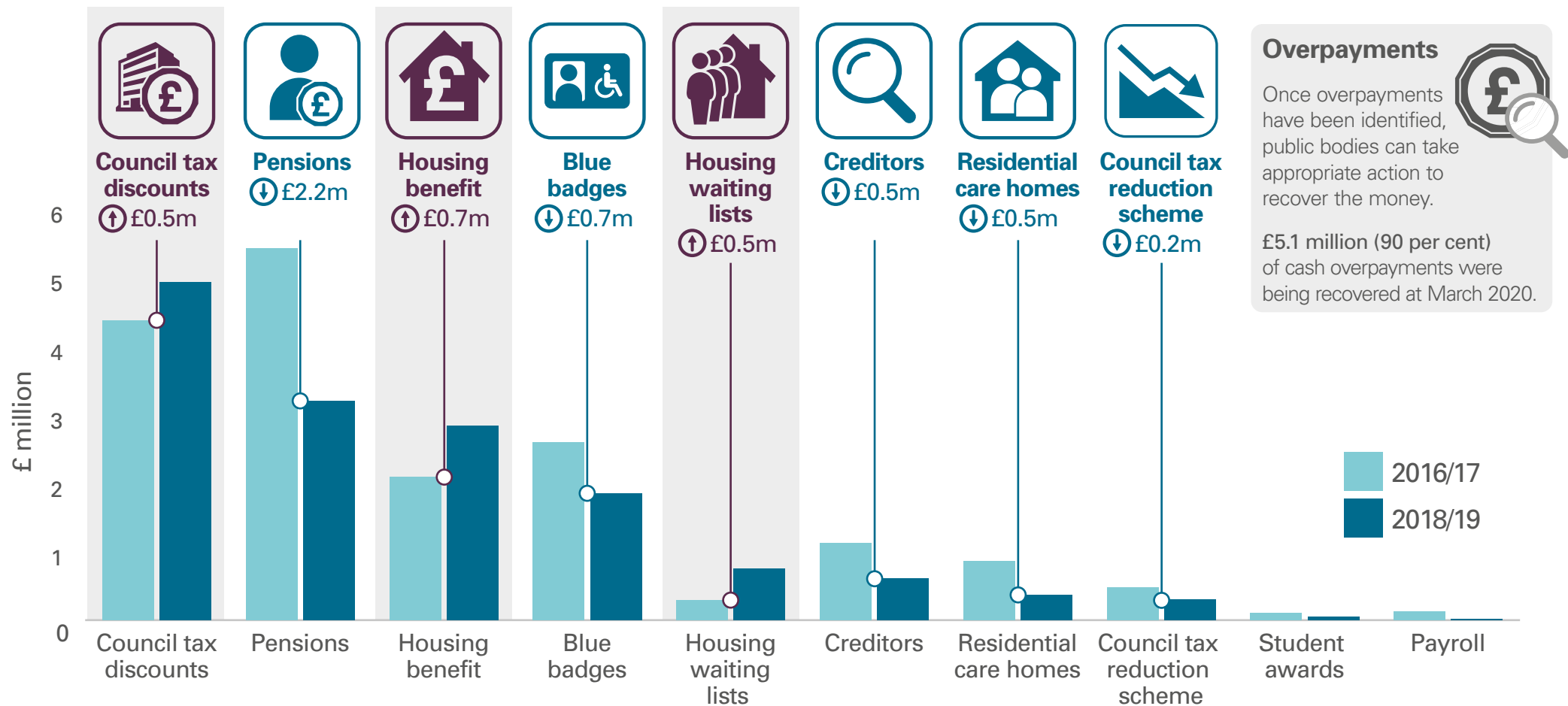
Although the main purpose of the NFI is to ensure funds and services are provided to the correct people, the review of NFI matches may also identify that a customer is entitled to additional services or payments.

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.

£4.9 million

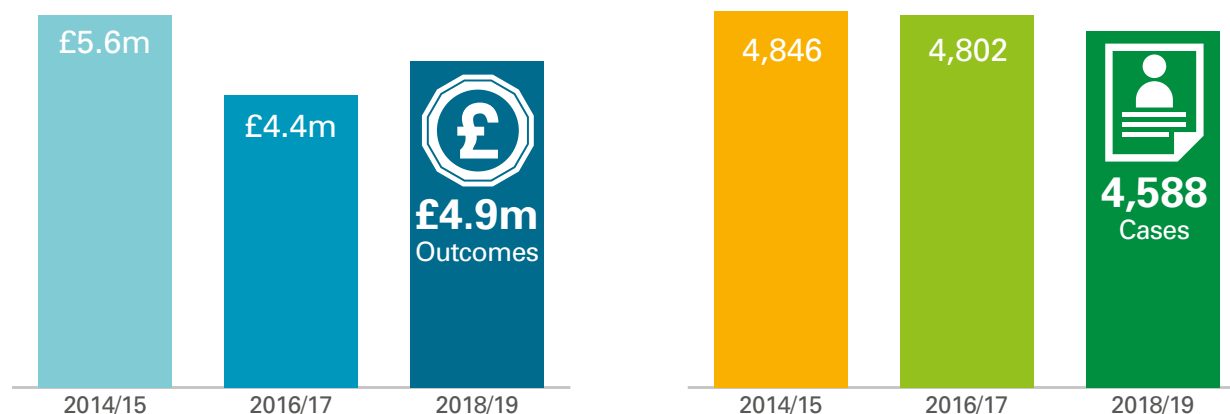
Total outcomes
in 2018/19 exercise

£1,072

Average outcome

4,588

Cases



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.

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.

Council tax data is matched to:

- Electoral register
-



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

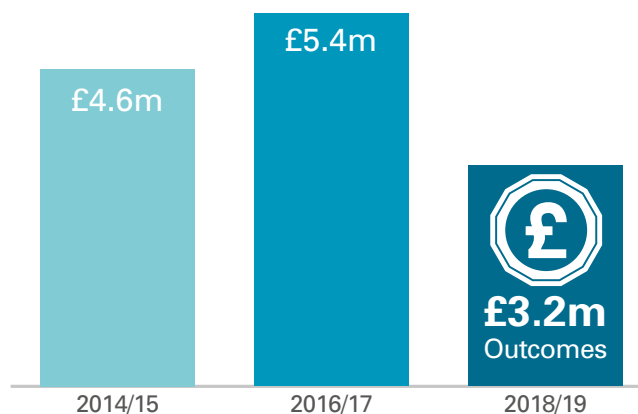
Reduction on the
2016/17 NFI exercise

£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.

Case study

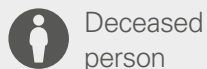
Dundee City Council



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.

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.

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

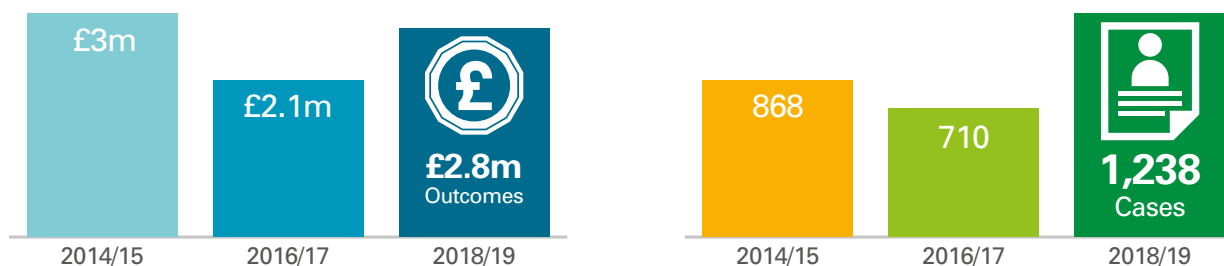
Total outcomes
in 2018/19 exercise

£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:



Student loans



Payroll



Pensions



Housing
benefits



Housing
tenants



Right to buy
(in England)



Licences



Deceased
person



Amberhill
data

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

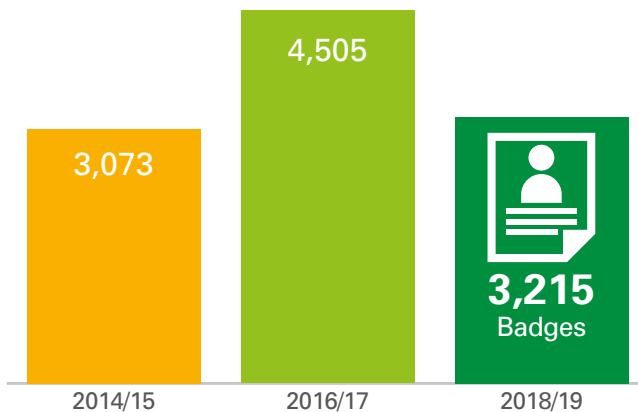
Total outcomes
in 2018/19 exercise

3,215

Total number of blue
badge outcomes in
2018/19 exercise

1,290

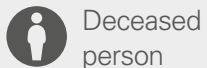
Decrease from NFI
2016/17 exercise



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

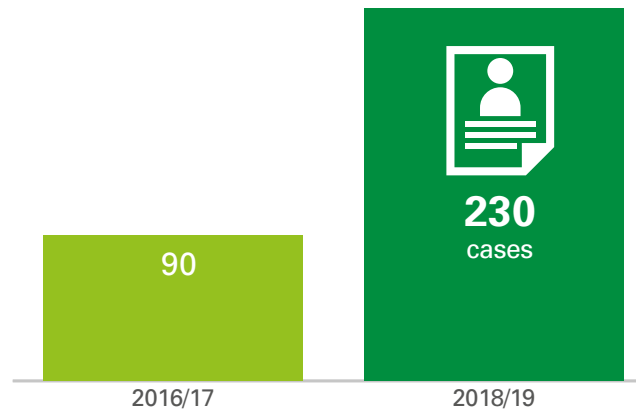
Total outcomes in 2018/19 exercise

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

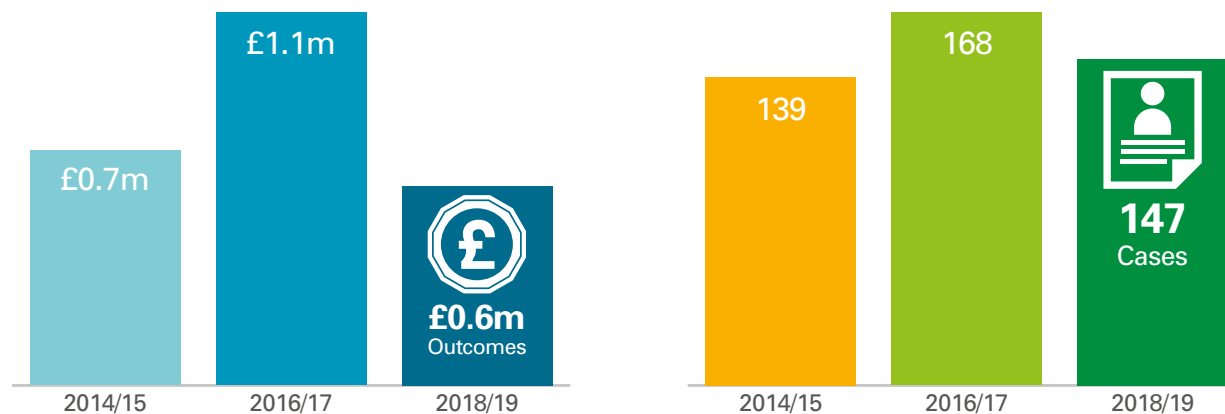
Total outcomes
in 2018/19 exercise

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

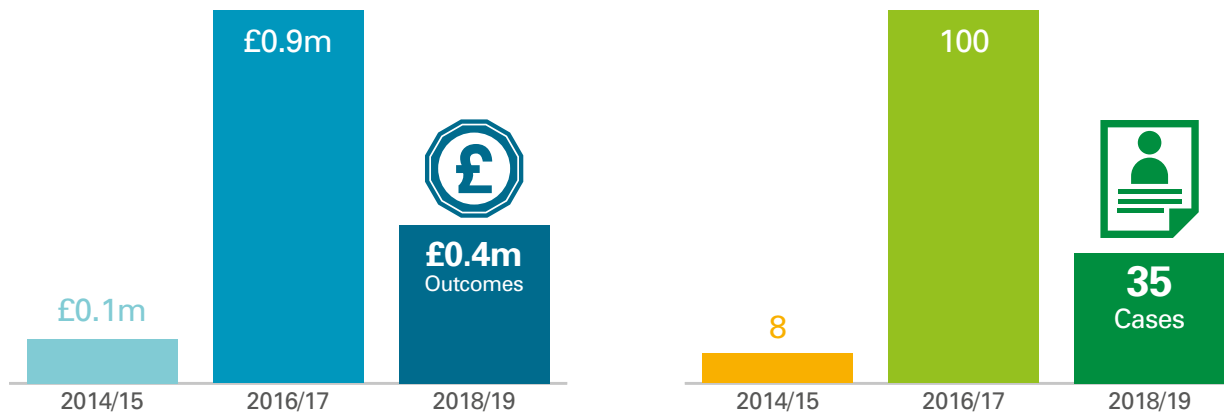
Total outcomes
in 2018/19 exercise

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

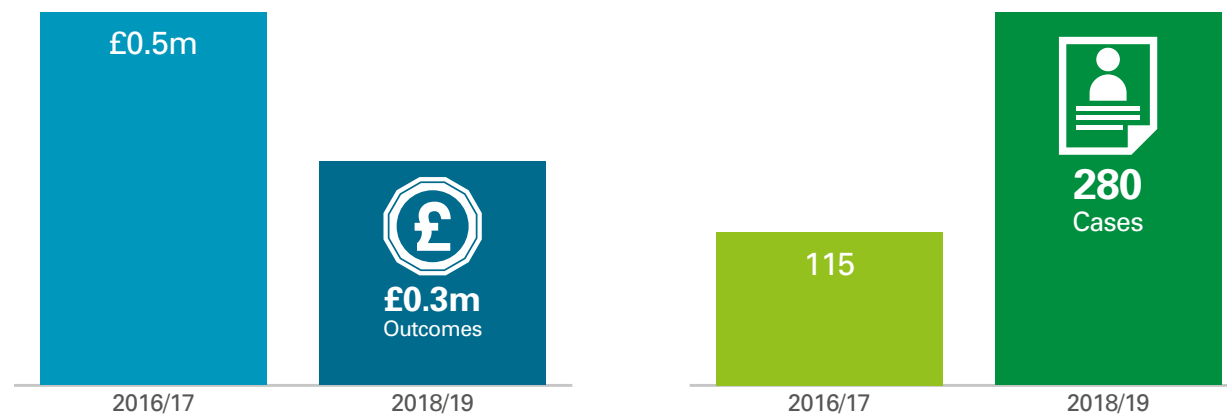
Council tax reduction helps those on low incomes to pay their council tax bills. The NFI provides councils with the opportunity to identify a range of council tax reduction frauds and errors.

£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:



Council tax reduction



Payroll



Pensions payroll



Housing benefits



Housing tenants



Right to buy (in England)



Licences



Deceased persons



Amberhill data



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.

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.

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.

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

£854,760

415



Central government

£759,879

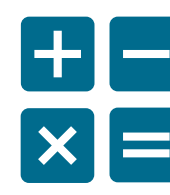
388



NHS

£120,408

75



Colleges

£12,672

6



Total

£1,747,719

884

2016/17

£520,948

232

2016/17

£438,206

254

2016/17

£155,566

77

2016/17

£7,073

5

2016/17

£1,121,793

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.

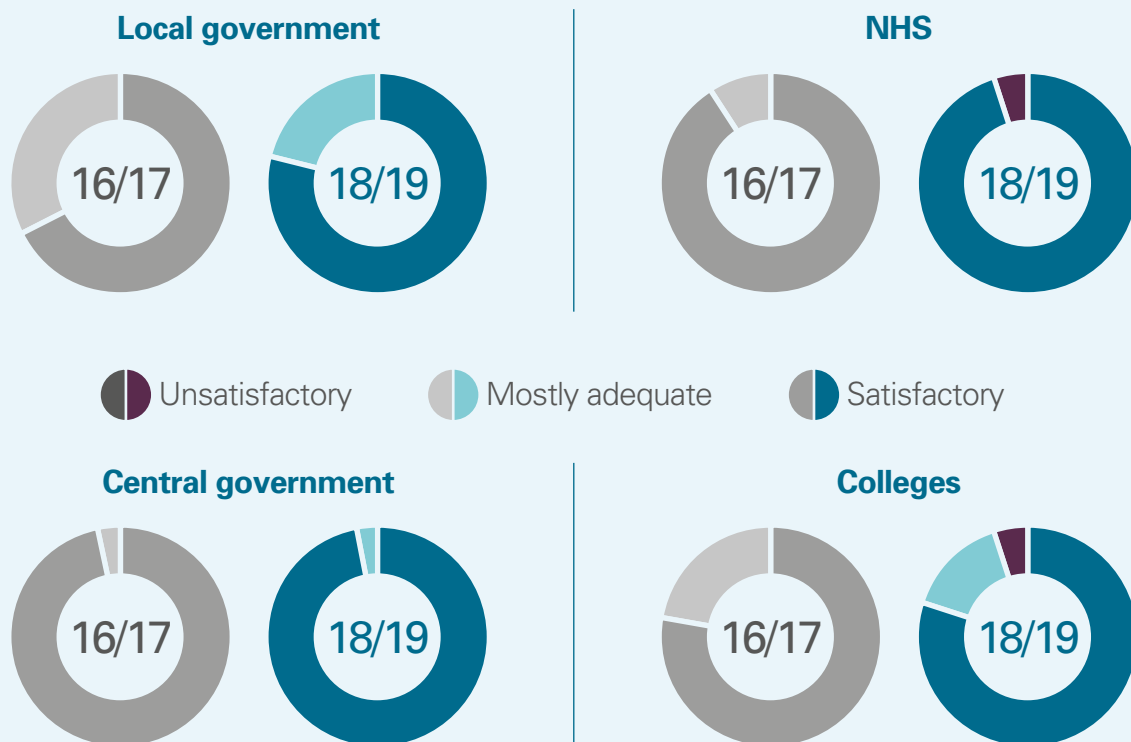
	No. of bodies reported	Cost range
 Local government	●●●● 4	£10,000 – £30,000
 NHS	●●●●●●●● 8	£120 - £6,000
 Central government	●●●●●●●●●● 10	£400 - £10,179
 Colleges	●●●●●●●● 7	£150 - £10,000

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



£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.




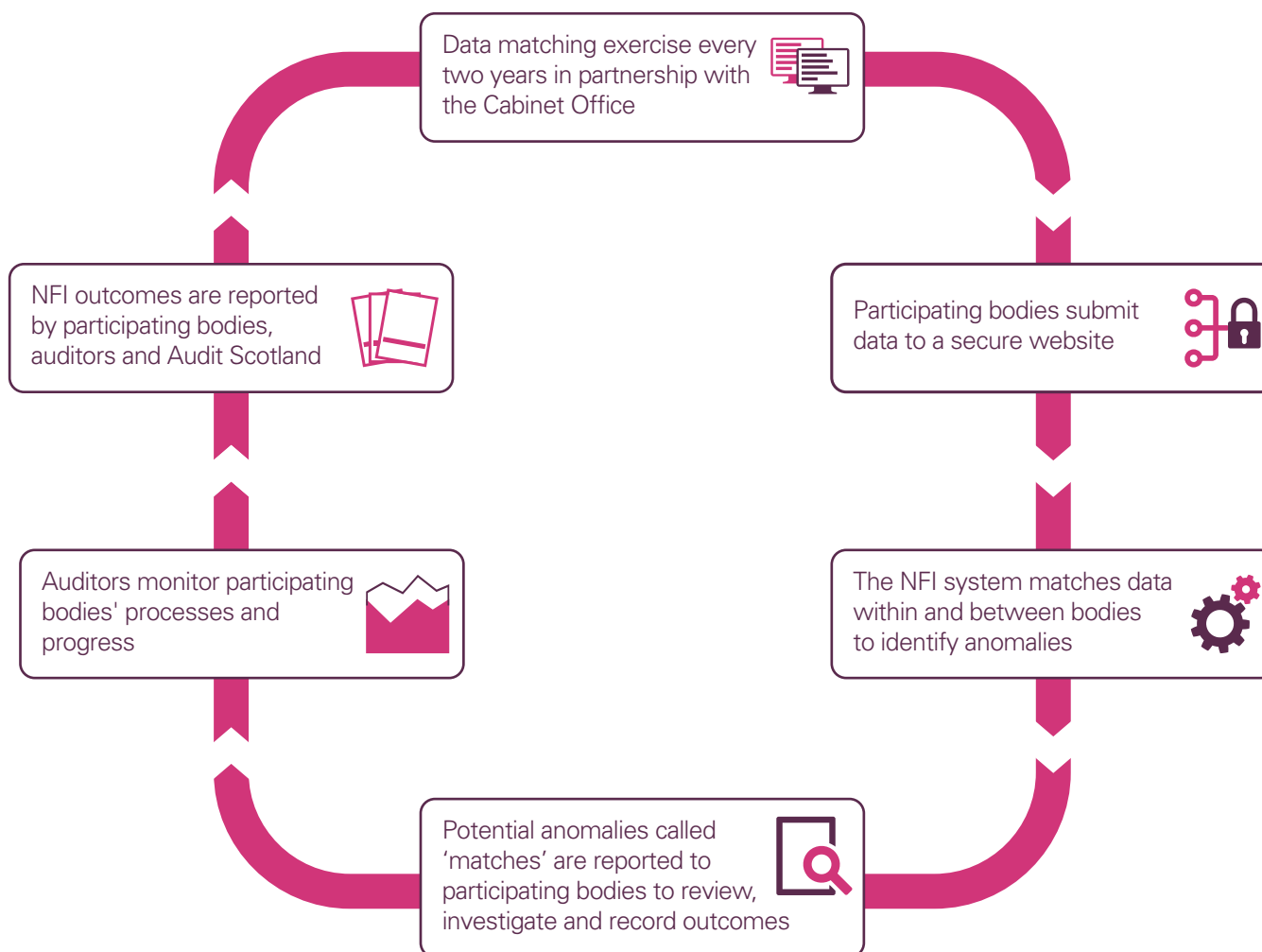
Audit Scotland continues to work with the Scottish Government in promoting and enhancing participation in the NFI across Scotland.

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](#)  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

This report is available in PDF and RTF formats,
along with a podcast summary at:

www.audit-scotland.gov.uk 

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