

Report

Report to:	Risk and Audit Scrutiny Committee
Date of Meeting:	21 September 2020
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	The National Fraud Initiative 2018/2019
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ provide a summary of Audit Scotland's report – The National Fraud Initiative in Scotland 2018/2019 (July 2020).
- ◆ highlight key points specifically in relation to South Lanarkshire Council
- ◆ identify further action where required.

2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

- (1) that the contents of this report are noted; and
- (2) that the action plans at Appendices Four and Five are endorsed.

3. Background

- 3.1. The National Fraud Initiative (NFI) is a counter-fraud exercise whereby data is taken from councils and other public bodies and cross matched to identify the potential for fraud. Councils are then informed of the resulting indicative matches and are responsible for investigating a proportion of these matches using a risk- based approach. Audit Scotland have responsibility for co-ordinating the exercise across Scotland.
- 3.2. The 2018/2019 exercise matched data across a wide range of data groups. Target investigations and outcomes specific to South Lanarkshire Council (SLC) are the subject of a separate report on the agenda for this meeting and an extract from this report is included at Appendix 1 summarising the final position for SLC.
- 3.3. At the conclusion of each main NFI exercise, Audit Scotland publish an overview report that sets out NFI outcomes across Scotland, draws conclusions from these results and makes a number of recommendations for consideration ahead of participation in the next NFI exercise.
- 3.4. Within the Audit Scotland report, outcomes are expressed in terms of fraud, overpayment or error that have been detected by the NFI exercise as well as notional future losses that detection has prevented from being incurred (see Appendix Two).
- 3.5. As an exercise, the NFI is continually reviewed to identify further areas where data-matching would be beneficial. The current exercise included a pilot of businesses inappropriately claiming Small Business Bonus Scheme relief. £412,974 incorrect

records were identified across seven local authorities participating in the pilot¹ and the Scottish Government is now considering a national roll-out across all Scottish councils as part of future NFI exercises.

4. Results

- 4.1. 124 Scottish public bodies including central government, local authorities and NHS took part in the 2018/2019 NFI exercise. This is an increase from the previous exercise where 113 bodies took part.
- 4.2. Despite an increase in the number of bodies participating in the exercise, the overall number of matches across Scotland fell to 580,393 (a decrease of around 11.6%) and overall financial outcomes to £15.3m (a decrease of around 13.6%). Within South Lanarkshire, matches increased marginally by 643 (2.9%) and outcomes decreased by £15,154 (33.7%).
- 4.3. Audit Scotland conclude within their report that the reduction in matches may be due to immigration data that was excluded from the exercise by the Home Office and that the reduction in outcomes potentially reflects that there is less fraud and error, that stronger internal controls exist or that there has been a less effective detection of fraud and error. The report does, however, note that, irrespective of outcomes, the exercise continues to act as a deterrent to fraud.
- 4.4. Detailed analysis of the outcomes across Scotland are set out in Audit Scotland's report and are summarised in the table below alongside the outcomes within South Lanarkshire:

	Scotland		SLC	
Data	Number	Outcome	Number	Outcome
Council Tax discounts	4,588	£4.9m	N/A ²	N/A ²
Pensions	98	£3.2m	N/A	N/A
Housing Benefits	1,238	£2.8m	22	£0.02m
Blue Badges	3,215	£1.8m ³	145	£0.08m ³
Housing Waiting List	230	£0.7m	0	0
Creditors	147	£0.6m	3	£0.001m
Private Care Home Residents	35	£0.4m	1	<£100
Council Tax Reduction	280	£0.3m	3	£0.006m
Payroll	8	£0.02m	0	0
Student Awards	2	£0.05m	N/A	N/A
Balance ⁴		£0.53m	N/A	N/A
TOTAL		£15.3m		£0.107m

Table 1: Outcomes from 2018/2019 NFI exercise

¹ South Lanarkshire Council was not included in this pilot.

² The Benefits and Revenue Section undertake a rolling programme of external reviews through Datatank to confirm ongoing eligibility around SPD. These are screened using the Electoral Register and other financial information. For the purposes of determining NFI matches for investigation, data from the NFI exercise was reviewed to remove cases that had already been included in datasets passed to Datatank for review.

³ This is the notional loss attributed to the fraudulent misuse of blue badges.

⁴ Areas where outcomes were less significant

- 4.5. It is South Lanarkshire Council's policy to pursue and recover all overpayments in line with the Council's debt recovery procedures. Overpayments are assessed in relation to their value and the information available before proceeding with the recovery. Each case is assessed individually and various factors are considered before recovery is progressed, including the age and health of the debtor and whether it is economical to pursue the debt.
- 4.6. It is not mandatory for councils to investigate matches resulting from the NFI exercise. However, Audit Scotland carry out checks within councils to ensure that, where they are not investigating NFI matches, they have alternative arrangements in place. South Lanarkshire Council's external auditors have reviewed our approach and were satisfied that adequate arrangements were in place, with no further action required.
- 4.7. The Committee is asked to note the national outcomes of the 2018/2019 NFI exercise, that preparation for the 2020/2021 NFI exercise has commenced and that Internal Audit will continue to lead on delivery of this across SLC.

5. COVID-19

- 5.1. Given the timing of this report, in addition to setting out NFI outcomes, Audit Scotland also referenced the impact of COVID-19 on the fraud risk faced by the public sector.
- 5.2. The report notes that the challenges of delivering public services within the context of a pandemic have increased the risk of fraud and error linked to the extreme pressures faced and the necessity to revise controls and governance arrangements. Specific risks were identified around remote working, increase in cyber-crime, employees working under pressure, increase in phishing emails and scams and the pressure to deliver government emergency support packages within short timescales.
- 5.3. The recommendation within the report is that organisations should be aware of emerging fraud risks and take appropriate preventative and detective action. South Lanarkshire Council has given full consideration to the impact of COVID-19 on its top risks and the mitigating actions that require to be taken.
- 5.4. To support this response, Audit Scotland has been working with the Cabinet Office to identify, develop and promote data matching facilities to help address some of the increased fraud risk and to embed this within future NFI exercises.

6. Audit Scotland Recommendations

- 6.1. As is common practice, the Audit Scotland Report also includes recommendations for consideration ahead of participation in the next NFI exercise as well as some commentary around how to complete NFI investigations more efficiently.
- 6.2. The two-part checklist provided is designed to assist audit committee members when reviewing, seeking assurance over or challenging the effectiveness of their body's participation in the NFI (Part A – Appendix Three). Part B is for officers involved in planning and managing the NFI exercise and has been completed and is attached at Appendix Four. Recommendations and responses in relation to how to work more efficiently is attached at Appendix Five.
- 6.3. Participating bodies are encouraged to maximise benefits of participation, complete self-appraisal checklists in preparation for the 2020/2021 NFI exercise and address any actions raised by local auditors.

7 Employee Implications

- 7.1. One Auditor within Internal Audit was responsible for co-ordinating the SLC exercise which included facilitating the issue and receipt of information requests from other public bodies in relation to NFI cases, undertaking Procurement investigations and reporting on employee benefit fraud cases if required. A total of 40 days was allocated in the 2019/2020 Internal Audit plan.
- 7.2. In addition to the time allocated by Internal Audit, Resources are also required to allocate time to the investigations. Efforts continue to be made to ensure that resources are allocated to investigate matches in an efficient and effective manner.

8 Financial Implications

- 8.1. The cost of the NFI exercise and the biennial data matching for Scottish public bodies is funded by Audit Scotland. Participating bodies incur costs gathering data for upload and investigating the matches that are produced once national data-matching has been completed. Within South Lanarkshire Council, other than employee time, there is no cost associated with participating in the NFI exercise.
- 8.2. Although the return on participating in the exercise is becoming more marginal, it does continue to act as a deterrent to fraud. Arrangements will be put in place within Resources to record the time spent on investigating matches as part of the 2020/2021 exercise to provide an accurate comparison of the costs and benefits arising from participation.

9. Climate Change, Sustainability and Environmental Implications

- 9.1. There are no implications for climate change, sustainability or the environment in terms of the information contained in this report.

10. Other Implications

- 10.1. NFI is an invaluable counter fraud exercise. A key benefit of NFI is that by identifying fraud and error, the Council is able to establish why these instances occurred and make improvements where necessary thereby preventing future financial losses.
- 10.2. Failure to participate in this exercise would increase the risk of fraudulent activities committed against the Council not being identified. In addition, the Council's External Auditors' work includes a review of our governance and financial arrangements including action to prevent and detect fraud. Active participation in the NFI is one way the Council can demonstrate good governance and sound financial management. External Audit will also review and conclude on the effectiveness of local NFI arrangements and provide assurances on the progress of NFI investigations with failure to embrace investigative work under the NFI adversely affecting the Council's reputation.
- 10.3. Audit Scotland's report also highlights, for those public bodies taking part in the NFI exercise that do not always identify significant outcomes from their own matches, that other bodies and sectors may do so by matching against the data supplied. Audit Scotland's report sets out a national picture that helps to provide context around the outcomes specific to individual bodies.

11. Equality Impact Assessment and Consultation Arrangements

- 11.1. Prior to the start of each NFI exercise, the Council is required to ensure privacy notices are available to the individuals on whom we are sharing information. The notices should clearly set out an explanation that their data may be disclosed for the purpose of preventing and detecting fraud. It should also state that their data will be provided to Audit Scotland for this purpose and it should contain details of how individuals can find out more information about the processing of their data.
- 11.2. There is no requirement to carry out an impact assessment in terms of the proposals contained within this report.

Paul Manning
Executive Director (Finance and Corporate Resources)

28 August 2020

Link(s) to Council Objectives/Values/Ambitions

- Achieve results through leadership, good governance and organisational effectiveness

Previous References

- ◆ 2018/2019 National Fraud Initiative exercise – RASC 21 September 2020

List of Background Papers

- ◆ Audit Scotland Report: The National Fraud Initiative in Scotland 2018/2019 (July 2020)

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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Extract from 2018 National Fraud Initiative Exercise, RASC 21 September 2020

Area	Total	Target No.	Cleared	Errors	Value £
Housing Benefits	1,123	250	250	22	22,064
CTRS	1,798	122	122	3	6,268
Payroll	219	202	202	0	0
Housing Tenants	506	125	125	0	0
Waiting List	1,516	249	249	0	0
Blue Badge	441	46	46	145 ⁵	0
Residents Parking Permits	46	46	46	0	0
Concessionary Travel	547	0 ⁶	0	0	0
Private Care Home Residents	121	121	121	1	84
Personal Budget	25	3	3	0	0
Creditor ⁷	4,788	774	718	3SL	1,430
Procurement	161	161	161	0	0
Single Persons Discount	11,651	0	0	0	0
Total	22,942	2,099⁸	2,043	174	29,846

⁵ From a full review of 441 blue badge matches.

⁶ Concessionary Travel Passes were investigated by Strathclyde Passenger Transport.

⁷ At the end of March there were 56 Creditors records to check.

⁸ Target number of investigations reported to RASC September 2019.

Estimation bases

Appendix Two

Extract from Audit Scotland Report: National Fraud Initiative 2018/2019 (July 2020)

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.

Are we aware of emerging fraud risks, eg due to Covid-19, and taken appropriate preventative and detective action?
Are we committed to NFI? Has the council/board, audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff?
Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error?
Have we considered using the point of application data matching service offered by the NFI team, to enhance assurances over internal controls and improve our approach to risk management?
Are NFI progress and outcomes reported regularly to senior management and elected/board members (eg, the audit committee or equivalent)?
Where we have not submitted data or used the matches returned to us, eg council tax single person discounts, are we satisfied that alternative fraud detection arrangements are in place and that we know how successful they are?
Does internal audit, or equivalent, monitor our approach to NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?
Do we review how frauds and errors arose and use this information to improve our internal controls?
Do we publish, as a deterrent, internally and externally the achievements of our fraud investigators (eg, successful prosecutions)?

(actions to be taken are noted in **bold** font)

Question	Yes, No or Partly	Is action required?	Who, By and When?
Are we aware of emerging fraud risks, eg due to Covid-19, and taken appropriate preventative and detective action?	Yes, reviewed on annual basis and reassessed as part of the Council's review of top risks. Amended risks have been reflected in the audit planning process.	No	N/A
Are we investing sufficient resources in the NFI exercise?	Yes, exercise is coordinated by Internal Audit and individual Resources allocate time and resources to review high priority matches within their Service area.	No	N/A
Do we plan properly for NFI exercises, both before submitting data and prior to matches becoming available? This includes considering the quality of data.	Yes, formal plan in place to gather data that involves Resources and sets out approach to be taken when matches are returned. Any issues with data quality are addressed by house-keeping undertaken by Internal Audit in advance of data being uploaded. We also take steps to address any reported issues with the quality of data uploaded in previous exercises.	No	N/A
Is our NFI Key Contact (KC) the appropriate officer for that role and do they oversee the exercise properly?	Yes, Executive Director Finance and Corporate Resources and Audit Manager.	No	N/A
Do KCs have the time to devote to the exercise and sufficient authority to seek action across the organisation?	Yes, Audit Manager coordinates and is supported by Internal Audit team. Role of Internal Audit within the organisation provides sufficient authority to ensure appropriate action is taken across the Council. Reports to the Risk and Audit	No	N/A

	Scrutiny Committee evidence appropriate support of exercise at a Member level within the Council.		
Where NFI outcomes have been low in the past, do we recognise that this may not be the case the next time, that NFI can deter fraud and that there is value in the assurances that we can take from low outcomes?	Yes, recent exercises have resulted in diminishing returns but the Council remain committed to the exercise and recognise the benefits around deterrence.	No	N/A
Do we confirm promptly (using the online facility on the secure website) that we have met the fair processing notice requirements?	Yes, NFI website updated promptly and included as a task in the NFI plan.	No	N/A
Do we plan to provide all NFI data on time using the secure data file upload facility properly?	Yes, arrangements are being put in place to ensure timeous upload.	No	N/A
Have we considered using the the point of application data matching service offered by the NFI team to enhance assurances over internal controls and improve our approach to risk management?	Yes, a review of this is underway.	Completion of review and reporting of outcome.	Audit and Compliance Manager, 31 March 2021.
Do all departments involved in NFI start the follow-up of matches promptly after they become available?	Yes, there may be some minor delays but no significant delay and not such to prevent completion of investigations within target timescales.	No	N/A
Do we give priority to following up high-risk matches, those that become quickly out-of-date and those that could cause reputational damage if a fraud is not stopped quickly?	Yes, advice and guidance is provided to Resources to identify and investigate high priority matches. There is no evidence that current approach is compromising the outcomes from the exercise.	No	N/A
Are we investigating the circumstances of matches adequately before reaching a 'no issue' outcome, in particular?	Yes, employees involved in investigations are experienced and guidance continues to be provided by Internal Audit to	No	N/A

	ensure the correct outcome is reached and recorded.		
(In health bodies) Are we drawing appropriately on the help and expertise available from NHS Scotland Counter Fraud Services?	N/A	N/A	N/A
Are we taking appropriate action in cases where fraud is alleged (whether disciplinary action, penalties/cautions or reporting to the Procurator Fiscal)? Are we recovering funds effectively?	Yes, disciplinary action would be considered for any case involving an employee. Continue to work with the Department of Work and Pensions for any cases of suspected benefit fraud. Action is taken as appropriate, including penalties, cautions and reporting to the Procurator Fiscal.	No	N/A
Do we avoid deploying excessive resources on match reports where early work (eg, on high-risk matches) has not found any fraud or error?	Yes, target investigation numbers are kept under review and are amended if there are no outcomes or the outcomes are insignificant. Continue to keep approach under review to ensure that we are using resources as efficiently as possible.	No	N/A
Where the number of high-risk matches is very low, are we adequately considering the medium and low-risk matches before we cease our follow-up work?	Yes, test checks of medium and low risk matches are also undertaken to provide assurance that these (or a sample of these) should not be included in target investigations.	No	N/A
Overall, are we deploying appropriate resources on managing the NFI exercise?	Yes, no significant concerns. Review by External Auditors confirmed that adequate arrangements were in place.	No	N/A
Are we recording outcomes properly in the secure website and keeping it up-to-date?	Yes, input by Resources and reviewed by Internal Audit. Only those	No	N/A

	outcomes directly attributable to the NFI exercise are recorded on the website.		
Do staff use the online training modules and guidance on the secure website, and do they consult the NFI team if they are unsure about how to record outcomes (to be encouraged)?	Yes, this is included in the NFI Plan.	Review NFI users and ensure all complete refresher training ahead of the 2020/2021 NFI exercise.	Audit and Compliance Manager, 31 December 2020.
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?	All relevant outcomes are recorded on the NFI website.	No	N/A

(actions to be taken are noted in **bold** font)

Efficient working practice	Action required?
Ensure staff within the organisations that take part in the NFI keep up-to-date with new features of the web application and good practice by reading the guidance notes and watching the online training modules before they begin work on the matches.	Yes, review NFI users and ensure all complete refresher training ahead of the 2020/2021 NFI exercise. (Audit Manager, 31 December 2020)
Key contacts should schedule staff resources so that time-critical matches, such as housing benefit to students and payroll to immigration, can be dealt with as soon as they are received.	Instructions around this are already included in the NFI Plan and conveyed to Resources.
Key contacts should coordinate investigations across internal departments and, for example, organise joint investigation of single person discount matches involving housing benefit, to ensure all relevant issues are actioned.	Internal Audit fulfil this role and no amendment to approach is required.
Use the tools within the web application to help prioritise matches that are the highest risk. This will save time and free up staff for the most important investigations.	Internal Audit utilise this tool and no amendment to approach is required.