

Report

Report to:	Risk and Audit Scrutiny Committee
Date of Meeting:	18 September 2018
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	The National Fraud Initiative 2016
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ provide a summary of the results of the 2016 National Fraud Initiative for Scotland as reported by Audit Scotland in its July 2018 Report – The National Fraud Initiative in Scotland.
- ◆ highlight the 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
- (2) that the action plan at Appendix 1 is noted

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. It is the responsibility of Councils to investigate the matches. Audit Scotland is responsible for co-ordinating the Scottish exercise.
- 3.2. South Lanarkshire Council has taken part in National Fraud Initiatives since 2004/05. Until 2014, the focus of the exercises alternated annually between a limited exercise and a full exercise. The limited exercise compared the electoral register and council tax data to detect cases where single person discount (SPD) is being claimed and there is more than one person over 18 in the household. The full exercise involved Council wide comparisons including benefits, payroll, creditors, licences, insurance claims, blue badge holders, recipients of direct funding and private nursing home residents. In addition to being matched to other benefits and payroll data, records were also matched to Department for Work and Pensions (DWP) deceased persons' records and the UK Border Agency (UKBA) records.
- 3.3. The full exercises continue to be undertaken every two years, however, there is now the option to undertake the SPD exercise annually. South Lanarkshire Council exercised this option in 2016, therefore, this NFI exercise included both the full and the SPD exercise.
- 3.4. The data used in the 2016 exercise related to the information held as at 3 October 2016 for the full exercise. The council tax data was extracted from information held

as at 1 October 2016 and matched against the Electoral register as at 1 December 2016. This information was uploaded to the NFI website by the due dates.

- 3.5. The matches were made available to the Council for the full exercise and the SPD exercise in January 2017 and December 2016 respectively. The investigations into these matches commenced in the 2017/18 financial year.
- 3.6. Within South Lanarkshire Council, Internal Audit co-ordinates the NFI exercise. However, each Resource has been assigned the responsibility for preparing and implementing a strategy for investigating the matches relevant to them.
- 3.7. All matches are accessed through a secure National Fraud Initiative website. Access to the website is restricted to authorised users only. Employees from each Resource are given access to matches relevant to them for the duration of the exercise. The results are updated directly onto the website by the employee investigating the match. Updates indicate whether an error, fraud or overpayment has occurred or whether further investigation is required. The results recorded through the secure website and the feedback provided by organisations' External Auditors are used to collate the Audit Scotland report.

4. Results

- 4.1. 113 Scottish public bodies including central government, local authorities and NHS bodies took part in the 2016 NFI exercise. This is an increase from the previous exercise where 104 bodies took part and is partly as a result of the participation of further education organisations in the 2016 exercise.
- 4.2. The increase in the number of bodies participating in the exercise and the new matches has contributed to the increase in the number of matches from 347,715 to 656,955 and an increase in the resulting outcomes for the Scottish exercise from £16.8 million to £18.6 million for the 2016 exercise. However, there were additional matches carried out on existing datasets and also three new datasets introduced for the 2016 exercise, Council Tax Reduction scheme, waiting lists and procurement.
- 4.3. Excluding the new matches, there was a reduction of 19% (2,636) in the number of South Lanarkshire Council matches from the last exercise in 2014. This decrease is considered to reflect the success of previous exercises and the improvements made to the quality of data provided by the Council. A further 10,883 matches resulted from the introduction of new datasets and additional matches run against existing data sets.
- 4.4. Excluding SPD outcomes, South Lanarkshire Council has recorded approximately £0.045 million of outcomes from the 2016 exercise to date. This is a net decrease of £0.042 million (48%) from the previous exercise. The net decrease has resulted from a decrease in outcomes from benefit investigations and creditors' investigations of £0.051 million, offset by an increase of outcomes from payroll investigations of £0.009 million.
- 4.5. There were £0.047 million outcomes resulting from the review of 680 SPD cases in 2016, there were no outcomes identified from the previous SPD NFI exercise. The number of investigations carried out in the previous exercise was limited to 50 cases as reliance was placed on the external review carried out in this area.
- 4.6. The increase in the number of payroll outcomes could be attributable to one payroll error, where a former employee continued to be paid after leaving the Council.

- 4.7. The decrease in outcomes from Housing Benefit matches may be as a result of the increase of ongoing reviews within Benefits and Revenues, including Real Time Information (RTI) reviews which identify fraud and error quickly and will decrease the number of cases being identified within Housing Benefit matches, a reduction of 1,490 (51%) Housing Benefit matches from the previous exercise.
- 4.8. Recovery action is being taken by South Lanarkshire Council for approximately £0.030 million (64%) of SPD outcomes and £0.034 million (76%) of other outcomes identified.
- 4.9. It is South Lanarkshire Council's policy to pursue and recover all overpayments, where possible. All payroll and creditors' overpayments have been recovered and Housing Benefit and SPD overpayments are being recovered in line with the Council's debt recovery procedures. Housing benefit and SPD 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.
- 4.10. Within Scotland, the most successful matches in terms of financial outcomes were council tax discounts (24%), 89% of which resulted from SPD investigations, pensions (34%), blue badges (14%) and housing benefits (11%). South Lanarkshire Council is not an administering body for pensions, therefore, it is not possible to provide comparable information in this area. The financial outcomes within South Lanarkshire Council resulted from the SPD review (51%), creditors' investigations (20%), Housing Benefit investigations (19%) and payroll investigations (10%).
- 4.11. In addition to taking part in the NFI exercises, the Council also places reliance on ongoing Housing Benefit Matching Service (HBMS) and Real Time Information (RTI) reviews and targeted SPD reviews to identify fraud and error. Potential Housing Benefit Fraud identified through the HBMS and RTI is forwarded to DWP for further investigation. SPD fraud and error is dealt with by the Council.
- 4.12. Fraud and error identified through the HBMS and RTI reviews are not recorded through the NFI website, therefore, these outcomes will not be included in the NFI results.
- 4.13. The 2018/19 SPD targeted review carried out for South Lanarkshire resulted in the cancellation of 1,204 discounts and an annual saving of £0.293 million. The NFI website has been updated to reflect the results of the review, where required. However, not all cases included in the review will be included in the NFI match results. Due to the timing differences between the two exercises, 47 errors valued at £0.011million were included in both reviews.
- 4.14. It is not mandatory for Councils to investigate matches resulting from the NFI exercise. However, Audit Scotland carries 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 reviewed our approach and were satisfied that adequate arrangements were in place.
- 4.15. External Auditors also review and conclude on the effectiveness of local arrangements in terms of how well the NFI exercise is integrated into counter fraud policies and provide assurance on the progress being made on NFI investigations.

- 4.16. As a result of these reviews, Audit Scotland concluded that, on the whole, the majority (83%) of participating bodies in Scotland managed their role in the 2016 NFI exercise satisfactorily. However, 7% of bodies need to follow up their matches more promptly and only 15% of audit committees reviewed the self assessment checklist.
- 4.17. The self assessment checklist was completed by Internal Audit at the start of this NFI exercise, however, it was not reviewed by the then Risk and Audit Scrutiny Forum. A copy of the completed 2018 checklist will be included in future reports to the Risk and Audit Scrutiny Committee.
- 4.18. Of the 12 separate areas assessed by South Lanarkshire Council's external auditors, seven were assessed as green, the remaining five areas were assessed as amber, there were no areas assessed as red. The areas assessed as amber were mainly as a result of delays in the completion of investigations. The target completion date for all investigations, with the exception of Housing Benefits, was agreed as 30 September 2017. The main delays were in the completion of Tenant and Waiting List investigations as the Council was waiting on information for external parties in order to conclude these investigations. There had also been a delay in completing the Blue Badge investigations as a result of a large number of matches and limited resources available to carry out the investigations. All Services have been reminded of the importance of completing investigations within reasonable timescales to ensure error and/or fraud is identified timeously.
- 4.19. Despite this, External Audit concluded that; "Overall, South Lanarkshire Council demonstrates adequate participation in the National Fraud Initiative exercise. The Council is actively involved in the process and it is undertaken as a serious exercise. Commitment to the NFI process is recognised as a key feature of fraud prevention and detection for the Council. The majority of the internally agreed work has been completed. A small number of errors have been identified and funds recovered. On the basis that there are some delays in completion of the exercise as a whole, this is classified as amber but is not a significant concern".
- 4.20. Preparation for the 2018 NFI exercise has started and Internal Audit will continue to co-ordinate this exercise within the Council.

5. Audit Scotland Recommendations

- 5.1. The Audit Scotland Report included five recommendations to be considered by NFI participants.
- 5.2. Detail of these recommendations, and further action required, is included in Appendix One. It should be noted, however, that the recommended areas are routinely considered at the start of all NFI exercises and will be addressed through the resources allocated to NFI in the 2018/19 Internal Audit Plan, where required.

6. Employee Implications

- 6.1. Within Internal Audit, 38 days were recorded against the 2016 National Fraud Initiative. This was split between project management and supply of information to Audit Scotland (23 days), investigating matches (10 days) and co-ordinating the issue and receipt of further information between the Council and other public bodies (5 days).
- 6.2. Resources were also asked to provide details of time spent investigating NFI matches and it is estimated that, in addition to Internal Audit time, approximately 64 days were spent on the NFI exercise in other Resources. The majority of this, 10 days each, was spent investigating payroll, blue badge and waiting list matches.

- 6.3. Overall, there has been a reduction in the time spent investigating NFI matches from the previous exercises. The reduction in time is mainly within Housing Benefits investigating matches. The reduction in time in this area is as a result of the introduction of the Fraud and Error Service (FES) which is responsible for investigating potential frauds. In addition, the Benefits and Revenue Section has reduced the internal resources allocated to the SPD exercise, as it places more reliance on internal and external reviews that are undertaken. The reviews are carried out in current periods and are perceived to be more relevant and timeous than those identified by the NFI exercise.

7. Financial Implications

- 7.1. The 2016 National Fraud Initiative was included in the 2017/18 Annual Audit Plan with a budget of 40 days.
- 7.2. The employee costs within South Lanarkshire Council for participation in the 2016 NFI exercise equated to approximately £0.017million. In total, approximately £0.092 million error and fraud was identified through both the full 2016 exercise and the SPD exercise, £0.064 million of which is being recovered. This, therefore, suggests that the exercise continues to be cost effective. This will, however, continue to be monitored for future exercises.

8. Other Implications

- 8.1. The NFI is an invaluable counter fraud exercise. A key benefit of the 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.
- 8.2. Investigations are undertaken by Resource personnel and, as a result of continuous Internal Audit review and monitoring of the NFI exercises, there has been significant improvement to the approach to the NFI exercise, specifically in relation to selecting cases to be investigated, carrying out the investigations and recording the results through the NFI website.
- 8.3. In addition, following the 2016 exercise, creditor reports have been developed to allow employees to monitor creditor payments and help identify potential duplicate creditors. These reports will initially be run monthly, however, it is anticipated that this will be increased to daily to allow duplicates to be identified prior to payment being made and to avoid the requirement for recovery. It is anticipated that this will significantly reduce the number of potential creditor matches resulting from the NFI exercise and ensure fraud and error is reduced.
- 8.4. 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. The External Auditor will also review and conclude on the effectiveness of local NFI arrangements and provide assurances on the progress of the NFI investigations. Failure to embrace investigative work under the NFI could adversely affect the Council's reputation as Audit Scotland publishes national reports on the initiative following the conclusion of each full exercise.
- 8.5. There are no implications for sustainability in terms of the information contained in this report.

9. Equality Impact Assessment and Consultation Arrangements

- 9.1. 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 the data.
- 9.2. Details of data extracts that affect employees are intimated through Management Bulletins and Personnel Circulars. Information on the 2016 National Fraud Initiative was also published in the Works Magazine and on the South Lanarkshire Council Internet site. In addition, Housing Benefits claim forms include a standard statement informing claimants that their information may be shared for the purposes of preventing and detecting fraud.
- 9.3. 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)

29 August 2018

Link(s) to Council Objectives/Ambitions/Values

- Achieve results through leadership, good governance and organisational effectiveness

Previous References

- ♦ 2016 National Fraud Initiative report – 20 September 2017

List of Background Papers

- ♦ Audit Scotland Report: The National Fraud Initiative in Scotland (July 2018)

Contact for Further Information

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

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Appendix 1

Audit Scotland Recommendation	South Lanarkshire Response	Action	Responsibility	Target Completion Date
All Participants in the NFI exercise should:				
<p>Ensure that they maximise the benefits of their participation. They should consider:</p> <ul style="list-style-type: none"> Using the NFI AppCheck point of the application service, the flexible matching service and the Equifax Public Sector Gateway Service as appropriate when planning their counter-fraud activities Whether it is possible to work more efficiently on the NFI matches by reviewing the guidance section within the NFI secure web application 	<ul style="list-style-type: none"> Additional costs will be incurred if the AppCheck Service is used. Benefits and Revenues will continue to carry out reviews and Internal Audit will use IDEA for other Data Matching exercises where required. Therefore this service is not considered currently to be necessary but will remain under review. NFI guidance is forwarded to all employees responsible for investigating matches at the start of each exercise. Internal Audit advises all employees to complete the online training prior to undertaking investigations. Training was also provided by Internal Audit to “new” investigators and ongoing support provided where required Assessment will be carried out against “how to work more efficiently” guidance included as Appendix 2 in the self appraisal checklist 	<ul style="list-style-type: none"> Further research will be carried out into the cost/benefit of using the Appcheck and/or the Equifax Public Sector Gateway Service. Internal Audit will continue to refer employees to guidance within the NFI website and will recommend completion of the online training. Internal Audit will provide additional training if required and support employees through their investigations where required. Assessment completed. No further actions identified (see Appendix Two). 	<p>Yvonne Douglas, Internal Audit</p> <p>N/A</p> <p>Yvonne Douglas, Internal Audit</p>	<p>31 March 2019</p> <p>N/A</p> <p>Completed</p>
Audit committees, or equivalent, and	The self appraisal checklist has been	Completion of the Self	Yvonne Douglas, Internal	31 October 2018

officers leading the NFI should review the National Fraud Initiative: Self-appraisal checklist. This will ensure they are fully informed of their organisation's planning and progress in the 2018/19 NFI exercise.	completed by Internal Audit at the start of each NFI exercise since 2010. The completed self appraisal checklist is included in the review of the NFI process carried out by the Council's External Auditors.	Assessment Checklist is included within the Internal Audit NFI Project Plan. The completed checklist will be included within NFI update reports presented to the RASC.	Audit	
Where local auditors have identified specific areas where improvements could be made, the public bodies should action these as soon as possible.	No areas identified by external Audit review of the process	None required	N/A	N/A
Local authorities should:				
Investigate the council tax single person discount (SPD) matches, in conjunction with other data-matching suppliers as they determine appropriate, to ensure that their awarded discounts are valid.	In addition to reviewing and investigating a sample of NFI matches, the Benefits and Revenues Section place reliance on ongoing internal and external reviews. Increased targeted intervention activity is also being undertaken as part of the Fraud and Error Reduction Incentive Scheme (FERIS). This is in addition to Housing Benefit Matching Service (HBMS) and Real Time Information (RTI).	No additional action required	N/A	N/A

Concerns	How to work more efficiently	South Lanarkshire Council Response
Many participants are not using the latest time-saving enhancements to the NFI software.	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.	Internal Audit will continue to refer employees to guidance within the NFI website and will recommend completion of the online training. Internal Audit will provide additional training if required and support employees through their investigations where required. (No action required)
Matches that are time critical and could identify an overpayment are not acted on first.	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 these are received.	There is no one Resource responsible for investigating all matches. As the matches are investigated by different Resources, there is no requirement to prioritise the investigation areas. Match areas will be investigated at the same time. Details of matches are forwarded to relevant Resources for investigation within one week of being received by Internal Audit. Resources are then required to set timescales for investigations which are reviewed by Internal Audit to ensure they are reasonable. With the exception of Housing Benefits which, due to the number of investigations carried out, undertake investigations throughout the whole financial year, all other investigations are completed within three to six months of being received. Consideration is currently being given to increasing Internal Audit involvement in investigating the matches (other than Housing Benefits). Investigations carried out by Internal Audit would be on a risk assessed basis and an allocation of time for NFI investigation is included within annual Internal Audit Plans where required. (No action required)
Investigations across internal departments are not coordinated resulting in duplication of effort or delays in identifying overpayments.	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 co-ordinates the NFI exercise within the Council. Resources allocate employees who are best suited to investigate the matches. There is no duplication in the investigations carried out. (No action required)
Disproportionate time is spent looking into every match in every report.	Use the tools within the web application, such as the filter and sort options or data analysis software, to help prioritise matches that are the highest risk. This will save time and free up staff for the most important investigations.	On receiving details of the matches from the NFI exercise, Resources are required to advise Internal Audit of the target number of investigations to be undertaken. Internal Audit will review the target set to ensure it is reasonable. The

		<p>number chosen is risk based and considers the results of previous exercises, the time spent on the investigation and other control measures in place within the Resource that would mitigate the risk of fraud occurring. Consideration is also given to Audit Scotland recommended actions. The target is continually reviewed during the course of investigations and adjusted to reflect the identified outcomes where required. In addition, investigations are prioritised by Resources to cover key reports, high risk areas and high quality matches highlighted within the NFI reports.</p> <p>(No action required)</p>
Enquiries from other organisations that take part in the NFI are not always responded to promptly.	Prioritise responses to enquiries from other organisations so investigations can be progressed.	<p>Internal Audit co-ordinates enquiries from other organisations and has set a target response of seven days. There are two employees within Internal Audit who are responsible for following up enquiries from other organisations. There was a more proactive approach by Internal Audit for the 2016 exercise to ensure queries recorded through the NFI website were followed up timeously and this approach will continue in future exercises.</p> <p>(No action required)</p>
Data quality issues that are highlighted within the web application are not addressed before the next NFI exercise.	Review the quality of the data supplied before the next exercise as external providers normally have to phase in changes to extraction processes. Better data quality will improve the quality of resulting matches.	<p>Data quality issues are reviewed by Internal Audit after data submission and steps are taken to address the issues where required. There were no data quality issues identified in the 2016 exercise that require to be addressed.</p> <p>(No action required)</p>