

# Report

Report to:	<b>Risk and Audit Scrutiny Committee</b>
Date of Meeting:	<b>6 December 2022</b>
Report by:	<b>Executive Director (Finance and Corporate Resources)</b>

Subject:	<b>Audit Scotland: The National Fraud Initiative in Scotland 2020</b>
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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 2020 (August 2022)
- ◆ 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 in Appendix 5 be approved.

## 3. Background

- 3.1. The National Fraud Initiative (NFI) is a counter-fraud exercise which takes data from councils and other public bodies and cross matches to identify the potential for fraud. Participating bodies 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 2020 exercise matched data across a wide range of data groups. Target investigations and outcomes specific to South Lanarkshire Council (SLC) were reported to RASC on 15 September 2021 and 27 September 2022. Appendix 1 summarises the final 2020 NFI 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 recommendations for consideration ahead of participation in the next NFI exercise.
- 3.4. Within the Audit Scotland report, financial outcomes are expressed in terms of fraud, overpayment or error that have been detected by the NFI exercise. Figures reported also include estimated future losses that detection has avoided being incurred as well as notional losses incurred as a result of delayed detection (Appendix 2 sets out these estimation bases).

- 3.5. As an exercise, NFI is continually reviewed to identify further areas where data-matching would be beneficial. The 2020 exercise included data in relation to Small Business Bonus Scheme (SBBS) relief and Small Business and Retail, Hospitality and Leisure grants (Covid-19) for the first time.
- 3.6. In addition, NFI powers are regularly reviewed and the report provides an update in relation to an extension of powers within Scotland and those proposed on a UK-wide basis. The Scottish Parliament approved The Digital Government (Scottish Bodies) Regulations 2022 in March 2022. This allows Audit Scotland to access HM Revenues and Customs income and savings data for Scottish residents for future NFI exercises which will help identify outcomes where customers have received benefits and services above that to which they are entitled.
- 3.7. The Scottish Parliament's Public Audit Committee (PAC) is also considering the expansion of legislative powers around NFI. This may include expanding NFI to bodies in receipt of significant amounts of public funding that do not fall under the audit remit of the Auditor General for Scotland or the Accounts Commission.
- 3.8. The Cabinet Office are also separately consulting on extending legal powers and Audit Scotland have indicated that they will continue to monitor developments.

#### **4. Results**

- 4.1. 132 Scottish public bodies including Central Government, Local Authorities and NHS took part in the 2020 NFI exercise. This is an increase from the previous exercise where 124 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 507,354 (a decrease of around 12.6%) and overall financial outcomes to £14.9 million (a decrease of around 2.6%). Within South Lanarkshire, matches increased by 3,066 and outcomes increased by £292,033. This increase mainly relates to new match areas in the 2020 Exercise (Covid-19 Grants and SBBS) and Blue Badges.
- 4.3. Audit Scotland conclude within their report that the reduction in matches may be due to less fraud and error in the system, strong internal controls or some key datasets from previous years not being included in the latest exercise. Further detail in relation to the latter point is provided with the report noting that residential care home data, direct payments and social care customers' data were not matched in the 2020 Exercise due to legal questions around the definition of patient data. Immigration data was also not included in either the 2018 or 2020 Exercises due to restrictions placed on it by the Home Office.
- 4.4. A reduction in outcomes is attributed to identified pressures on staffing and services and the strengthening of controls where previous fraud or error has been identified. Notwithstanding a reduction in outcomes, the report notes that NFI participants still benefit from the deterrent effect that NFI creates.
- 4.5. Detailed analysis of the outcomes across Scotland are set out in Audit Scotland's report and are summarised in the table below alongside outcomes within South Lanarkshire:-

	Scotland		SLC	
Data	Number	Outcome (£m)	Number	Outcome (£m)
Council Tax discounts	3,720	4.6	137 <sup>1</sup>	0.030
Pensions	not disclosed	1.5		
Housing Benefits	177	1.2	10	0.018
Blue Badges	4,616	2.7 <sup>2</sup>	145	0.247 <sup>2</sup>
Housing Tenancy	10	0.9		
Housing Waiting Lists	187	0.6		
Creditors	144	0.5	2	0.0057
Council Tax Reduction	772	0.7	23	0.0063
Payroll	3	0.027		
COVID Grant	1	0.025	1	0.025
SBBS	208	2.2	11	0.073
<b>TOTAL</b>		<b>£14.952m</b>		<b>£0.405m</b>

**Table 1: Outcomes from 2020 NFI exercise**

- 4.6. None of the reported fraud or errors involved a SLC employee.
- 4.7. 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. This assessment considers the age and health of the debtor and whether it is economical to pursue the debt.
- 4.8. The Committee are asked to note the national outcomes of the 2020 NFI exercise.
- 5. Audit Scotland Recommendations**
- 5.1. The Audit Scotland Report includes a two-part checklist for participating bodies to use to self-appraise their involvement in the NFI prior to and during the NFI exercise. Part A 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 B is for employees involved in planning and managing the NFI exercise. In addition, the report sets out suggestions for improving efficiencies and effectiveness.
- 5.2. The completed checklists are attached at Appendix 3 (Part A) and Appendix 4 (Part B) and responses against each of the points around improving efficiency and effectiveness at Appendix 5.

<sup>1</sup> 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.

<sup>2</sup> This is the notional rather than actual loss attributed to the fraudulent misuse of blue badges.

## **6 Employee Implications**

- 6.1. One Audit Assistant (with overview and management from an Audit Adviser) within Internal Audit is responsible for co-ordinating the SLC exercise which includes facilitating the issue and receipt of information requests from other public bodies in relation to NFI cases, assisting with the recording of some or all Creditor, Procurement, Grants and Single Person Discount investigations and reporting on employee benefit fraud cases if required. A total of 66 days was allocated in the 2021/2022 Internal Audit Plan to take account of the increased role of Internal Audit in the current exercise.
- 6.2. In addition to the time allocated by Internal Audit, Resources are also required to allocate time to the investigations.

## **7. Climate Change, Sustainability and Environmental Implications**

- 7.1 There are no Climate Change, Sustainability and Environmental implications relating to this report.

## **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.

## **9. Other Implications**

- 9.1. The value of the Exercise extends beyond financial outcomes and is recognised as also acting as a deterrent to fraud. Failure to participate in this exercise would increase the risk of fraudulent activities not being identified. Although it is not mandatory for councils to investigate matches resulting from the NFI exercise, the extent of participation is monitored by Audit Scotland. 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 NFI is one way the Council can demonstrate good governance and sound financial management. South Lanarkshire Council were assessed as having adequate arrangements in place
- 9.2. 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, to prevent future financial losses.

## **10. Equality Impact Assessment and Consultation Arrangements**

- 10.1. Prior to the start of each NFI exercise, the Council is required to ensure privacy notices are available to the individuals for whose data we are sharing information. The notices clearly set out an explanation that data may be disclosed for the purpose of preventing and detecting fraud and state that data will be provided to Audit Scotland for this purpose. Details are provided as to how individuals can find out more information about the processing of their data.
- 10.2. 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**

22 November 2022

**Link(s) to Council Values/Priorities/Outcomes**

- ◆ Accountable, Effective, Efficient and Transparent

**Previous References**

- ◆ 2020 National Fraud Initiative exercise – RASC 15 September 2021
- ◆ 2020 National Fraud Initiative exercise – RASC 27 September 2022

**List of Background Papers**

- ◆ Audit Scotland Report: The National Fraud Initiative in Scotland 2020/2021 (August 2022) [NFI 2020-21 report.pdf](#)

**Contact for Further Information**

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

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## SLC Target Investigations and Outcomes from NFI Exercise

## Appendix 1

Extract from 2020 National Fraud Initiative Exercise, RASC 27 September 2022

Area/Matches	Matches	Outcomes (£)
Housing Benefits	172	18,041
CTRS	2,005	6,382
Payroll	134	-
Housing Tenants	685	-
Waiting List	1,229	-
Blue Badge	1,114	-
Creditors	4,981	5,676
Procurement	259	-
Single Person Discount	15,126	30,247
Grants (SBGF and RHLG)	67	25,000
SBBS	171	72,658
<b>Overall matches</b>	<b>25,943</b>	<b>158,004</b>
Blue Badges (notional loss)	<b>430</b>	<b>247,250</b>

## Estimation bases

## Appendix 2

Extract from Audit Scotland Report: National Fraud Initiative 2020/2021 (August 2022)

<b>Data match</b>	<b>Basis of calculation of estimated outcomes</b>
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 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, the duration a fraud may continue undetected and the likelihood a waiting list applicant would be provided a property.
Blue badges	Number of badge holders confirmed as having died multiplied by £575 to reflect lost parking and congestion charge revenue.

**PART A**

<b>Leadership, commitment and communication</b>			
<b>Question</b>	<b>Yes, No or Partly</b>	<b>Is action required?</b>	<b>Who, By and When?</b>
1. Are we aware of emerging fraud risks, eg due to Covid-19, and taken appropriate preventative and detective action?	Yes, South Lanarkshire Council undertook an exercise in 2021/22 to review emerging risks and have undertaken follow up work in 2022/23.	No	N/A
2. Are we committed to NFI? Has the council/board, audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff?	Yes. South Lanarkshire Council has participated in NFI exercises since 2004. Support through Risk and Audit Scrutiny Committee evidenced through allocation of employees across Resources to participate in exercise. Employees and Members are made aware of the exercise through intranet and internet notices and Personnel Circulars.	No	N/A
3. Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error?	Yes. South Lanarkshire Council is committed to tackling fraud and the NFI exercise is referenced within its anti-fraud, corruption and bribery policy and strategy.	No	N/A
4. Have we considered using the point of application data matching service offered by the NFI team, to enhance assurances over internal controls and improve our approach to risk management?	South Lanarkshire Council continues to consider additional NFI services and would present any proposed extension to the use of NFI to RASC for approval.	No	N/A
5. Are NFI progress and outcomes reported regularly to senior management and elected/board members (eg, the audit committee or equivalent)?	Yes. Monitoring arrangements in place which have been discussed with External Audit and are unchanged from previous years. NFI progress reports and final figures are reported regularly to senior management and to the Risk and Audit Scrutiny Committee. Reports to this Committee are public documents.	No	N/A
6. Where we have not submitted data or used the matches returned to us, eg council tax single person discounts, are we satisfied that alternative fraud detection arrangements are in place and that we know how successful	South Lanarkshire Council use a third party supplier to review all single person discounts on a rolling programme. Data from NFI exercise is then matched to identify any gaps that require investigation.	No	N/A

they are?			
7. Does internal audit, or equivalent, monitor our approach to NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?	Internal Audit monitors the progress of NFI and addresses patterns with Council Services.	No	N/A
8. Do we review how frauds and errors arose and use this information to improve our internal controls?	Yes. Internal Audit follow-up results to; establish the reason for the fraud or error; confirm corrective action has been taken where required; identify developing trends or patterns. Internal Audit also consider whether a review in this area is required and identify high risk areas for inclusion within the annual Internal Audit plan.	No	N/A
9. Do we publish, as a deterrent, internally and externally the achievements of our fraud investigators (eg, successful prosecutions)?	South Lanarkshire Council report outcomes to the Risk and Audit Scrutiny Committee. Reports to this Committee are public documents.		

**PART B**

<b>Planning and Preparation</b>			
<b>Question</b>	<b>Yes, No or Partly</b>	<b>Is action required?</b>	<b>Who, By and When?</b>
1. Are we aware of emerging fraud risks and taken appropriate preventative and detective action?	South Lanarkshire Council has both a risk register and fraud risk register for each of the Resources. These are reviewed annually as a minimum. Internal Audit are aware of the top risks and emerging risks to the Council and adjust their audit plan where appropriate.	No	N/A
2. Are we investing sufficient resources in the NFI exercise?	Yes. Internal Audit co-ordinate, monitor and report on the NFI exercise. Time is allocated within the Internal Audit Plan each year. Resources nominate employees and allocate time to allow matches to be investigated.	No	N/A
3. Do we plan properly for NFI exercises, both before submitting data and prior to matches becoming available? This includes considering the quality of data.	Yes. Internal Audit co-ordinate the NFI exercise and plan work around the timetable for extracting and uploading data. Internal Audit checks the quality of data prior to submission.	No	N/A
4. Is our NFI Key Contact the appropriate officer for that role and do they oversee the exercise properly? Are our Key Contact's details up to date on the NFI system?	Yes. The Key Contact is the Audit and Compliance Manager and is an appropriate officer for the role. She is assisted by one other key contact. Contact information is up to date on the NFI system for both.	No	N/A
5. Does our Key Contact have the time to devote to the exercise and sufficient authority to seek action across the organisation?	Yes, the Key Contact has time to devote to the exercise and has authority to seek action across the organisation in her role of Audit and Compliance Manager.	No	N/A
6. Where NFI outcomes have been low in the past, do we recognise that this may not be the case the next time, that NFI can deter fraud and that there is value in the assurances that we can take from low outcomes?	Yes, we are aware that the outcomes can change each exercise. We are aware from experience that low outcomes still have a value. We alter the matches to be investigated based on a number of risk factors.	No	N/A

7. Do we confirm promptly (using the online facility on the secure website) that we have met the fair processing notice requirements?	All notices were confirmed within the timescale.	No	N/A
8. Do we plan to provide all NFI data on time using the secure data file upload facility properly?	Yes, all data will be uploaded securely within timescales.	No	N/A
9. Have we considered using the point of application data matching service offered by the NFI team (AppCheck) to enhance assurances over internal controls and improve our approach to risk management?	South Lanarkshire Council continues to consider additional NFI services and would present any proposed extension to the use of NFI to RASC for approval.	No	N/A
<b>Effective follow-up of matches</b>			
10. Do all departments involved in NFI start the follow -up of matches promptly after they become available?	Internal Audit co-ordinate the investigation in the first instance to ensure that Services agree to and will review the high risk and specific matches allocated. Investigations commence immediately this has been agreed.	No	N/A
11. Do we give priority to following up high - risk matches, those that become quickly out -of-date and those that could cause reputational damage if a fraud is not stopped quickly?	Internal Audit prioritise investigation of high risk, reputational and time-sensitive matches but are aware that fraud can occur in areas of low or medium risk. Resources are set targets based on current results, previous outcomes, risk and other controls in place. Also discussed and confirmed our approach with External Audit.	No	N/A
12. Are we investigating the circumstances of matches adequately before reaching a 'no issue' outcome, in particular?	Yes, Resources investigate their own matches to ensure they are knowledgeable of the information and detail required to make a decision.	No	N/A
13. (In health bodies) Are we drawing appropriately on the help and expertise available from NHS Scotland Counter Fraud Services?	N/A	No	N/A

14. Are we taking appropriate action in cases where fraud is alleged (whether disciplinary action, penalties/cautions or reporting to the Procurator Fiscal)? Are we recovering funds effectively?	Yes. Fraud is investigated in accordance with standard procedures. Disciplinary action is considered where required. Recovery procedures are in place.	No	N/A
15. Do we avoid deploying excessive resources on match reports where early work (e.g., on high - risk matches) has not found any fraud or error?	Matches are risk assessed to ensure reviews are targeted. These reviews are ongoing to increase/decrease required match targets dependent on outcomes.		
16. Where the number of high -risk matches is very low, are we adequately considering the medium and low -risk matches before we cease our follow -up work?	Yes. Although there is a focus on high risk matches, low and medium risk matches are reviewed where appropriate.	No	N/A
17. Do we follow up matches which indicate a customer may be eligible for a benefit or service which they currently do not receive?	Services are relied upon to take appropriate action.		
18. Overall, are we deploying appropriate resources on managing the NFI exercise?	Yes, there are adequate resources being deployed within the Authority to manage the NFI exercise.	No	N/A
<b>Recording and Reporting</b>			
19. Are we recording outcomes properly in the secure website and keeping it up to date?	Yes. Outcomes are recorded within the website when they have been investigated and it is kept as up to date as is practical.	No	N/A
20. Do staff use the online training modules and guidance on the secure website, and do they consult the Cabinet Office NFI team if they are unsure about how to record outcomes (to be encouraged)?	Previously where staff have been unsure on how to record an outcome and the Key Contact could not help, they have contacted the Cabinet Office for clarification. The online guidance is used although most employees who deliver the NFI exercise have been doing so for many years. Any new employee would be directed to the online training.	No	N/A
21. If, out of preference, we record some or all outcomes outside the secure	South Lanarkshire Council record all outcomes within the secure website.	No	N/A

website, have we made arrangements to inform the Cabinet Office NFI team about these outcomes?			
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(actions to be taken are noted in **bold** font)

Efficient working practice	Action required?
Ensure staff involved 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.	<b>Yes. All NFI users will be directed to complete refresher training ahead of the 2022 NFI exercise.</b>  <b>(Audit Manager, 31 December 2022)</b>
Key Contacts should schedule staff resources so that time critical matches, such as housing benefit to students, 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, eg 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, such as the filter and sort options or data analysis software, to help prioritise matches that you deem the highest risk. You should also look back to see which reports in a previous exercise gave you outcomes. 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.
The web application shows the number of shared comments which require a response (Outstanding Actions). These responses should be prioritised if they relate to an ongoing investigation so that it can be progressed promptly.	Internal Audit regularly review the shared comments/outstanding actions and notify Resources of those that need a response. This practice will continue.
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.	Data has been reviewed for the next exercise and information tidied where practical.
Develop capability and capacity to punish fraudsters, ensuring that investigations are not abandoned if the individual resigns, leaves the property etc. Seek, through collaborating with law enforcement and the courts, the recovery of defrauded funds.	South Lanarkshire Council will continue to pursue outcomes in compliance with fraud policies.