

# National Fraud Initiative in Scotland

**Making an impact**



 **AUDIT SCOTLAND**

Prepared for the Auditor General for Scotland and the Accounts Commission  
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## Key messages

- The National Fraud Initiative (NFI) is a counter-fraud exercise currently undertaken in Scotland as part of statutory audits. In 2008/09, 74 public bodies took part in NFI.
  - Scottish public bodies have recorded a further £21.1 million of outcomes since we last reported on the NFI in May 2008.<sup>1</sup> This has been the most successful period since NFI was introduced in Scotland.
  - The cumulative outcomes from the NFI in Scotland are now around £58 million.
  - The NFI, other anti-fraud work, and improving systems of control in bodies are helping to reduce the levels of housing benefit fraud and error reported under NFI. However, new areas of matching are helping bodies to identify fraud and error in other systems.
  - In the current economic climate, bodies must remain vigilant in their efforts to minimise losses from fraud and error.
  - The vast majority of bodies managed their involvement in NFI satisfactorily; but a minority need to do more.
  - Audit Scotland expects to increase the number of bodies that take part in the 2010/11 NFI once new powers for data matching are enacted in Scotland.
1. Audit Scotland, working with the Audit Commission, external auditors and a range of public bodies in Scotland, has undertaken another major counter-fraud exercise. These exercises, known as the National Fraud Initiative in Scotland (NFI), are undertaken every two years as part of the statutory audits of the participating bodies. The latest exercise (NFI 2008/09) commenced in October 2008 and is now well progressed or substantially complete.
  2. In 2008/09, 74 bodies took part in NFI. These were the same bodies that took part in 2006/07 and included councils, police authorities, fire and rescue authorities, Strathclyde Partnership for Transport, health boards, the Scottish Public Pensions Agency (SPPA) and the Student Awards Agency for Scotland (SAAS). Audit Scotland also includes data about its own employees. The 2008/09 exercise built on previous NFI exercises and pilots first carried out in 2000.
  3. NFI uses computerised data matching to compare a range of information held on bodies' systems (eg, housing benefits, public sector pay and pensions, council tax, students, disabled persons' 'blue badge' parking permits and a government register of deceased persons) to identify potential inconsistencies or circumstances that could indicate fraud or error. We make these 'matches' available to the audited bodies to investigate via a secure website.
  4. Since we last reported on NFI in May 2008, participating bodies have recorded outcomes valued at £21.1 million. This includes £7.8 million of outcomes from further follow-up work on NFI 2006/07 matches and £13.3 million of outcomes which have been recorded following the investigation of 2008/09 NFI matches. The 2008/09 outcomes will continue to increase in the months ahead. The main results, in non-financial terms, from the 2008/09 matches include:
    - 179 occupational pensions stopped after it was confirmed that the pensioner was deceased.
    - 1,042 housing or other benefit payments to public sector pensioners stopped or reduced.
    - 405 housing or other benefit payments to public sector employees stopped or reduced.
    - 4,322 council tax single person discounts withdrawn after investigation of NFI matches confirmed that these were being wrongly deducted from bills.
    - 4,340 disabled blue badges cancelled, or flagged to be checked at any future attempted renewal, after NFI identified that the holder was deceased.
  5. The cumulative outcomes from NFI in Scotland are now around £58 million; and this does not include the value that might be attributed to deterring individuals from committing fraud.
  6. No obvious trend can be assumed from the results of the last three NFI exercises because of changes in the scope of the exercise and in the approach by bodies to tackling fraud and error, except for housing and other social security benefit outcomes. Fraud and error outcomes are falling in this area most likely because:
    - previous NFI exercises helped councils to identify the longest running frauds and errors
    - the NFI, and other anti-fraud work by bodies, continues to have a positive impact in deterring fraud
    - bodies continue to make improvements to their systems of control, informed by the types of frauds and errors identified previously.

<sup>1</sup> The value of NFI to the public purse is measured by the amounts of overpayments (whether due to error or fraud) that are identified and stopped, estimates of amounts that bodies will save by stopping incorrect payments that would have continued if not identified by NFI and, in some cases, attaching an appropriate value to other significant findings. We refer collectively to these as 'outcomes'.

**7.** However, 2008/09 NFI matches were produced from information collected from bodies mainly in late 2008, before the recent recession took hold. It is widely recognised that an economic downturn is linked with a heightened risk of internal and external fraud and error. Bodies need to bear this in mind as they plan for the next NFI exercise and must remain vigilant in their efforts to keep losses to a minimum.

**8.** Local auditors concluded that the vast majority of participating bodies made adequate arrangements overall for discharging their responsibilities under the exercise. However, a few showed scope for significant improvement. The Appendix to this report includes a checklist that we encourage all bodies to use to self-appraise their involvement in NFI prior to NFI 2010/11.

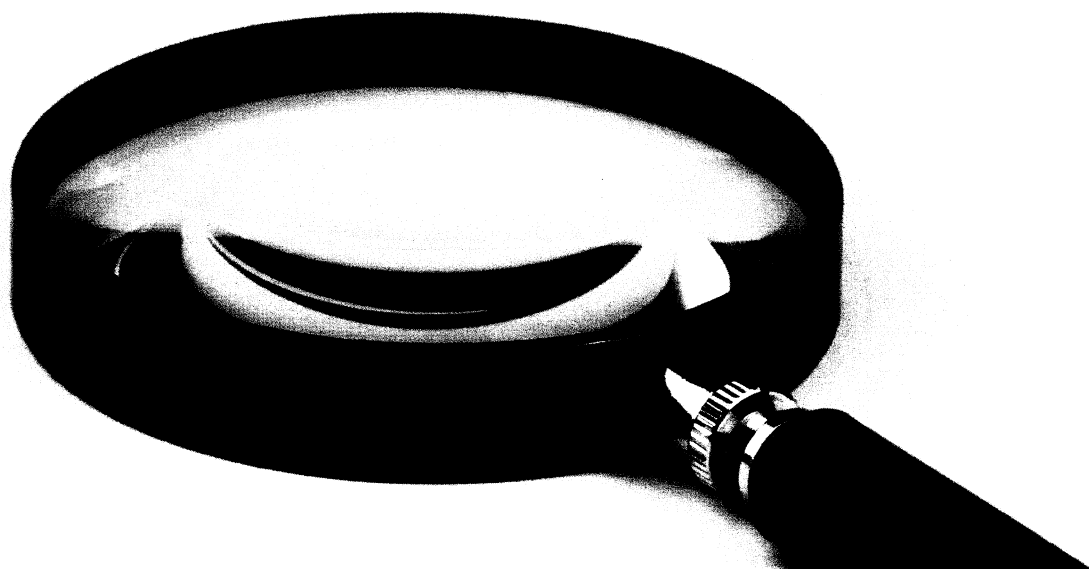
**9.** The 2010/11 exercise will commence in October 2010. We expect this to be carried out under new powers for data matching included in the Criminal Justice and Licensing (Scotland) Bill (the Bill), currently before the Scottish Parliament. Once enacted, these provisions will provide Audit Scotland with similar express data matching powers to those already available to the other UK public sector audit agencies.

**10.** As well as bringing more clarity to the legal framework in Scotland, these powers will provide the opportunity for more collaboration with the other UK audit agencies to tackle cross-border fraud. They will also help us to extend NFI to a wider range of public sector bodies in Scotland and allow data matching to be used to prevent and detect other crime, as well as fraud.

**11.** The Bill includes important data protection safeguards, including a formal requirement for Audit Scotland to prepare a Code of Data Matching Practice and to consult with the UK Information Commissioner and others before publication. We are well placed to revise our existing Code to reflect the new legislation and to ensure that NFI exercises continue to comply with data protection requirements and best practice in notifying individuals about the use of their information for NFI purposes.

**12.** Part 2 of this report contains case studies of the significant frauds and errors that the NFI helped bodies to detect, and the serious consequences that fraudsters have to face as a result.

# Part 3. Holding to account – how well did bodies perform?



Public bodies have a duty to prevent and detect fraud and error.



### Key messages

- The vast majority of participating bodies managed their role in the 2008/09 NFI exercise satisfactorily.
- About eight per cent of bodies need to plan better for NFI and show more commitment to the exercise.
- A few bodies submitted data long after the requested deadline.
- About one in five bodies need to follow up their NFI matches more promptly.
- Local auditors concluded that seven councils in particular need to do more.

**77.** The appointed external auditors monitored bodies' participation in NFI 2008/09. Almost all included a reference to the body's involvement in NFI in their 2008/09 annual audit reports issued last summer or autumn.

**78.** Auditors also provided up-to-date information about each body's NFI performance and progress at the end of February 2010. In reaching their conclusions, auditors do not attach significant weight to the NFI outcomes achieved by bodies. While Audit Scotland views high levels of NFI outcomes as a good result, and we commend bodies for this, it could be that a body's systems are not preventing enough fraud and error in the first place. Consideration of bodies' wider systems of control is not part of NFI. These are matters for local auditors to review, if necessary, as part of their wider risk assessments in audited bodies.

**79.** Local auditors reported that 90 per cent of participating bodies performed their role in NFI 2008/09 satisfactorily.

**80.** Almost all of the officers nominated to coordinate the exercise in each body (referred to as the 'key contact') were considered to be suitable for the role and to have discharged their responsibilities adequately. Further, the vast majority of bodies were considered to be committed to the NFI exercise, prioritised their investigations and made sufficient progress with reviewing matches and conducting investigations.

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

**82.** Reported performance was not as good in the following areas:

- Eight per cent of participants could have planned better and about one in five failed to make a prompt start to the follow-up of the matches once they were available on the NFI secure website. In eight per cent of bodies, auditors concluded that insufficient progress had been made with the investigation of matches.
- One in ten participants need to demonstrate more commitment to the NFI. Commonly in these cases, progress with investigations and outcomes is not reported regularly to senior management, elected members, audit committees or boards. The proper tone needs to be set by senior management to ensure that the right attitude to tackling fraud exists throughout a body.
- A few bodies submitted data for NFI 2008/09 long after the specified processing deadline. This creates a need for another processing run at a later date, and thereby increases the cost of processing data. These bodies fell

several months behind the other participants while waiting on their matches, as well as causing other bodies to receive late matches.

**83.** Only one body was considered to have devoted excessive resources to a particular match report before deciding to suspend its enquiries. Despite that, several bodies complain about the time spent following up matches compared to the amounts of fraud and error detected. It is encouraging that most bodies appreciate that they are responsible themselves for deciding on the resources to devote to following up NFI matches and when to 'draw a line' if no fraud or error is being found.

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

**85.** Ultimately, auditors concluded that seven councils in particular need to do more. All of these bodies have indicated that they have or will make improvements in the areas identified by their auditors before NFI 2010/11.

**86.** Public bodies have a duty to prevent and detect fraud and error. The 'proper officer' in local authorities, usually the chief finance officer, is required in statute to make arrangements for the proper administration of the organisation's financial affairs. These include arrangements for preventing, detecting and deterring fraud. Accountable officers in other sectors have similar responsibilities.

**Exhibit 6****Bodies that need to improve their arrangements**

Council	Key issue(s)
Argyll & Bute	<p>Commitment – senior management are committed to NFI, but the council has further work to do in order to fully integrate the departments and services that process the matches into the exercise.</p> <p>Prompt follow-up – apart from housing benefits, there were delays in following up matches.</p>
Comhairle nan Eilean Siar	<p>Insufficient planning – mandatory data was submitted late.</p> <p>Prompt follow-up – substantive work did not commence until several months after matches were available.</p> <p>Progress with matches – the comhairle followed up a relatively low number of matches.</p>
East Renfrewshire	<p>Progress with matches – a number of match reports were not adequately followed up, including council tax SPD matches.</p> <p>Prioritisation – available filters were not well used. Certain match reports got extensive coverage while others received little attention.</p> <p>The council had a structured plan but it was not followed.</p>
Moray	<p>The council made good progress with HB matches and achieved significant outcomes. But other areas, including payroll matches, were not considered for a long time.</p> <p>The NFI is being treated mainly as an HB fraud exercise, but it now has a much wider scope.</p>
Orkney	<p>Coordination – the key contact responsible for marshalling NFI arrangements changed during the course of the exercise.</p> <p>Planning and commitment – most of the mandatory data sets were submitted late; no separate reporting of NFI 2008/09 progress or outcomes took place, including to members.</p> <p>The council's approach has been influenced by low outcomes from previous NFI exercises.</p>
Shetland	<p>Planning and commitment – no planned, structured approach and no reporting of NFI progress or outcomes to senior management or members.</p> <p>Progress with matches – follow-up work was late in starting and progress slow.</p> <p>The council viewed the NFI exercise as low priority alongside other demands on resources.</p>
Stirling	<p>Planning and coordination – insufficient planning; affected by not clarifying promptly where responsibility for marshalling the exercise should lie (ie, the key contact role). Some mandatory data was submitted late.</p> <p>Commitment – HB investigation staff are committed and significant outcomes have been achieved. However, progress and results are not reported regularly to senior management or members.</p>

Source: Auditors

**87.** However, we note a tendency in some bodies, especially smaller bodies where NFI outcomes can be low, to attach less value to the assurances that can be taken from the exercise. Bodies sometimes assume that because they have found

little or no fraud or error from previous NFI exercises, or because they do not have a history of detected fraud in general, that the exercise should be given less priority. Bodies need to guard against complacency. This and previous reports published about

NFI amply demonstrate the potential for significant fraud and error to be uncovered in any body.