

# The National Fraud Initiative in Scotland



 AUDIT SCOTLAND

Prepared by Audit Scotland  
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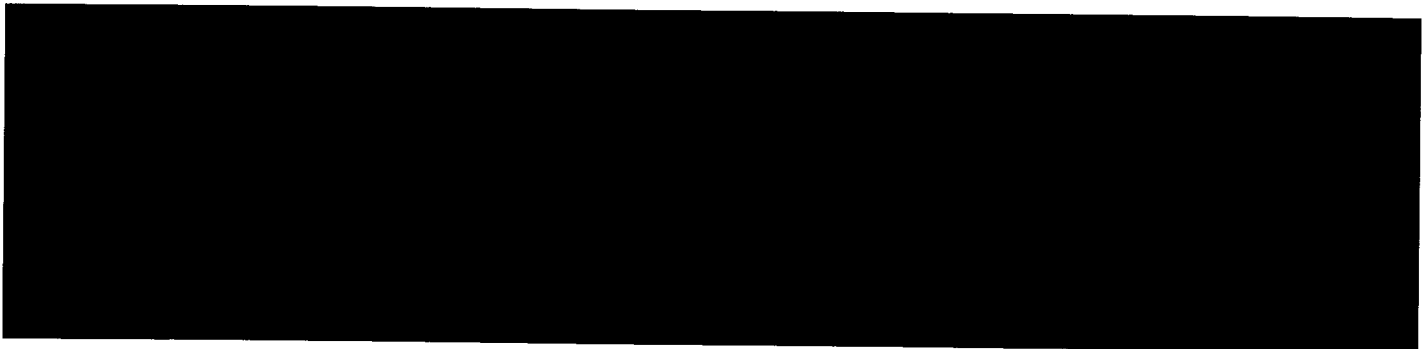
# Summary

## Key facts



<sup>1</sup> For national reporting purposes outcomes are collated as at 31 March 2012. Outcomes recorded by participants after this date are included in subsequent reports. Outcomes figures referred to cover detected fraud, overpayments and recoveries and includes those already delivered as well as ones that have been estimated where this is appropriate.

The NFI is an important regular check on the robustness of public sector arrangements for identifying and taking action to stop, reduce and recover fraud and error.



**Key messages**

- Audit Scotland, working closely with public bodies, external auditors and the Audit Commission, has completed another major counter-fraud exercise.
- The National Fraud Initiative (NFI) exercises make a significant contribution to the security of public sector finances by confirming that services are provided to the correct people and by eliminating fraud and error.
- Eighty-one bodies took part being the largest and most diverse group since the NFI began.

1. Public bodies spend billions of pounds of taxpayers' money on the Scottish population providing services and financial assistance to those that need them the most. These systems are complex and errors can happen. Unfortunately, there are also some individuals who seek to exploit the systems and fraudulently obtain services and benefits to which they are not entitled.

2. The recent Annual Fraud Indicator published by the National Fraud Authority has put the loss to the UK economy from fraud at £73 billion.<sup>2</sup> Of this total some £6.3 billion<sup>3</sup> has been attributed to fraud within central government, the NHS, local government, and the benefits and tax credits systems.

3. Audit Scotland has coordinated another major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. 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 2010/11) started in October 2010 and is now nearing completion.

4. The success of the NFI comes primarily from the public servants who:

- investigate the NFI data matches
- identify and stop frauds and errors
- recover overpayments
- hold fraudsters accountable
- improve their systems.

5. The role of external auditors in the NFI is vital. They review and conclude on the effectiveness of local arrangements in terms of how well the NFI is integrated into counter-

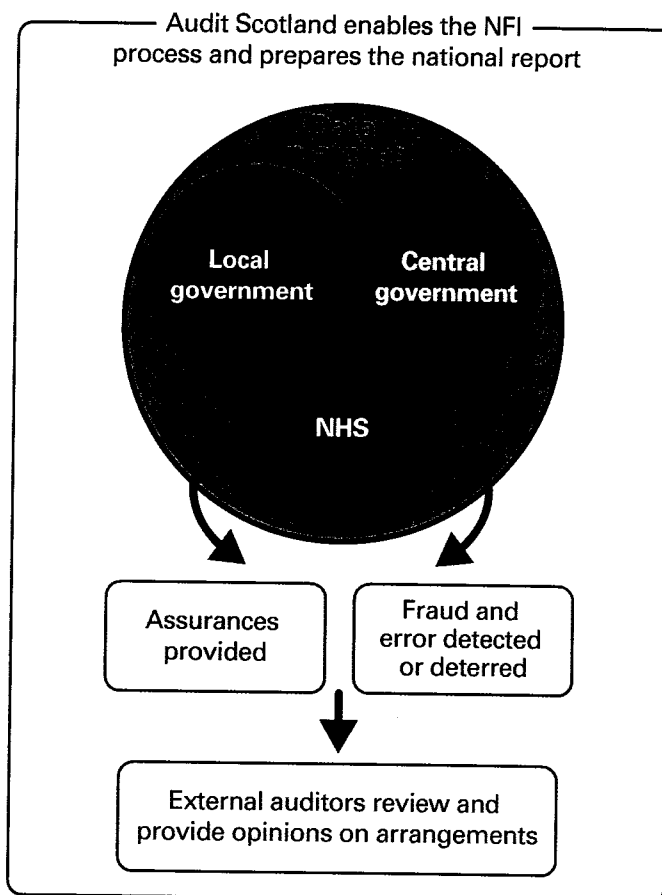
fraud polices. They also provide assurance on the progress being made on NFI investigations. Auditor conclusions provide the evidence for Part 2 of this report.

6. Exhibit 1 summarises the relationships and responsibilities within the NFI in Scotland.

7. The NFI in Scotland is now well established and has been operating for over a decade since it was first piloted. The NFI enables public bodies to take advantage of computer data matching techniques to detect fraud and error. The NFI remains the largest national fraud detection and prevention

**Exhibit 1**

Relationships and responsibilities within the NFI in Scotland



Source: Audit Scotland

<sup>2</sup> Annual Fraud Indicator, National Fraud Authority, March 2012.  
<sup>3</sup> Ibid.

scheme that can provide data matches within and between public bodies. Its key features are that it:

- acts as a deterrent to potential fraudsters
- identifies errors and fraud enabling appropriate action to recover money and/or press criminal charges
- can provide assurances, similar to a regular health check, that all is well and can also identify where improvements are required
- represents value for money in terms of the efficiencies deliverable through centralised data processing and identifying targeted high-priority matches.

8. In NFI 2010/11, 81 bodies took part from local government, health and central government sectors. This number represents the largest and most diverse set of participating bodies since the NFI started. Audit Scotland also includes data about its own employees and those of audit

firms carrying out external audit work for the Auditor General for Scotland and the Accounts Commission.

9. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. Where matches are identified these are made available to bodies to investigate via a secure web application. Bodies investigate these and record appropriate outcomes based on their investigations.

10. Exhibit 2 provides some examples of the types of data set matches undertaken.

11. In addition to the main NFI matching exercise, a separate exercise has been undertaken to match electoral registers against those households where council tax single person discounts are being claimed. The matches took place in October 2011 and the results were provided to councils in February 2012 to investigate. Across the UK, Angus

and Perth and Kinross Councils were the only ones that decided not to participate due to their interpretation of data protection and electoral legislation. The NFI is one of the ways which councils can address fraud and error in this area. A number of councils also employ credit reference agencies to match single person details against a wider range of data sets such as credit and utility records.

12. Audit Scotland carries out the NFI process under powers in the Criminal Justice and Licensing (Scotland) Act 2010. It is important for all concerned that this exercise is properly controlled and data handled in accordance with the law. The governance arrangements for the NFI are summarised in Appendix 1.

13. The NFI is important in the context of the current economic climate and fiscal projections for future public sector expenditure. NFI exercises make a significant contribution to the security of public sector finances by ensuring that services and benefits are provided only to the correct people and by identifying and eliminating fraud and error.

**Exhibit 2**

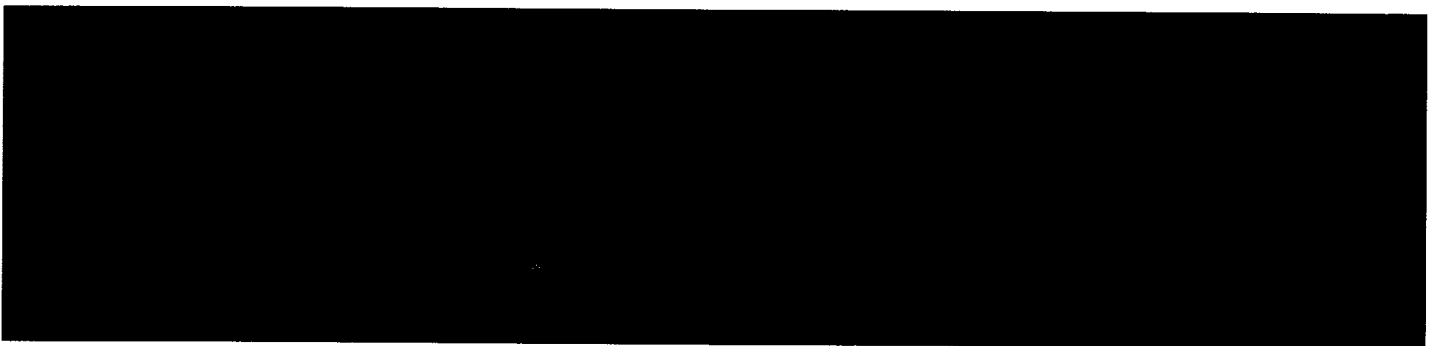
Examples of the types of data set matches undertaken

Type of data match	Potential fraud or error
Housing benefit claimants to Employees and public sector occupational pensions	Employees or occupational pensioners may claim benefit without declaring their income or by under-declaring the amounts.
Employees to Employees	An employee may be on long-term sick leave while working at another body.
Public sector pensions to Deceased persons records	A pensioner's death may not have been reported to the pension authority. The pension continues to be paid to a bank account or may be collected by a relative.
Blue badges to Deceased persons records	The permit holder's death may not have been reported to the council. The permit may continue to be used fraudulently or be sold for improper use.
Employees to Failed asylum seekers or expired visas	It is unlawful for any body to employ persons who are not entitled to reside or work in the UK.

# Part 2. Helping to improve, holding to account



External auditors concluded that 85 per cent of participating bodies managed their roles in the NFI 2010/11 exercise satisfactorily.



## Key messages

- 85 per cent of participating bodies managed their roles in the NFI 2010/11 exercise satisfactorily.
- 31 per cent of bodies need to follow up their matches more promptly.
- A third of bodies need to integrate the NFI into their corporate policies and strategies for preventing and detecting fraud and error.
- Five bodies were considered not to have deployed sufficient resources on managing the NFI.
- Eight bodies did not use the NFI self-appraisal checklist.

## Overall findings

**70.** External auditors concluded that the 85 per cent of participating bodies had managed their role in the NFI 2010/11 exercise satisfactorily. However, a few showed scope for significant improvement. Appendix 2 includes a checklist that we encourage all bodies to use to self-appraise their involvement in the NFI prior to NFI 2012/13.

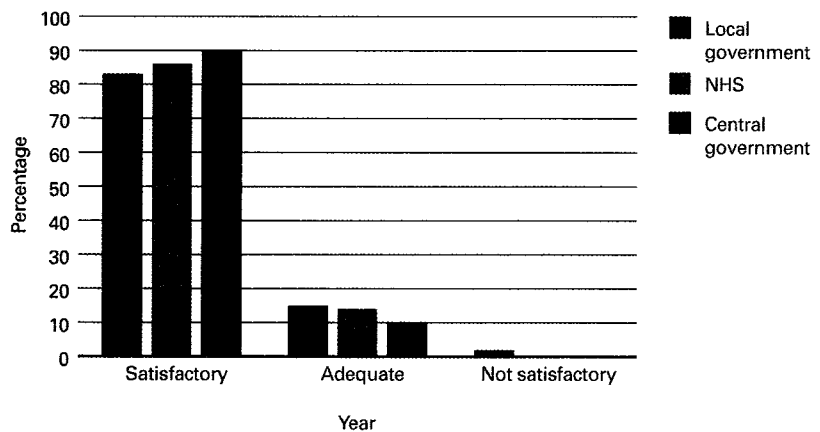
**71.** Auditors also provided up-to-date information about each body's NFI performance and progress at the end of February 2012. In reaching their conclusions, auditors do not attach significant weight to the value of NFI outcomes achieved by bodies (Exhibit 11).

**72.** While 85 per cent is slightly down on the 2008/09 exercise ratings, it continues to indicate a high degree of commitment to the NFI. Local auditors are providing strong assurance that all sectors are taking the NFI seriously by putting adequate arrangements in place. Central government bodies have slightly

better arrangements in comparison with NHS and local government sectors.

## Exhibit 11

### External auditor review of NFI arrangements



Source: External auditors

better arrangements in comparison with NHS and local government sectors.

**73.** Local government has the largest number of matches across the range of data sets. It is not entirely unexpected, therefore, that they have been identified as having more scope to improve.

**74.** Almost all of the officers directly involved in preparing for the NFI and following up matches demonstrate commitment, while 90 per cent of the officers nominated to coordinate the exercise were considered suitable for the role.

**75.** Other key aspects of auditor reviews:

- 91 per cent of bodies submitted their data on time.
- 88 per cent of bodies gave priority to following up recommended matches.
- Five bodies were considered not to have deployed sufficient or appropriate resources on managing the NFI exercise.

## Areas that need improvement

**76.** Exhibit 12 summarises the key areas where local auditors indicated that there was room for improvement.

**77.** While a number of bodies could improve aspects of their approach to the NFI, Comhairle nan Eilean Siar is the only body where auditors rated their NFI arrangements as not satisfactory overall and that require improvement as a matter of priority. Disappointingly this is the same rating auditors gave the council two years ago.

**78.** We are pleased to report that auditors have identified improvements by the following bodies to NFI arrangements since the 2008/09 report:

- Argyll and Bute Council
- East Renfrewshire Council
- Moray Council
- Orkney Council
- Shetland Island Council
- Stirling Council.

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

**80.** Auditors reported that nine per cent of bodies submitted data for NFI 2010/11 after the specified processing deadline. This creates a need for another processing run at a future date, and thereby increases unnecessarily the cost of processing data. These bodies fell several months behind the other participants while waiting for their matches, as well as causing other bodies to receive further matches.

**81.** Twenty-one per cent of bodies did not record their outcomes fully on the NFI secure web application. 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 is understated in some areas.

## Exhibit 12

### Areas of concern

Areas of concern	Percentage of bodies needing to improve
There is no internal audit monitoring of NFI approach and outcomes to ensure identified weaknesses are addressed	41
Fraud and error polices and strategy did not integrate NFI arrangements	33
Bodies are slow to follow up matches	31
Reporting NFI progress and outcomes to senior management and board/members is limited	15
Self-appraisal checklist was not used to improve arrangements	10

Source: External auditors