

# The National Fraud Initiative in Scotland



Prepared by Audit Scotland  
June 2016

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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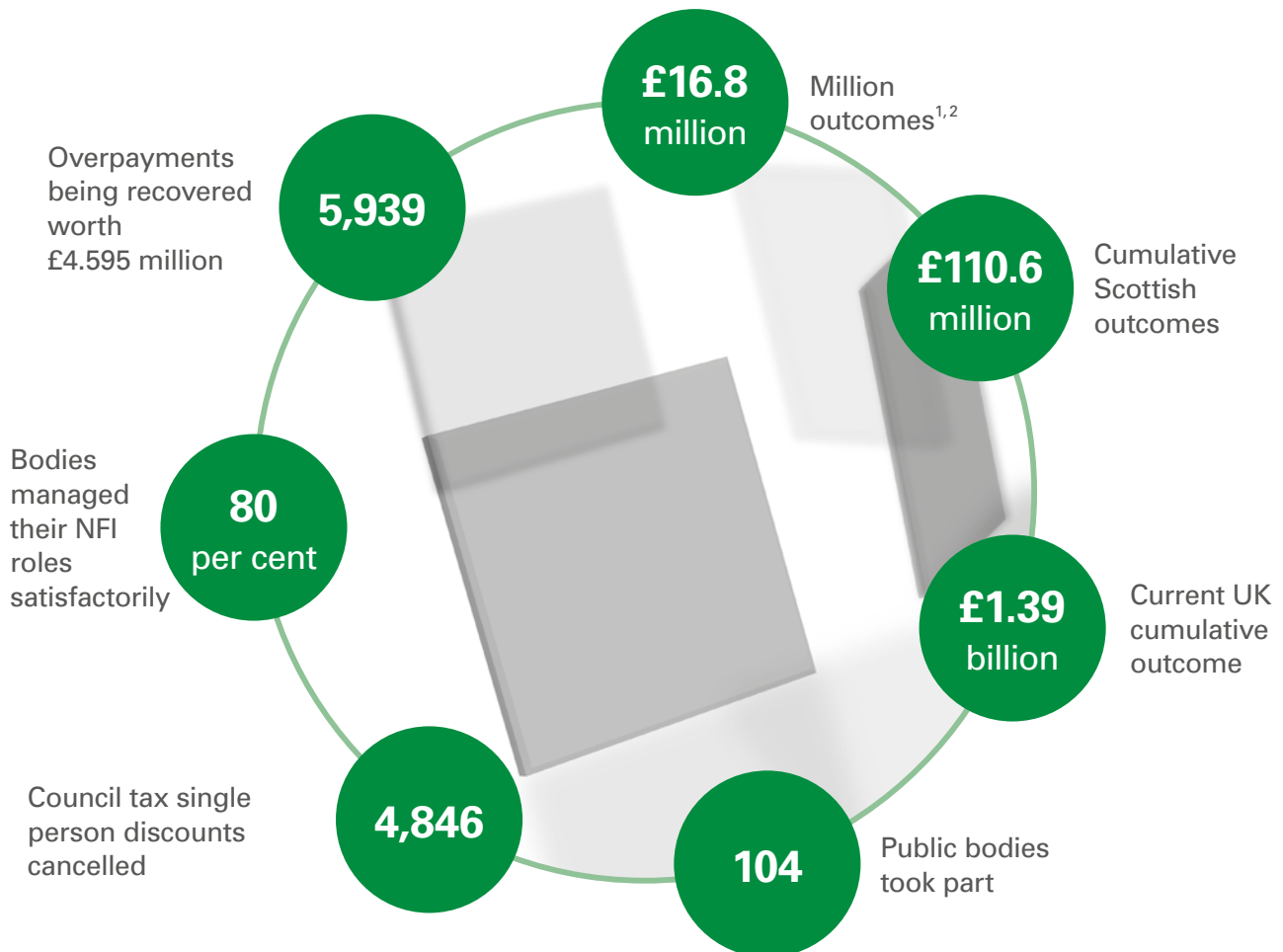
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# Key facts




## Notes:

1. For national reporting purposes, outcomes are collated as at 31 March 2016. Outcomes recorded by participants after this date are included in subsequent reports.
2. The outcome figures referred to in this report include amounts for fraud and error detected and also an estimate for those future losses that have been prevented. Estimates are included where it is reasonable to assume that fraud, overpayments and error would have continued undetected without the NFI data matching.

# Summary



## Key messages

- 1** Public bodies spend billions of pounds of taxpayers' money for the benefit of the Scottish population, providing services and financial assistance to all citizens including those that need them the most. Systems underpinning public spending can be 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** Fraud does not recognise organisational or geographic boundaries. Data sharing enables bodies to match data internally and externally. Technology provides an efficient way to connect discrete data sets and can therefore limit the gaps available for fraudsters to manipulate and can help identify those that have. It also supports bodies to identify and implement process and control improvements that should reduce future errors and the costs of correcting these errors.
- 3** Audit Scotland, working closely with public bodies, external auditors and the Cabinet Office, has completed another major data sharing and matching exercise. The National Fraud Initiative (NFI) exercises make a significant contribution to the security and transparency of public sector finances by confirming that services are provided to the correct people and by reducing fraud and error.
- 4** Since we last reported on [The National Fraud Initiative in Scotland](#)  in June 2014, outcomes valued £16.8 million have been recorded and the cumulative outcomes from the NFI in Scotland are now at £110.6 million. These outcomes represent a significant return to the public finances of Scotland at a time when public finances continue to be under pressure. Across the UK the cumulative total is now £1.39 billion.
- 5** What cannot be measured, but is also important, is the deterrent effects that undertaking regular data sharing and matching exercises, such as the NFI, has on persons who may be considering committing fraudulent acts.
- 6** The NFI 2014/15 involved 104 Scottish bodies across three sectors. Scottish bodies submitted 585 data sets which generated 347,715 data matches for further investigation.
- 7** There are 2,522 investigations still in progress and action is being taken to recover £4.2 million of overpayments.

- 8** The benefits of data sharing and matching enabled bodies external to those who submitted the data to identify outcomes of £0.7 million.
- 9** Most organisations take advantage of the opportunities provided by the NFI but some could act more promptly and ensure that appropriate officers are in place who have sufficient time available to investigate matches, stop frauds and correct errors.
- 10** The introduction of the Department for Work and Pensions' Fraud and Error Services (DWP FES) has had some resourcing implications for progressing housing benefit matches.

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## Recommendations

### All participants:

- Audit Committees, or equivalent, should review the self-appraisal checklist at [Appendix 2, Part A \(page 41\)](#) to ensure that they are fully informed of the planning and the progress being made by their officers investigating the NFI 2016/17 exercise.
- All public bodies participating in the NFI should ensure that they maximise the benefits of their participation in the NFI. In particular, they should consider:
  - whether it is possible to work more efficiently on the NFI matches: reviewing the suggestions at [Appendix 3 \(page 45\)](#) should help
  - using the NFI matches in conjunction with alternative matching services either internally or from other providers where appropriate
  - where appropriate using the NFI flexible data matching service and point of application data matching service.

### Local authorities:

- Local authorities should ensure they have sufficient capability to investigate non housing benefit fraud or corporate fraud, including relevant NFI matches.
  - Local authorities that administer pension schemes should consider regular matching to deceased records where they do not already do so.
  - Local authorities should ensure that they embed the regular use of data matching as part of their overall control arrangements to identify council tax discount fraud and error in order to maximise council tax income.
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# Part 1



## Background



### Key messages

- 1** The NFI is linked to the statutory audit of participating bodies and the results are reported every two years by Audit Scotland.
- 2** Data matching is an effective and efficient method to identify areas for further investigation by connecting discrepancies between different data sets.
- 3** The powers to undertake data matching given to Audit Scotland enable it to look across entity boundaries and national borders.
- 4** The success of the NFI comes primarily from the public servants who investigate the data matches and the external auditors who review their arrangements.

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**1.** [Public audit in Scotland](#)  sets out the shape, principles and common themes of public audit and the priorities identified by the Auditor General and the Accounts Commission. It also drives Audit Scotland's [Corporate plan 2016/17 update](#)  which sets out our vision to be a world-class audit organisation that improves the use of public money and that maximises the difference that public audit makes to public services, the people that they serve and the outcomes that those people experience.

**2.** Audit Scotland has coordinated another major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Cabinet Office to identify fraud and error. These exercises help support participating bodies demonstrate to the public that public money has been spent properly, known as the National Fraud Initiative in Scotland (the NFI), are undertaken every two years and are linked to the statutory audits of the participating bodies. The latest exercise (NFI 2014/15) started in October 2014 and is now nearing completion.

**3.** 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 to help prevent fraud and error.

**4.** Auditors in the public sector undertake a wider scope audit including reviewing audited bodies' governance and financial management arrangements incorporating action to prevent and detect fraud. Active participation in the NFI is one way in which bodies can demonstrate good governance and sound financial management.

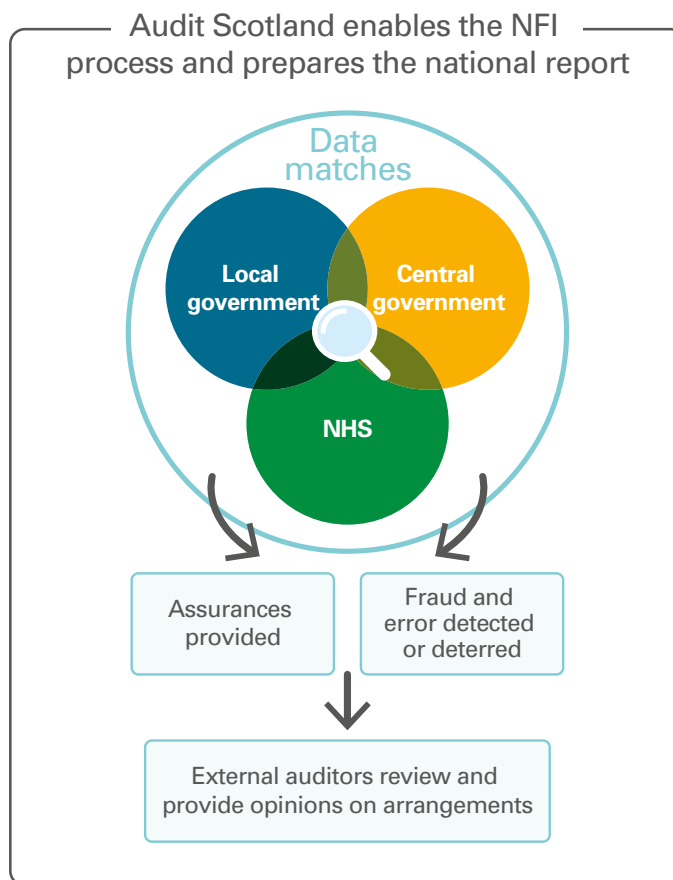
**5.** The role of external auditors in the NFI is also important. They review and conclude on the effectiveness of the local NFI arrangements. They also provide assurance on the progress being made on the NFI investigations. Auditor conclusions provide the evidence for the [Part 3. Making a difference \(page 28\)](#) section of this report.

**6.** The public also have a duty to report any change in circumstances that could affect their entitlement to many public services such as pensions, benefits or council tax discounts that they receive. Failure to do so can be serious and lead to overpayment recovery and possibly to fraud prosecution.

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

## Exhibit 1

### Relationships and responsibilities within the NFI in Scotland



Source: Audit Scotland



**8.** The NFI in Scotland is now well established with this being the fifth biennial exercise since 2006/07. 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 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 thus enabling appropriate action to recover money and/or press criminal charges
- can provide assurances, similar to a regular health check, that systems are operating well and can also identify where improvements are required
- operates across boundaries between public bodies in different sectors and countries
- represents value for money in terms of the efficiencies deliverable through centralised data processing and identifying targeted high priority matches.

**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'. A match does not automatically mean that there is a fraud or error and investigations are required to enable the correct conclusion to be drawn for each match. Bodies investigate these and record on a secure web application appropriate outcomes based on their investigations.

**10.** The outcomes figures used throughout this report capture detected fraud, error, overpayments and recoveries and also, where appropriate, a value for estimated future losses that have been prevented. These estimates are included where it is reasonable to assume that fraud, overpayments and error would have continued undetected without the NFI data matching. A more detailed explanation is included in [Appendix 4 \(page 46\)](#).

**11.** In total, 104 bodies participated in the 2014/15 NFI exercise. This is a reduction from 2012/13 mainly owing to the local government police and fire authorities being merged into national bodies. Two further education colleges were invited but didn't submit any data.

**12.** Audit Scotland included data about its own employees in NFI exercises and those of audit firms carrying out external audit work for the Auditor General for Scotland and the Accounts Commission.

**13.** In total, 585 data sets were submitted for data matching. These returned 347,715 matches and of these 65,778 were identified as recommended matches, being matches with a higher risk of fraud or error. It is up to individual bodies to determine which and how many matches to investigate.







**14.** Although there has been a reduction in data sets and matches from NFI 2012/13, when Scottish bodies submitted 599 data sets which generated 382,137 data matches, overall outcomes have risen from £16 million to £16.8 million.

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

**16.** In addition to the main matching exercise, a separate exercise has been undertaken to match electoral registers against those households where council tax single person discounts are being claimed.

## Exhibit 2

### Examples of the types of data set matches undertaken

Type of data match	Potential fraud or error
 Council tax records to the latest electoral register	A council tax payer gets council tax single person discount but the person is living with other countable adults, and so does not qualify for a discount.
 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 immigration records <sup>1</sup>	It is unlawful for someone to obtain employment if they are not entitled to reside or work in the UK.

Note: 1. This includes data about refused and expired visas, and visas where there is no right to work and failed asylum applications.

Source: Audit Scotland

**17.** The data uploads took place in October 2013 and the results were provided to councils in January 2014 to investigate. Two councils, Angus and Perth & Kinross Councils, decided not to upload data for this particular data match. The NFI is one of the proven ways by 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. Both of these councils are now doing alternative data matching using these data sets.

**18.** As this is the area where most outcomes originated for the NFI 2014/15, it is recommended that councils should embed regular data matching in this area as part of their overall control systems to identify and reduce council tax discount fraud and error and maximise council tax income.

**19.** Audit Scotland carries out the NFI process under powers in The Criminal Justice and Licensing (Scotland) Act 2010. It is important for all parties involved that this exercise is properly controlled and data handled in accordance with the law. The governance arrangements for the NFI are summarised at [Appendix 1 \(page 39\)](#).

**20.** The NFI is important in the context of the economic climate and fiscal projections for future public sector expenditure. The NFI exercises make a significant contribution to the security and transparency of public sector finances by:

- ensuring that services and benefits are only paid to the correct people
- identifying and reducing fraud and error
- allowing overpayments to be recovered
- enabling penalties to be imposed.

# Part 2


## Impact and outcomes



### Key messages

- 1** Outcomes from the NFI 2014/15 are £16.8 million.
- 2** £14.7 million have been identified directly from the NFI 2014/15 investigations.
- 3** £2.1 million are further savings from the NFI 2012/13.
- 4** 5,939 overpayments are being recovered worth £4.595 million.
- 5** Cumulative NFI outcomes in Scotland are now £110.6 million.
- 6** Across the UK £1.39 billion of NFI outcomes have now been recorded.

### Outcomes

**21.** Since we last reported on the [The National Fraud Initiative in Scotland](#)  in June 2014 outcomes valued at £16.8 million have been recorded. Cumulative outcomes from the NFI in Scotland are now at £110.6 million and represent a significant return to the public finances of Scotland.

**22.** The 2014/15 outcomes are split:

- £14.7 million of outcomes from the NFI 2014/15 matches.
- £2.1 million of outcomes from further follow-up work on the NFI 2012/13 matches.

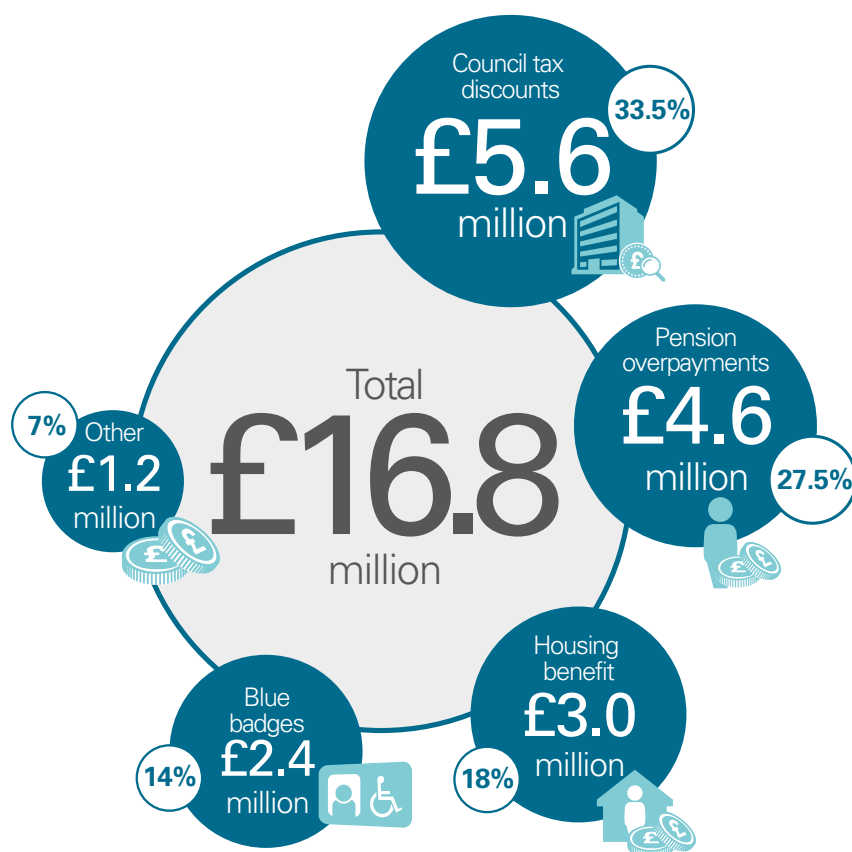
[Exhibit 3 \(page 13\)](#) provides more detail of key outcome areas recorded by bodies as at 31 March 2016.

**23.** Investigations from NFI 2014/15 are on-going. As at 31 March 2016, there were 2,522 investigations for this exercise still in progress. The evidence from previous exercises is that between reports, significant outcomes continue to be delivered. The last two NFI reports showed that:

- 20 per cent of 2012/13 outcomes arose after March 2014
- 39 per cent of 2010/11 outcomes arose after March 2012
- 43 per cent of 2008/09 outcomes arose after March 2010.

**Exhibit 3**

Analysis of NFI outcome from April 2014 to March 2016



Source: The Cabinet Office NFI secure web application

**24.** If this pattern is continued we could expect to see further outcomes in the region of £2.9 million to £6.3 million from the NFI 2014/15.

**25.** Importantly once overpayments have been identified appropriate recovery action can be taken. As at 31 March 2016, there was £4.6 million of recovery action being taken in 5,939 cases. This is a slight increase in value from the £4.5 million that was being recovered at the end of NFI 2012/13 in March 2014. There are more overpayments being identified from the NFI 2014 but these are at a lower value than those identified in the 2012/13 NFI exercise.

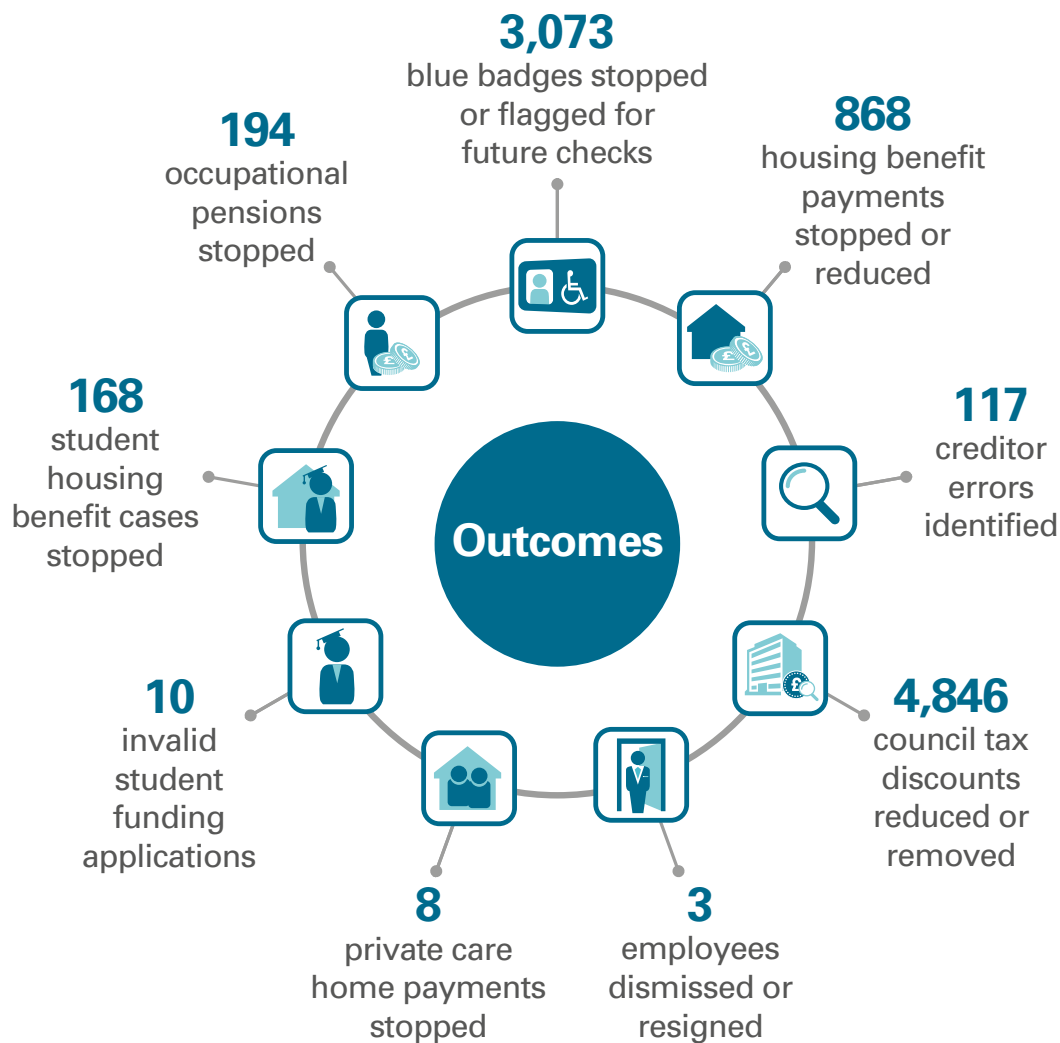
**26.** What cannot be measured directly is the value of the deterrent effect that the planned biennial NFI data matching has on potential fraudsters. Its significance should not be overlooked and is a key benefit to the Scottish public and taxpayers.

**27.** Overall outcomes are up on the last NFI exercise by five per cent in Scotland while outcomes have fallen by 2.5 per cent across the UK. Late savings in Scotland are significantly down between exercises at £2 million for 2014/15 compared with £5.5 million for 2012/13. However, no obvious national trend can be assumed from the results of the last five NFI exercises because of changes in the scope of the NFI exercises, the number and variety of bodies participating and in the approach taken by bodies to tackling fraud and error.

**28.** The NFI is more than the financial value of the financial outcomes recorded  
[Exhibit 4](#) sets out the main results from the 2014/15 matches:

## Exhibit 4

Main results from the 2014/15 matches



Source: The Cabinet Office NFI secure web application

**29.** The matches which generated the most outcomes from the current exercise, excluding late savings, in terms of financial outcomes accounting for 92 per cent (£13.6 million) of the total (£14.7 million), are:

- council tax discounts – 38 per cent
- pensions – 31 per cent
- blue badges – 12 per cent
- housing benefits – 11 per cent.

**30.** When comparing outcomes originating from NFI 2014/15 to those originating from NFI 2012/13, excluding late savings from previous NFI data matching exercises, outcomes are up with council tax reduction outcomes having increased significantly. Blue badge and pension matches have also generated increased levels of outcomes. The largest drop is in the area of housing benefit outcomes which is discussed later.





### Council tax single person discounts

**31.** People living on their own or with no countable adults in the household are eligible for a 25 per cent Single Person Discount (SPD) off their annual council tax bill. Local authorities are responsible for the award of these discounts as part of their administration of council tax and should ensure that they have sufficient evidence to apply these discounts to a person's council tax bill. People's circumstances change and it is important that household details and eligible discounts are kept up to date by councils, while recognising that it is the taxpayer's legal responsibility to notify the council of any changes in their circumstances that would affect this discount.

**32.** The Scottish Government estimates that two-fifths of chargeable dwellings were entitled to the discount in 2015.<sup>1</sup> [Exhibit 5](#) provides an indicator of the scale of the discount value across Scotland when applied to average council tax band D charge.

## Exhibit 5

### Council tax SPD estimate

	Number of single person households	955,505
	Scottish band D average charge (2014/15)	£1,149
	25% discount	£287.25
	<b>Annual discount value</b>	<b>£274,468,811</b>

Source: Scottish Local Government Financial Statistics 2014-15

**33.** This demonstrates that the single person discount is of considerable value. Failure to award discounts correctly and to regularly check household compositions can reduce the council tax income available to spend on council services.

**34.** This NFI match is a very simple one in that it matches council tax records to the electoral register. A match is returned where a single person discount has been awarded but the electoral register indicates that another countable adult is living there.<sup>2</sup> A letter can then be issued by council staff seeking clarification of household composition and initiate further investigations if required. Where a second countable person is confirmed or no response provided then the single person discount can be cancelled and recovery sought.

**35.** There were 75,604 matches returned to the 30 Scottish councils that submitted data. Of these, 16 councils have processed 9,067 matches and recorded £5.6 million outcomes with 430 still being investigated as at 31 March 2016. There are 14 councils who have not recorded any outcomes for this match. The two councils recording the highest outcomes for this match were:

- Renfrewshire Council – 874 discounts cancelled with £1.4 million outcomes
- Aberdeen City Council – 993 discounts cancelled with £1.3 million outcomes.

**36.** The average return of the 9,067 matches processed is £618 per match which is significantly higher than the £158 per match reported for NFI 2012/13.

**37.** It is not for Audit Scotland to determine which data matching service a council should use and when. Some councils use additional data matching options to undertake this review and do not record results on the NFI system. The City of Edinburgh Council used alternative data matching arrangements to perform their own separate council tax single person discount match and utilised a variety of alternative data sets including mobile phone accounts, number of bins ordered, credit cards and pay day loans. These arrangements have gained an extra £940,000 of revenue for the council.

**38.** However, as part of this exercise Audit Scotland checked with all councils to establish that where they were not investigating the NFI matches that they had alternative arrangements in place. All confirmed that they did or that they had arrangements in place to undertake this in the future.

**39.** Lack of resources and expertise have been cited as reasons by councils to call in data matching companies to complete work on this match rather than investigating the NFI matches internally. These companies are remunerated on either a fixed fee or on a percentage of discount value cancelled. The NFI web application now has built-in mail merge facilities that can deliver similar services as these companies and will generate a letter asking council tax payers to confirm that they are a still single household where a match is returned. If there is no response in say four weeks then the discount can be cancelled.

**40.** Audit Scotland would recommend that they investigate the NFI matches, in conjunction with other data matching suppliers as they determine appropriate, to ensure that their awarded discounts are kept up to date and that they demonstrate value for money.

## **Pension outcomes**

**41.** The NFI provides pensions administering councils and the Scottish Public Pensions Agency (SPPA) with an efficient and effective means of checking that payments are only being made to living persons. The NFI 2014/15 helped these

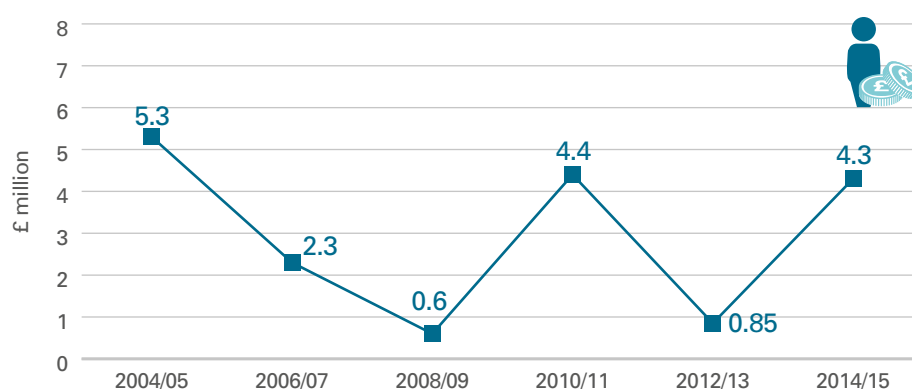


bodies identify 194 pensioners whose deaths had not been reported to them. Including other pension-related outcomes (for example, cases where early retirees have returned to work but not reported circumstances that require their pension to be reduced) and forward savings, the amounts for the NFI 2014/15 total £4.6 million (£3.8 million for the NFI 2012/13).

## Scottish Public Pensions Agency

**42.** The NFI recorded outcomes of £4.3 million from its 2014/15 matches against SPPA data. This includes a forward saving estimate for pension outcomes that assumes that the annual pension that would have been paid from date of death until age 85. SPPA matched 172 cases and in 168 of these cases recovery is in progress. This is an increase from the £0.85 million identified from 23 outcomes from NFI 2012/13 matches. [Exhibit 6](#) summarises SPPA pension outcomes since the NFI started.

### Exhibit 6 SPPA pension outcomes



Source: The Cabinet Office NFI secure web application

**43.** The numbers of recommended matches for investigation of the re-employment matches, ie identification of pensioners who may have gone back into employment that should have resulted in an abatement of their pension (generally abatements apply in instances where the pay from the new employment plus the pension exceeds the level of pay at the time of retirement) have increased since NFI 2012/13 from 2,213 to 3,118. This is as a result of the continuation of the work that saw historic teachers re-employment cases being included in SPPA's data for the first time in the previous NFI exercise.

**44.** For SPPA obtaining up-to-date information on pensioners returning to work and on deceased data from over 50 countries around the world where pensioners live is a constant challenge.

**45.** However, the SPPA has been undertaking more regular data matching opportunities that have helped lead to an increase in overpayments identified. The SPPA has found the additional mortality screening available from the NFI outside the two-yearly cycles useful in identifying further matches for investigation.

Investment in other regular data matching can significantly help reduce the value of overpayments that may build up.

**46.** The NFI 2014 report recommended that local authorities that administer pension schemes and are not already using more regular data matching to deceased records should consider doing so. This recommendation remains as these overpayments are often large and recovery difficult and the sooner these are identified the lower the value of overpayments that will be generated and any recovery should be easier.

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## Case study 1

### The City of Edinburgh Council



A NFI pension match identified a fraud in excess of £15,000 which had taken place for almost 13 years.

The match was not a perfect match as a middle initial had been omitted in one of the individual's records. It had previously been picked up by NFI on two separate occasions. Each time the pension officer sent out a Life Certificate for completion and both times the forms were returned duly completed, signed and witnessed.

The third time the match was identified through NFI, a more senior pension officer checked it and noticed that the witness signatures on the previous two Life Certificates were by the same person. As a cautionary measure, a stop was put on the pension and photographic evidence requested. No evidence was received. More investigations were undertaken and a death date of 2003 was identified. The case is now the subject of a police investigation.

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## Local government

**47.** While SPPA outcomes are up there has been a significant reduction in local government-run pension scheme outcomes from £2.9 million of outcomes across 73 cases in NFI 2012/13 to £275,756 pension outcomes across 43 cases for the current exercise.

**48.** There are 11 local government administered pension bodies in Scotland. All investigated their NFI pension matches and four returned outcomes. As in previous NFI exercises, the majority of the outcomes from local government are in the:

- Strathclyde Pension Fund (SPF) administered by Glasgow City Council which has a membership of over 210,000 and which recorded outcomes of £199,130. These outcomes were from 29 cases which are being recovered (£2.2 million of outcomes across 52 cases in NFI 2012/13)
- Lothian Pension Fund administered by The City of Edinburgh Council with over 72,000 members and which achieved an outcome of £30,137 from one case which has been referred to Police Scotland (£0.3 million across three cases in NFI 2012/13).

## Blue badges

**49.** The Disabled Persons' Parking Places (Scotland) Act 2009 was passed by the Scottish Parliament on 26 February 2009 and came into force on 1 October 2009. The Act places a duty on all local authorities to promote the proper use of disabled parking places, and aims to make all disabled persons' parking bays enforceable.

**50.** The blue badge scheme allows individuals with mobility problems, and who may have difficulty using public transport, to park free at on-street parking meters and pay-and-display machines. Holders are also allowed to park in designated blue badge spaces and may also be permitted to park on single or double yellow lines in certain circumstances.

**51.** Badges are sometimes used or renewed improperly by people after the death of the badge holder. The use of a blue badge by an unauthorised person is an offence. Importantly by using a blue badge to park without need, the space is denied to people with actual mobility issues. This is the true social cost of this type of fraud.

**52.** Councils do not always attempt to recover a badge relating to a deceased person to avoid causing distress but, by 'flagging' the relevant records, they can at least ensure that badges are not incorrectly renewed in the future. By sharing information with other departments councils can also recover valuable equipment and aids if they have not been informed of a person's death.

**53.** Scottish councils have reported correcting 3,073 (2,876 in 2012/13) blue badge records where the NFI helped them to identify that the holder was deceased. North Lanarkshire Council has corrected 838 blue badge records.

**54.** The Audit Commission first identified the problem of blue badge fraud in a report published in September 2009 and also in their subsequent annual *Protecting the Public Purse* reports. They identified how criminals falsify blue badges or steal genuine ones from cars, and how a blue badge can be sold on the black market. An estimate of £575 has been applied to any cancelled blue badges but they can be sold for more than this.

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## Case study 2

### Glasgow City Council



NFI blue badge matches identified one individual who had two blue badge parking permits registered to them; one in Scotland and one in England. The Scottish permit was subsequently cancelled.

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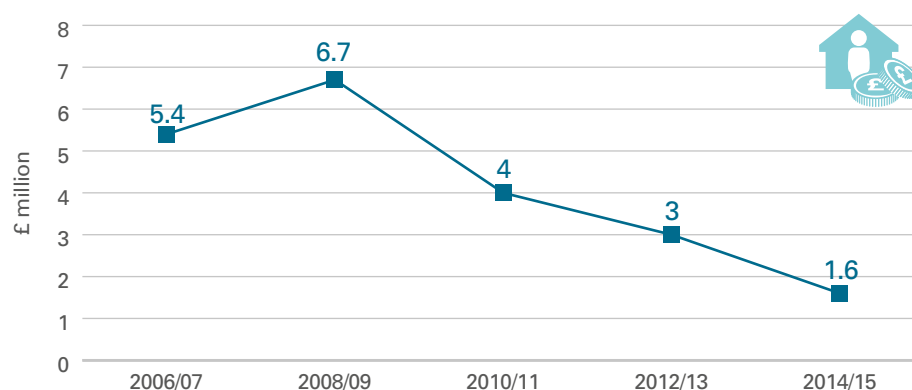
## Benefit outcomes

**55.** The NFI provides councils and the DWP with the opportunity to identify a wide range of benefit frauds and errors. The most common are caused by undeclared occupational pensions and undeclared earnings from public sector employment.

**56. Exhibit 7** summarises the benefit outcomes from all the NFI exercises to date, excluding late savings.

## Exhibit 7

### Housing and other benefits outcomes



Source: The Cabinet Office NFI secure web application

**57.** This would indicate that there has been a significant decline in benefit outcomes in the last exercise. The possible reasons are:

- previous NFI exercises have detected the most significant and longest running frauds and errors
- the trend may demonstrate the NFI exercise's impact and local measures in deterring fraud
- the efforts of bodies to continuously improve housing benefit systems and participating in the DWP's Fraud and Error Reduction Incentive Scheme aimed at identifying and reducing housing benefit fraud and error
- due to potential frauds having to now be referred to FES by councils and with some delays arising from this new procedure as it beds in.

**58.** £1.4 million of NFI 2012/13 outcomes were recorded after the last NFI report in June 2014. If this trend is repeated then we would expect to see benefit outcomes increase but be still significantly lower than the last exercise.

**59.** Although the number of cases recorded with overpayments at 868 is significantly down on the previous exercise of 1,862, the individual value of overpayments has increased from £2,694 to £3,515. This would indicate that resources are still being applied and councils are effectively targeting high-value and high-risk matches first.

**60.** In terms of value, Glasgow City Council and Renfrewshire Council have so far achieved the highest levels of outcomes from their NFI 2014/15 benefits investigations (£419,095 and £202,278 respectively). This may be due to Glasgow City Council having been involved as a DWP FES pilot from 2013 and therefore processes would be expected to be more mature than for councils

transferring during 2015/16. Renfrewshire Council did not transfer housing benefit fraud investigations to DWP FES until March 2016 and therefore their internal investigations team continued to action matches during 2015/16. Five councils recorded benefits outcomes in excess of £100,000. Aberdeenshire Council, East Lothian Council, Moray Council, North Ayrshire Council, the Scottish Borders Council and Shetland Islands Councils have recorded no benefit outcomes as at 31 March 2016. This is because there were no outcomes following investigations (Moray Council and Shetland Islands Council) or because the investigations are still in progress.

### Student funding to housing benefit claims

**61.** One of the most successful matches in terms of numbers and coverage is student funding to housing benefits. With a few exceptions, mainly lone parents and disabled students, students are not eligible for housing benefits. This match takes council data and matches it against the Student Awards Agency for Scotland (SAAS) student funding data.

**62.** The match enabled councils to stop 168 housing benefits payments worth £0.3 million to ineligible students. This is a reduction from the 302 payments worth £0.7 million that were stopped as a result of NFI 2012/13.

### Housing benefit claims by public sector workers and pensioners

**63.** It is critical that the public has trust in its public servants. This match identifies errors and frauds that have taken place between public sector payrolls and pensions. By the end of March 2016, councils had identified benefit overpayments from their NFI 2014/15 matches relating to (2012/13 figures are in brackets):

- 441 (1,089) public sector pensioners
- 122 (290) local government employees
- 48 (131) persons working in the NHS in Scotland
- 3 (8) central government employees

Again outcomes are significantly lower than NFI 2012/13.

**64.** While no overpayments are desirable, [Exhibit 8 \(page 22\)](#) puts some of these figures in the context of the populations involved and it does provide some overall assurance that these areas do not have high levels of fraud and error.

### Payroll

**65.** This match includes all participating bodies' employee payroll data as well as those of MSPs and councillors. This level of transparency is important to demonstrate to the public that they can rely on the honesty of the employees providing their services and their elected representatives.

**66.** The NFI matches data to identify cases of potential payroll fraud. But investigations can also lead, for example, to the discovery that employees are in breach of conditions of service or EU working time limits. Apart from other consequences, excessive working hours may pose public safety risks.

## Exhibit 8

### The NFI benefits outcomes compared to source populations

Sector	Number	Overpayments identified	Percentage of overpayments identified in population	Overpayment value
Public sector pensioners	356,000	441	0.12%	£185,556
Local government employees	244,800	122	0.05%	£306,556
NHS employees	161,400	48	0.03%	£38,009
Civil servants	42,300	3	0.01%	£16,408

Source: The Cabinet Office NFI secure web application; *Public Sector Employment in Scotland: Statistics for 4th Quarter 2015*; and the Scottish Public Pensions Agency

## Case study 3

### Renfrewshire Council



A NFI housing benefit to payroll match identified a case which has been proven as a 'living together' and 'non-commercial tenancy' fraud resulting in £120,000 of housing benefit and council tax benefit having been improperly claimed.

The data match showed a female housing benefit claimant to be living and claiming from the same address as a male council employee. The claimant had been claiming housing benefit and council tax benefit at this address since 2010.

Investigations identified that the council employee had purchased the property in 2010 and that the claimant and employee appeared to be living as a couple.

Previous addresses for the claimant were subsequently examined and it was found that a previous address had been shared with her mother. Further checks into the mother's circumstances showed that the mother and the landlord of this previous address appeared to have been living there as husband and wife. This meant that the claimant's claim for this secondary property for the period 2002 to 2007 was incorrect.

The case against the claimant and the employee has also been reported to the Procurator Fiscal for consideration of proceedings; the second case against the mother and her landlord has been passed to DWP's FES and is on-going.

**67.** The NFI also matches payroll data to Home Office immigration data. It is unlawful to seek employment if you are not entitled to reside or work in the UK and the NFI provides bodies with a means of supplementing their recruitment checks.

**68.** As a result of the 2014/15 matches, three public sector employees in Scotland have so far been dismissed after it was confirmed that they did not have permission to reside or work in the UK.

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## Case study 4

### NHS Greater Glasgow and Clyde



A payroll match identified an NHS employee had not renewed his visa and had earned £27,697 while working with the expired visa. The employee was suspended without pay pending investigation. The employee was subsequently dismissed when he did not turn up at a disciplinary hearing.

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## Student immigration checks

**69.** Since the NFI 2006/07 the Student Awards Agency for Scotland (SAAS) has been provided with its own matches, identifying cases where students may not hold valid permissions to reside or study in the UK.

**70.** SAAS has recorded ten cases of students that were found, after investigating the NFI matches with the Home Office, not to be entitled to receive support. This was because either these individuals were not entitled to be in the UK, produced false documents, or they had lied about their personal circumstances. These students had received student support amounting to around £213,316. NFI 2012/13 also resulted in ten cases where students were not entitled to support although lower outcomes of £163,451 were recorded.

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## Case study 5

### Student Awards Agency for Scotland



A student award NFI match highlighted that a student nurse had only limited leave to remain in the United Kingdom and as such was not entitled to receive support. Funding of £14,056 has been overpaid which is not being recovered due to it originating from an error however further future support of £40,344 has now been retracted.

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## Case study 6

### Student Awards Agency for Scotland



An immigration NFI match identified that a non EU foreign national was given an entry clearance visa to enter the United Kingdom as a visitor. The person was not entitled to work and had no recourse to public funds. The individual applied for student funding as a British National and lied on the application about the right to be in the UK. As a result the person fraudulently gained £11,204 in funding. The individual pled guilty at trial and was sentenced to 200 hours community pay back. Recovery action is being taken.

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### Creditor outcomes

**71.** The NFI provides an efficient means of checking payments are made only to appropriate creditors. NFI 2014/15 has resulted in 139 creditor outcomes of £0.71 million compared to 105 outcomes worth £1.1 million in 2012/13. Recovery action is taking place for 117 of these overpayments. In other cases overpayments have already been returned or credit notes provided.

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## Case study 7

### Scottish Fire & Rescue Service



NFI creditor matches identified a duplicate payment. An invoice had been paid twice in error owing to two slightly different invoice references being recorded. The amount overpaid was £15,478. The overpayment is being recovered and monthly duplicate payment checks are being implemented to prevent this issue from occurring again.

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### Payments to private residential care homes

**72.** The NFI matches information about private residential care home payments to data about deceased persons. This can identify where payments may be continuing for people who have died.

**73.** The NFI 2014/15 helped councils identify eight cases resulting in overpayments worth £103,111 (£22,150 in NFI 2012/13). All of these overpayments are being recovered.



## Case study 8

### East Dunbartonshire Council



Five private residential care home resident matches identified that the residents were deceased. Overpayments totalling £89,000, (£45,000 in respect of one resident) were identified and are being recovered. The council has since revised their working practices. Previously the council accepted verbal notifications of the death of care home residents. As a result of the NFI exercise only written notification is now accepted.

### Matches benefiting other bodies

**74.** One of the key benefits in undertaking a UK-wide data matching exercise is that it enables matches to be made between bodies and across national borders.

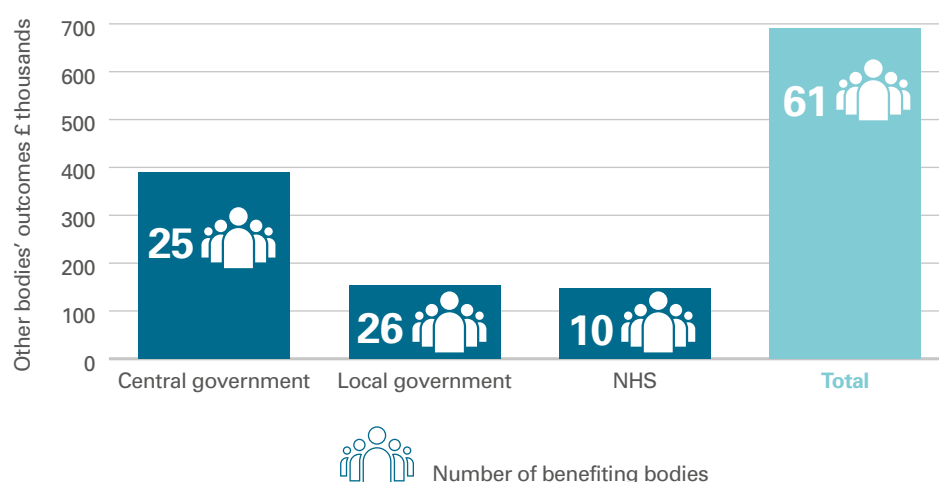
**'In Scotland we recognise the importance of working together across organisational boundaries to protect our precious public resources from the risk of fraud, bribery and corruption.'**

John Swinney, Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy and Michael Matheson, Cabinet Secretary for Justice

**75.** [Exhibit 9](#) summarises these for the NFI 2014/15 exercise for Scottish data submitted.

## Exhibit 9

### Matches benefiting other bodies



Source: The Cabinet Office NFI secure web application

**76.** The cross-sector scope of the NFI enabled 53 bodies to identify and take action on 396 outcomes worth £691,570. The majority are from cross-body housing benefits to other data sources such as student funding, payroll or pensions. This is a significant reduction in matches benefiting other bodies from NFI 2012/13 when 46 bodies were able to take action on 717 outcomes worth £1.5 million. This again is a reflection of the drop in housing benefit outcomes.

**77.** In the main these matches related to other Scottish bodies but 15 English councils, the Northern Ireland Housing Executive, Civil Service Pensions and the Northern Ireland Department of Finance and Personnel were also able to identify outcomes from Scottish data.

**78.** For those participating bodies or sectors taking part in the NFI who may not always identify significant outcomes from their own matches, it is important to appreciate that other bodies and sectors may. If we look at the data submitted by central government and the NHS we see:

- central government bodies recorded direct outcomes of £4.8 million but also enabled £390,549 of outcomes to be identified at other bodies
- the NHS has recorded direct outcomes of £75,331 but also enabled £147,196 of outcomes to be identified at other bodies.

**'Fraud does not respect boundaries. Fraudsters use the same tactics and deceptions, and cause the same harm throughout the UK.'**

*'Fraud in Scotland', Fraud Advisory Panel, 2014*

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## **What bodies actually save or recover because of the NFI**

**79.** The estimated value of the NFI to the public purse since we last reported in June 2014 is £16.8 million. However, some of this represents overpayments that will never be recovered and estimated values that have been attached, for example to cancelling a blue badge. These amounts may not translate into cash savings, but they are valuable outcomes nonetheless.

**80.** Audit Scotland previously canvassed bodies and established from those that responded that the NFI overpayments are usually subject to the same recovery processes that apply to other debt. Most bodies do not keep separate records of the NFI recoveries. Indeed, Audit Scotland would prefer that bodies devoted their resources to investigation work, rather than require them to record the NFI amounts that are often recovered by frequent small payments over long periods of time.

**81.** Based on the current NFI exercise the recovery rate is 81 per cent, excluding estimates. If we add the estimated forward savings from areas such as benefits and pensions, being public money which has been prevented from being paid out in fraud or error following investigations, we can reasonably estimate that the actual cash savings or recoveries for the public purse are at least half of the total outcomes of £16.8 million.

**82.** These cash savings and recoveries are an identified cash return to public bodies and taxpayers where fraud and errors have taken place. There are also other costs that are incurred where frauds and errors are identified. These include:

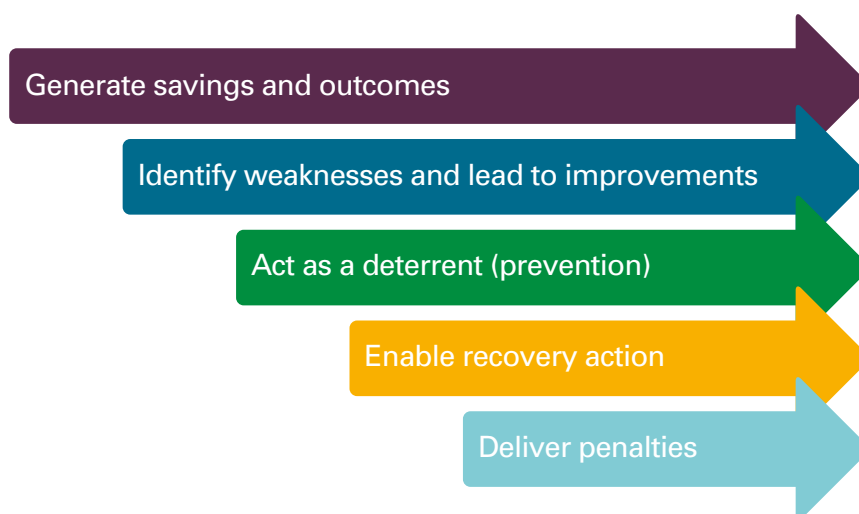
- the cost of investigating, correcting and recovering frauds and errors
- the opportunity cost of investigating, correcting and recovering frauds and errors instead of providing services
- the social cost of awarding incorrect benefits or providing ineligible services
- the reputational cost of failing to prevent frauds or in making errors.

### What does the level of outcomes tell us?

**83.** The NFI impacts on a number of levels and across a number of bodies. These levels can be summarised in [Exhibit 10](#).

#### Exhibit 10

The NFI impacts on a number of levels and across a number of bodies



Source: Audit Scotland

**84.** A key benefit of the NFI is the fact that by identifying fraud and error the opportunity is provided to bodies to establish why they occurred and then improve their systems. This can be done by:

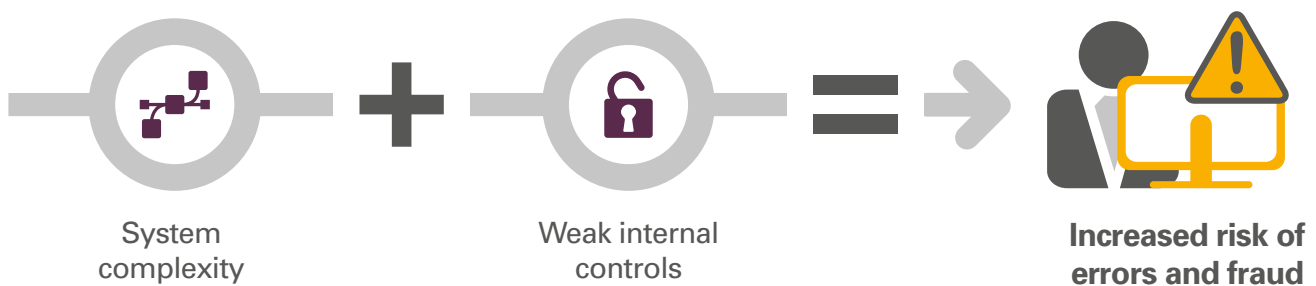
- simplifying system processes
- reviewing and strengthening the internal controls that failed to stop or capture errors or fraud.

**85.** As a result of this NFI exercise 36 bodies have recorded that they made improvements in order to address control weaknesses. This includes data cleansing and revisions to processes.

**86.** While it would be difficult to eliminate all errors and prevent all frauds, the NFI can provide the focus for such reviews to take place. [Exhibit 11](#) summarises the circumstances where fraud and error are most likely to be found.

## Exhibit 11

### Circumstances that increase the risk of error and fraud



Source: Audit Scotland

**87.** System complexity can result in errors made by either the individual wishing to obtain a service or by the public servant processing the data. Where an individual knowingly exploits systems and controls by providing incorrect information, this is fraud.

**88.** The most effective approach to reduce the overall cost of fraud and error is to prevent it occurring in the first place. Both fraud and error can be reduced by public bodies establishing and maintaining sound systems of internal controls.

**'We will disable fraud, bribery and corruption through improving our systems and controls to support our operations.'**

*Protecting Public Resources in Scotland, Scottish Government, 2015*

**89.** Audit Scotland does not take a view on whether high levels of the NFI outcomes are a good result or not. High levels of outcomes could be due to increased fraud and error in the system or to poor internal controls in operation.

**90.** Equally important is the assurance given to these bodies with few matches that in the areas covered by the NFI there do not appear to be significant problems and the deterrent effect, created by the NFI exercise taking place and being communicated to those whose data is included, is working.

# Part 3

## Making a difference



### Key messages

- 1** 80 per cent of participating bodies managed their roles in the 2014/15 NFI exercise satisfactorily.
- 2** The effectiveness of the NFI arrangements have improved in the central government sector but declined slightly in the local government and the NHS sectors.
- 3** Almost half (41 per cent) of bodies need to follow up their matches more promptly.
- 4** Only 31 per cent of audit committees reviewed the NFI 2014 report and carried out the self-assessment checklist contained within it.
- 5** 23 per cent key contacts had not reviewed the NFI 2014 report and carried out the self-assessment checklist contained within it.
- 6** The transfer of investigative staff to the DWP's FES has had major implications for resourcing the NFI in some councils.

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### Overall findings

**91.** Local auditors concluded that 80 per cent of participating bodies had managed their role in the NFI 2014/15 exercise satisfactorily (81 per cent in the NFI 2014 report). However, a few showed scope for significant improvement.

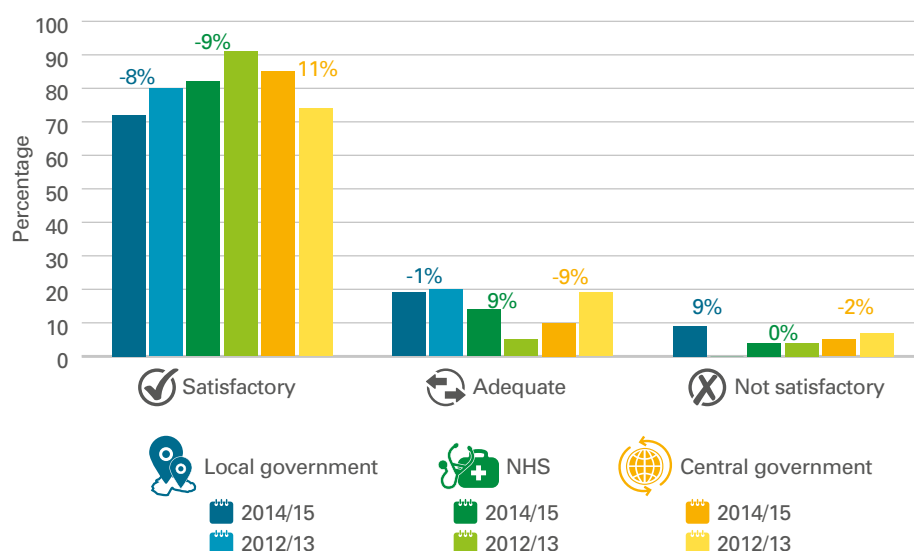
**92.** [Appendix 2](#) includes a two-part checklist that we encourage all bodies to use to self-appraise their involvement in the NFI prior to and during the NFI 2016/17 exercise. [Part A \(page 41\)](#) is designed to assist audit committee members when reviewing, seeking assurance over or challenging the effectiveness of their body's participation in the NFI. [Part B \(page 42\)](#) is for officers involved in planning and managing the NFI exercise.

**93.** The conclusions continue to indicate a high degree of commitment to the NFI. Local auditors are providing strong assurance that most participating bodies are taking the NFI seriously by putting adequate arrangements in place. Central government bodies have better arrangements in comparison with NHS and local government sectors.

**94.** The biggest change from the last exercise is that central government bodies have, overall, significantly improved their arrangements and this is commendable. In comparison, NHS bodies' arrangements declined by nine per cent and local government arrangements declined by eight per cent. This is of concern especially as the NFI 2014 report recommended that bodies should review the appendix to the report in order to try to ascertain whether it is possible to work more efficiently on the NFI matches. It should be noted that bodies are not expected to investigate all NFI matches. A robust risk-based approach, in conjunction with the risk profiling of matches in the NFI system, should be used when selecting matches for investigation.

## Exhibit 12

### External auditor review of the NFI arrangements



Source: External auditors

**95.** The transfer of counter-fraud resources from local government to the DWP's FES had major implications for the resourcing of fraud activity in some local authorities. The sector also has the largest range of data sets and number of matches returned. It is not entirely unexpected, therefore, that they have been identified as having scope to improve.

**96.** Auditors have identified that NHS bodies' arrangements for NFI have weakened. Previously in the NFI 2012/13 arrangements were found to have considerably improved. The quality of arrangements in NHS has now fallen back to just below the level in the NFI 2012/13.

**97.** Local auditors provided up-to-date information about each body's planning for the NFI 2014/15 exercise as well as progress and results midway through the exercise in June 2015. In reaching their conclusions, auditors did not attach significant weight to the value of NFI outcomes achieved by bodies but instead looked to see that bodies had approached the exercise proportionately and effectively.

**98.** Overall, local auditors concluded in June 2015 that the majority of participating bodies had managed their role in the NFI 2014/15 exercise satisfactorily so far. However, six participating bodies were found to have scope for significant improvement. As a result, the Assistant Auditor General wrote to these six bodies highlighting the following areas of significant concern:

- [Aberdeenshire Council](#) – no match investigation work carried out owing to a lack of resources
- [Dumfries & Galloway Council](#) – late submission of data sets and limited match investigation work carried out owing to a lack of resources including no dedicated fraud staff in place
- [Dundee City Council](#) – late submission of data sets and limited match investigation work carried out
- [East Ayrshire Council](#) – late submission of data sets and limited match investigation work carried out owing to a lack of resources and forward planning
- [Scottish Borders Council](#) – no match investigation work started
- [Scottish Police Authority](#) – late submission of data sets, no match investigation work started and a lack of clarity regarding roles and responsibilities in relation to NFI.

**99.** Auditors followed up progress in these six bodies in February 2016 and found improvements in all but two participants. The position was as follows (final auditor assessments are in brackets):

- Aberdeenshire Council had processed 1,682 (73 per cent) matches out of the 2,309 recommended matches and a further 85 were in progress, although none had been closed off to date (adequate).
- Dumfries & Galloway Council had investigated 77 (23 per cent) matches out of 335 recommended matches. However, limited progress had been made with regard to investigations: (not satisfactory).
- Dundee City Council was found to have made progress including improving the prioritisation given to investigating NFI matches. This had resulted in overpayments of £179,000 being identified: (satisfactory).
- In East Ayrshire Council it was found that in the majority of areas there had been improvement and sufficient involvement in the investigation of matches and recording of results (satisfactory).
- Scottish Borders Council received a total of 3,990 matches. 2,827 matches had been closed of which 798 were recommended matches: (satisfactory).
- Scottish Police Authority had made progress, however there are still some recommended matches which have not yet been examined. Auditors were advised that the majority of matches had been followed up, however this was not updated on the NFI system (only ten of the 18 NFI match reports have been opened according to the NFI system): (not satisfactory).

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

- 36 bodies have made improvement controls in order to address control weaknesses identified as a result of NFI activity.
- Seven bodies use alternative data-matching arrangements on areas such as purchase ledger information to help identify duplicate payments and duplicate suppliers, and for single-person discount council tax comparing council tax and employee records.

**Areas that need improvement**

**101.** There has been some reduction in the quality of certain aspects of NFI arrangements since our 2014 report. [Exhibit 13 \(page 33\)](#) summarises the key areas where local auditors indicated that there was room for improvement.

**102.** In June 2015, auditors reported concerns in 34 (41 per cent) bodies in respect of bodies not following up matches promptly and/or not focusing on recommended matches. This is the first time auditors have undertaken a review mid way through a NFI exercise. Previously this was evaluated towards the end of the exercise when most bodies had processed the majority of matches. Issues identified by auditors in June 2015 include staffing changes, year end processes and a lack of resources (91 per cent of bodies correctly gave priority to following up recommended matches in the NFI 2013/14 report and 71 per cent of bodies followed up matches promptly).

**103.** The majority of the officers directly involved in preparing for the NFI and following up matches demonstrate commitment. However, auditors identified issues in 16 per cent of bodies in respect of limited NFI skills, insufficient authority and insufficient time available for NFI in respect of officers nominated to coordinate the exercise.

















**104.** Despite the NFI 2014 report recommending that audit committees, or equivalent, should review the self-appraisal checklist included in the report to ensure that they are fully informed of the planning and the progress being made by their officers investigating the NFI 2014/15 exercise, auditors concluded that only 31 per cent of audit committees reviewed the NFI 2014 report including assessing themselves against the checklist contained within it. It was also noted that 19 (23 per cent) bodies reported that the key contact had not reviewed Appendices included in the NFI 2014 report. Interestingly, in 15 of these participating bodies, neither the key contact nor the audit committee (or equivalent) reviewed the self-assessment checklist.

**105.** Auditors reported that 24 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. Councils report that for some housing benefit matches delays have been experienced in receiving updates from the DWP's FES. Audit Scotland will work with colleagues in the Cabinet Office to improve the clarity of recording requirements and the future arrangements for housing benefit matches.

**106.** [Appendix 3 \(page 45\)](#) provides some help in this area. However, the likely effect is that the value of the outcomes referred to in this report is understated in some areas.



**Exhibit 13****Areas of concern**

Areas of concern	Percentage of bodies needing to improve NFI 2014/15	Percentage of bodies needing to improve NFI 2012/13
Regular reporting of NFI progress and outcomes to both senior management and elected/board members is limited or does not happen	 25%	 24%
There is limited or no internal audit involvement and/or monitoring of the NFI approach and outcomes to ensure identified weaknesses are addressed	 51%	 39%
Bodies are slow to follow up matches and/or not focusing on recommended matches	 41%	 n/a
Bodies submitted data for NFI after the specified processing deadline	 16%	 11%
Officers nominated to coordinate the exercise were not considered suitable for the role	 16%	 10%
Bodies did not record their outcomes fully on the NFI secure web application	 24%	 21%
Audit Committees, or equivalent, did not review the self-appraisal checklist included in the report	 69%	 n/a
Key contacts did not review the self-appraisal checklist included in the report	 23%	 n/a

Source: External auditors

**DWP's Fraud and Error Service**

**107.** The introduction of the DWP's FES and the transfer of many experienced and trained counter-fraud experts to the DWP by March 2016 had implications for resourcing of some council's counter-fraud work. The risk for some local government bodies is that they have not ensured that sufficient capacity remains to counter non benefit corporate frauds.

**108.** Despite the recommendation in the NFI 2014 report for local authorities to take steps to retain or invest in sufficient capability, in the short and long term, to investigate non housing benefit fraud or corporate fraud, including relevant NFI matches, after the FES is introduced, local auditor updates in June 2015 identified that this had not happened in some councils. At that time five Scottish councils had still to make decisions about retaining investigative resources and three councils had already decided not to retain a dedicated corporate fraud investigation resource. In other councils corporate fraud teams have been set up retaining some or all of the experienced counter-fraud experts.

**109.** Interestingly, of the councils deciding not to retain a corporate fraud resource, Dumfries & Galloway and East Ayrshire Councils were found not have engaged to a satisfactory level with NFI 2014/15 at June 2015 and received reminder letters from Audit Scotland.

**110.** Auditors will follow up these findings as part of the NFI 2016/17 exercise.

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## Case study 9

### North Ayrshire Council



The council has created a counter-fraud team within its internal audit service, comprising previous housing benefit investigators, which even in its infancy is demonstrating its worth and enhancing the arrangements within the council regarding prevention and detection of fraud. The key strengths of the team include:

- the reporting lines to the Chief Internal Auditor
- the skills mix combines expertise in investigation of internal and external fraud
- added value and follow-up of findings, for example referrals of benefit fraud, are made to DWP; however, where they have council tax implications these are followed up by the counter-fraud team.

During the first year of operation, the team has:

- carried out eight separate internal investigations on council employees with various outcomes including disciplinary action being taken
  - carried out investigations in respect of council tax, discretionary housing payment and the Scottish Welfare Fund which have led to £12,000 of backdated recoveries as well as an on-going cost reduction of a further £10,000
  - reviewed all properties in receipt of 100 per cent non domestic rates Empty Property Relief which resulted in the withdrawal of £60,000 of on-going relief as well as backdated recovery of a further £87,000.
  - recovered five blue badges where there was fraud or misuse of the badge.
-

# Part 4

## Future of the NFI



### Key messages

- 1** The NFI 2016/17 exercise is due to start in July 2016 and will again look to review the suitability of participating bodies.
- 2** The NFI is increasing its opportunities for flexible and real time data matching options aimed at fraud prevention through the application checker module (AppCheck) and the flexible matching service.

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### Participating bodies and data sets

**111.** Audit Scotland will continue to look at which bodies should be asked to submit data and which data sets. This exercise mandated a number of data sets for the first time and had previously expanded the number of bodies participating so it is unlikely that the number of bodies will increase significantly.

**112.** The Cabinet Office has recently launched an AppCheck fraud prevention service, complementing their other detection services. AppCheck is designed to help quickly identify and prevent fraud or mistaken payments from being made in the first place. This ultimately helps protect budgets which can then be deployed to help genuine applicants.

**113.** They have invested significant resources into developing the AppCheck product to facilitate point of application checking. This preventative service complements the traditional detection tools and allows organisations to stop fraudulent applications from being successful. Stopping them at the point of application reduces administration and future investigation costs. This is valuable at any time, but when overall capacity to tackle fraud and error has been falling it is particularly important. [Exhibit 14 \(page 36\)](#) provides more details.

**114.** The Cabinet Office also offers a flexible data-matching service which allows participating bodies to re-perform any of the existing NFI data matching at a time convenient to them. This service matches against data from the most recent NFI exercise with regularly refreshed immigration data from the Home Office, as well as student loans and Amberhill police data.

**115.** The draft data specifications for the NFI 2016/17 are available on the Cabinet Office website (Gov.uk) and key contacts have been notified of these.

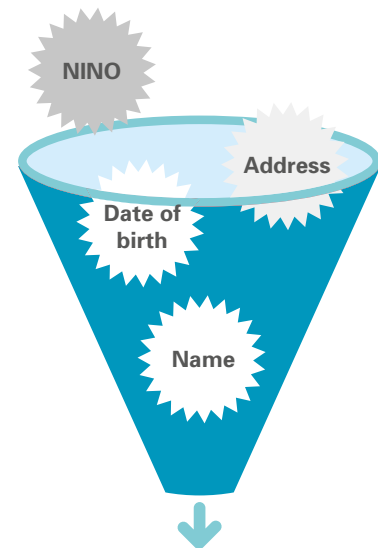
## Exhibit 14

### Application Checker

**AppCheck from the Cabinet Office National Fraud Initiative can help significantly reduce the number of application referrals organisations have to investigate. Using the AppCheck software will ensure that, from the outset, you have a validation and authentication process in place to minimise errors and costly investigations in the future.**

- Reduce the risk of your organisation falling victim to fraud by stopping invalid or fraudulent claims at the point of application.
- Establish if an applicant has no right to work – helping to mitigate the risk of falling foul of the latest requirements on employment legislation.
- Reduce and stop the provision of invalid or fraudulent payments.
- Reduce administration and future investigations cost by managing the risk of getting it wrong at application.

Enter the applicant's details into Application Checker



Research against NFI core data and refreshed immigration data

Source: Cabinet office

**116.** The provision of social care is one of the largest expenditure areas for councils. This is a complex area where client care requirements often change. Audit Scotland would like to work with council social work services to ensure that payments are accurate and reflect the level of care provision provided. This would have to be provided on a voluntary basis but Audit Scotland sees it as an area where a positive impact can be made.

**117.** A pilot data-matching exercise will be considered to review social work systems containing details of approved care packages, creditor payments to care providers and data about deceased persons.

### The NFI 2016/17 aims

**118.** The overall aims of the NFI are to serve the public interest by:

- safeguarding public money against losses from fraud or misappropriation
- contributing effectively to the fight against fraud.

**119.** To meet these aims the NFI 2016/17, which will be launched in July 2016, will involve work in the following areas:

- continuing with successful batch data matches and developing the service to offer more flexibility and meet new risks

- putting more emphasis on fraud prevention through the development of real time data-matching services
- extending data matching for fraud purposes to a broader range of organisations and sectors
- for council tax single person discounts to consider mandating this data for the NFI exercises on an annual basis – previously it has been every two years, and this would bring it in to line with the rest of the UK.

**120.** Audit Scotland looks forward to the next NFI exercise and continuing to work with the Cabinet Office, other UK audit agencies and participating bodies to successfully deliver these aims.

**121.** In the longer term the roll-out of Universal Credit is expected to have further impact on the number of data sets contributing to the NFI. The future direction of the exercise will be assessed at that time.

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# Endnotes

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- ◀ 1 Scottish Local Government Financial Statistics 2014-15.
- ◀ 2 For NFI data matching, individuals recorded as qualifying for council tax single person discount on the basis that they live with other disregarded adults are excluded.

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# Appendix 1

## Governance arrangements

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### Background

The following summarises the key legislation and controls governing the NFI data-matching exercise.


### Legislation

The NFI 2014/15 exercise was carried out under powers given to Audit Scotland for data matching included in The Criminal Justice and Licensing (Scotland) Act 2010 passed by the Scottish Parliament. Under this legislation:

- Audit Scotland may carry out data-matching exercises for the purpose of assisting in the prevention and detection of fraud or other crime and in the apprehension and prosecution of offenders
- Audit Scotland may require specified persons to provide data for data-matching exercises. These include all the bodies to which the Auditor General for Scotland or the Accounts Commission appoints auditors, licensing boards, and officers, office holders and members of these bodies or boards
- other persons or bodies may participate in Audit Scotland's data-matching exercises on a voluntary basis. Where they do so, the statute states that there is no breach of confidentiality and generally removes other restrictions in providing the data to Audit Scotland
- the requirements of The Data Protection Act 1998 continue to apply
- Audit Scotland may disclose the results of data-matching exercises where this assists the purpose of the matching, including disclosure to bodies that have provided the data and to the auditors appointed by the Auditor General for Scotland and the Accounts Commission
- Audit Scotland may disclose both data provided for data matching and the results of data matching to the Auditor General for Scotland, the Accounts Commission, the Audit Commission, or any of the other UK public sector audit agencies specified in Section 26D of The Public Finance and Accountability (Scotland) Act 2000, for the purposes described above
- wrongful disclosure of data obtained for the purposes of data matching by any person is a criminal offence

- Audit Scotland must prepare and publish a Code of Practice with respect to data-matching exercises. All bodies conducting or participating in its data-matching exercises, including Audit Scotland itself, must have regard to this code
- Audit Scotland may report publicly on its data-matching activities.

## Code of data matching practice

The Criminal Justice and Licensing (Scotland) Act 2010 includes important data-protection safeguards such as a requirement for Audit Scotland to prepare a Code of data matching practice, and to consult with the UK Information Commissioner and others before publication. Our code, [\*The Code of data matching practice 2010\*](#) , was updated in November 2010 to reflect the new legislation and to ensure that the NFI exercises continue to comply with data protection requirements and best practice in notifying individuals about the use of their information for the NFI purposes.

## The NFI web application

Bodies access the application via the internet using password access and encryption controls similar to internet banking. The secure website is the safest method of providing the data matches to bodies. The Cabinet Office regularly reviews the application and implements developments to improve its functionality, ease of use, and security.

Interactive training was available to participating bodies and auditors via the web application to support the Cabinet Office and Audit Scotland Guidance.

## Security review and accreditation

The National Fraud Initiative (NFI) system has undergone accreditation against HMG Information Assurance Standard No.1&2 (IAS1&2), Issue 4.0 April 2012 and is accredited to handle, store and process information up to a level of Impact Level 3 aggregating to Impact Level 5 covering information with a protective marking of OFFICIAL or legacy protective marking of RESTRICTED. OFFICIAL-SENSITIVE where the caveat is used to cover sensitive personal information can also be processed by the system.

This accreditation involved demonstrating that the NFI is suitably secured and that information risks are managed to government standards.

As well as regular internal reviews by the Cabinet Office, the other UK audit agencies (ie, Audit Scotland, the Wales Audit Office, the Northern Ireland Audit Office and the National Audit Office) now also share a programme of independent audits of the different aspects of the NFI data security.

All of these measures provide current and future NFI participants with assurances that data is processed according to rigorous government security standards.



# Appendix 2

## Self-appraisal checklist



Part A: for those charged with governance	Yes/No/Partly	Is action required?	Who by and when?
<b>Leadership, commitment and communication</b>			
<b>1</b> 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?			
<b>2</b> Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error?			
<b>3</b> Have we considered using the real-time matching (Flexible Matching Service) facility and 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?			
<b>4</b> Are the NFI progress and outcomes reported regularly to senior management and elected/board members (eg, the audit committee or equivalent)?			
<b>5</b> 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?			
<b>6</b> Does internal audit, or equivalent, monitor our approach to NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?			
Cont.			

Part A: for those charged with governance	Yes/No/Partly	Is action required?	Who by and when?
7 Do we review how frauds and errors arose and use this information to improve our internal controls?			
8 Do we publish, as a deterrent, internally and externally the achievements of our fraud investigators (eg, successful prosecutions)?			
Part B: for the NFI key contacts and users	Yes/No/Partly	Is action required?	Who by and when?
<b>Planning and preparation</b>			
1 Are we investing sufficient resources in the NFI exercise?			
2 Do we plan properly for NFI exercises, both before submitting data and prior to matches becoming available? This includes considering the quality of data.			
3 Is our NFI Key Contact (KC) the appropriate officer for that role and do they oversee the exercise properly?			
4 Do KCs have the time to devote to the exercise and sufficient authority to seek action across the organisation?			
5 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?			
6 Do we confirm promptly (using the online facility on the secure website) that we have met the fair processing notice requirements?			
7 Do we plan to provide all NFI data on time using the secure data file upload facility properly?			

Cont.

<b>Part B: for the NFI key contacts and users</b>	<b>Yes/No/Partly</b>	<b>Is action required?</b>	<b>Who by and when?</b>
<b>8</b> Do we adequately consider the submission of any 'risk-based' data sets in conjunction with our auditors?			
<b>9</b> Have we considered using the real-time matching (Flexible Matching Service) facility and 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?			
<b>Effective follow-up of matches</b>			
<b>10</b> Do all departments involved in NFI start the follow-up of matches promptly after they become available?			
<b>11</b> Do we give priority to following up recommended matches, high-quality matches, those that become quickly out of date and those that could cause reputational damage if a fraud is not stopped quickly?			
<b>12</b> Do we recognise that NFI is no longer predominantly about preventing and detecting benefit fraud? Have we recognised the wider scope of NFI and are we ensuring that all types of matches are followed up?			
<b>13</b> Are we investigating the circumstances of matches adequately before reaching a 'no issue' outcome, in particular?			
<b>14</b> (In health bodies) are we drawing appropriately on the help and expertise available from NHS Scotland Counter-Fraud Services?			
<b>15</b> 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?			

Cont.

Part B: for the NFI key contacts and users	Yes/No/Partly	Is action required?	Who by and when?
<b>16</b> Do we avoid deploying excessive resources on match reports where early work (eg, on recommended matches) has not found any fraud or error?			
<b>17</b> Where the number of recommended matches is very low, are we adequately considering the related 'all matches' report before we cease our follow-up work?			
<b>18</b> Overall, are we deploying appropriate resources on managing the NFI exercise?			
<b>Recording and reporting</b>			
<b>19</b> Are we recording outcomes properly in the secure website and keeping it up to date?			
<b>20</b> 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)?			
<b>21</b> 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?			

# Appendix 3

## How to work more efficiently



Concerns	How to work more efficiently
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.
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 they are received.
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.
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.
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.
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.

Source: Cabinet Office NFI team

# Appendix 4

## Estimation bases



The figures used in this report for detection of fraud, overpayments and errors include outcomes already delivered (actual amounts recorded by participants) and estimates. Estimates are included where it is reasonable to assume that the fraud, overpayment and/or error would have continued undetected without NFI data matching.

Details of estimate calculations used in the report as shown in the table below.

Data match	Basis of calculation of estimated outcomes
Pensions	Cabinet Office formula: annual pension multiplied by the number of years until the pensioner would have reached the age of 85. <sup>1</sup>
Council tax single person discount	Annual value of the discount cancelled multiplied by two years.
Housing benefit	Weekly benefit reduction multiplied by 21 weeks. <sup>2</sup>
Blue badges	Number of badges confirmed as deceased multiplied by £575 to reflect lost parking and congestion charge revenue. <sup>3</sup>
Payroll	£5,000 per case where an employee is dismissed or resigns, or £10,000 per immigration case (estimated amounts based on future losses prevented where a fraudulent employee resigns or is removed from post).
Private residential care homes	£7,000 per case based on average weekly cost of residential care multiplied by 13 weeks.

### Notes:

1. Following a review in February 2016, the 'pensioner age', for outcomes from NFI 2014/15, has been reduced from 90 to 85, to align with the latest average life expectancy for pensioners at age 65
2. Following a review in February 2016, the estimated duration of overpayments, for outcomes from NFI 2014/15, has increased from 13 weeks to 21 weeks to align with the methodology used by DWP to calculate future overpayments prevented from detecting and stopping fraud and error.
3. Following a review in February 2016, for outcomes from NFI 2014/15, this estimate has increased from £500 to £575 to reflect research and statistics relating to blue badge fraud

Source: Cabinet Office NFI team



# The National Fraud Initiative in Scotland

This report is available in PDF and RTF formats, along with a podcast summary at:

[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) 

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ISBN 978 1 909705 99 9

This publication is printed on 100% recycled, uncoated paper

