

No hiding place

The National Fraud Initiative in Scotland

Prepared for the Accounts Commission and the Auditor General for Scotland

May 2006



The Accounts Commission

The Accounts Commission is a statutory, independent body which, through the audit process, assists local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has four main responsibilities:

- securing the external audit, including the audit of Best Value and Community Planning
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- carrying out national performance studies to improve economy, efficiency and effectiveness in local government
- issuing an annual direction to local authorities which sets out the range of performance information they are required to publish.

The Commission secures the audit of 32 councils and 35 joint boards (including police and fire services). Local authorities spend over £14 billion of public funds a year.

Auditor General for Scotland

The Auditor General for Scotland is the Parliament's watchdog for ensuring propriety and value for money in the spending of public funds.

He is responsible for investigating whether public spending bodies achieve the best possible value for money and adhere to the highest standards of financial management.

He is independent and not subject to the control of any member of the Scottish Executive or the Parliament.

The Auditor General is responsible for securing the audit of the Scottish Executive and most other public sector bodies except local authorities and fire and police boards.

The following bodies fall within the remit of the Auditor General:

- departments of the Scottish Executive eg, the Health Department
- executive agencies eg, the Prison Service, Historic Scotland
- NHS boards
- further education colleges
- Scottish Water
- NDPBs and others, eg Scottish Enterprise.

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Executive and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Summary



The National Fraud Initiative is serving the interests of every citizen and taxpayer in Scotland, by helping to reduce the amounts of public money that are lost to fraud and error.

1. Audit Scotland, working with the Audit Commission in England and Wales, external auditors and a range of public bodies in Scotland, facilitated a major anti-fraud initiative as part of the audits of the 2004/05 financial year. The participants included councils, police and fire boards, the Scottish Public Pensions Agency (SPPA) and the Student Awards Agency for Scotland (SAAS). This exercise was built on earlier pilot work.

2. The exercise used computerised data-matching to compare information about housing benefit applicants, public sector employees and pensioners, students and the deceased, to identify a range of circumstances that might indicate fraud or error. These 'matches' were passed to the audited bodies to investigate and to report back their findings.

3. Fraud, overpayments and savings of £15.1 million have been found. This included:

- 270 cases involving occupational pension payments to deceased pensioners
- 215 housing benefit overpayment cases involving students
- 564 housing benefit cases involving public sector employees or pensioners
- 53 prosecutions or cases referred to the procurator fiscal
- 90 housing benefit cases resulting in official cautions or administrative penalties
- 32 employees dismissed or resigned or disciplined as a result of National Fraud Initiative (NFI) investigations
- two benefit overpayment cases linked to failed asylum seekers.

4. Taking previous pilot exercises into account, the cumulative fraud and error detected by the NFI in Scotland amounts to around £23 million. These amounts do not reflect the extent to which NFI may help to deter more fraud.

5. Some councils appeared to achieve more from the NFI than others. Public bodies will be required to provide information again in October this year as part of their 2006/07 audits, and will have a fresh set of matches to investigate in early 2007. They will have the benefit of their 2004/05 experience to carry forward to the 2006/07 exercise, and they will be better placed to apply the resources and investigative techniques that should ensure that their 2006/07 work is better focused and even more effective.

6. Audit Scotland is working with the Audit Commission to extend the scope of the 2006/07 exercise to other areas that have already produced good results in England and Wales.

Part 1. Introduction



7. The NFI is a counter-fraud exercise. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.

8. The exercise allows:

- **public bodies** to investigate these matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved
- **auditors** to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

9. Audit Scotland became involved in the Audit Commission's biennial NFI in 2000/01 when it arranged for a small pilot exercise to be undertaken

involving City of Edinburgh and the Scottish Borders Councils. Although the fraud and overpayments identified from this initial exercise were relatively modest (c£136,000), the councils were only asked to provide information about housing benefits. Nevertheless, both councils were positive about their involvement.

10. In 2002/03 a further pilot involved those councils that administer the local government pension scheme providing information about pensioners. Along with information about teachers and NHS pensioners provided by the SPPA, this data was matched to a register of dead persons kept by the Department for Work and Pensions (DWP). The exercise identified nearly 200 pensions that were still in payment after the pensioners had died. The overpayments and forward pension savings¹ amounted to some £8 million.

11. By 2004/05 it was apparent that the wider benefits that NFI was bringing to councils in England and Wales should be brought to Scotland. Audit Scotland decided, in consultation with a range of stakeholders, that the NFI data-matching exercise should be more fully rolled out to Scottish councils, police and fire boards, and undertaken as part of the external audit of these bodies. The SPPA continued to take part in 2004/05 and the SAAS provided information about full-time students. Audit Scotland also provided its own payroll information. DWP again provided access to the register of dead persons and the Home Office provided information about failed asylum seekers.

12. All participating bodies were required to download the information for the 2004/05 exercise in October 2004 and to provide this to the Audit Commission, who matched the data

¹ Forward pension savings are based on a calculation commonly used in the pensions industry, which assumes that pensions would have continued to be paid to age 90 had the exercise not detected these cases.

Exhibit 1

Examples of data-matching reports and what they can reveal

| Type of data match | Potential fraud or error |
|--|--|
| Housing benefit claimants to students | Improper claims for benefit. There are only limited circumstances in which students may claim housing benefit. |
| Housing benefit claimants to employees | Employees may have claimed benefit without declaring their income or have under-declared the level of their income. |
| Housing benefit claimants to public sector occupational pensions | Retired employees may have claimed benefit but not declared, or understated, their occupational pension. |
| Public sector pensions payroll to deceased persons records held by the DWP | The 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 being collected by a relative of the deceased. |
| Public sector pensions to employees | A public sector employee may have retired but returned to work. In such cases, the individual's pension may need to be abated. If the pensioner has not declared his/her re-employment he/she may be receiving too high a pension. |
| Employees to failed asylum seekers | Persons not entitled to be in the country employed by a public sector body. |
| Employees to employees | Staff employed full-time by more than one public body. |

on behalf of Audit Scotland and our appointed auditors. In summary, the 2004/05 datasets included:

- housing benefit applicants (including council tax benefits)
- local authority employees (including police and fire)
- local authority pensioners and SPPA pensioners (former teachers and NHS employees)
- students
- deceased persons
- failed asylum seekers.

13. During 2004, Audit Scotland and the Audit Commission provided guidance and held training events for the Scottish participating bodies. This included demonstrations of the NFI software application and how to use it to filter and sort NFI results so that resources can be prioritised to investigate the best matches.

14. In late January 2005, participating bodies were provided with the NFI application and the results of the NFI matching on CD ROM. Examples of the matching reports and what they can reveal are shown in [Exhibit 1](#).

15. Since January 2005, participating bodies have been investigating the NFI matches that seem most likely to result in the identification of significant fraud or error. Where fraudulent or error overpayments were identified these were reported on returns that bodies submitted at the end of May, September and December 2005 (and subsequently if investigations were ongoing).

16. Audit Scotland recognises that matching personal information is a sensitive issue. Strict protocols are in place to ensure compliance with data protection and human rights legislation. For example, all individuals who are subject to NFI checks are notified about the use of their information for this purpose; information should only be handled by authorised persons and destroyed as soon as it is no longer required.

17. In June 2004 the UK Information Commissioner, responsible for monitoring compliance with the Data Protection Act, confirmed that NFI in Scotland was being undertaken in accordance with appropriate legal powers. Due to legal uncertainties, data collected from Scottish councils, for example, is compared only with other Scottish data – it is not matched with information collected from councils south of the border.

Part 2. Findings



18. More than 40 public bodies participated in the 2004/05 NFI in Scotland. Based on the returns submitted by these bodies up to the date of preparing this report, the overpayments and savings identified from the exercise were already substantial, totalling some £15.1 million ([Exhibit 2](#)).

19. The exercise has resulted, for example, in:

- the identification of occupational pension payments made to 270 deceased persons
- benefit payments claimed fraudulently or in error by 564 public sector employees or pensioners
- 53 criminal prosecutions being instigated or reports made to the Procurator Fiscal Service.

20. The number of potential prosecutions is significantly less than the number of reported overpayments for a number of reasons. Overpayments are sometimes not

the result of deliberate actions or often the evidence of dishonesty may be insufficient to justify seeking prosecution. Even if fraud is thought to have taken place, reports are often not submitted to the Procurator Fiscal, or accepted for prosecution, if the individual is elderly or in poor health.

21. A general summary of the results of the 2004/05 exercise in Scotland is set out in [Exhibit 3](#).

22. The outcomes of NFI for an audited body should always be positive ones. If significant amounts of fraud and error are found, the organisation can be satisfied that the exercise has helped it to identify these amounts and to take remedial action. If significant amounts of fraud or error are not found, and the exercise has been approached properly, it can take assurances about the effectiveness of its existing systems and arrangements.

23. For example, none of the Scottish police forces reported any fraud from NFI. The Finance Management Business Area of the Association

of Chief Police Officers in Scotland considered that this demonstrated the effectiveness of the procedures currently employed within forces to reduce the possibility of fraud.

Pension overpayments

24. Given the success of the 2002/03 pensions exercise, it is unsurprising that pensions-related overpayments and savings account for more than 65 per cent of the total findings in 2004/05.

25. Because they manage the largest pension schemes of all the participating bodies, SPPA and Glasgow City Council (which administers the Strathclyde Pension Fund) were expected to derive the highest results involving public sector pensions, and so it turned out. SPPA's results are shown in [Exhibit 2](#). Glasgow City Council identified over £540,000 of pension overpayments and the forward savings from stopping these pensions is estimated at £3.4 million.

Exhibit 2

Analysis of savings made from 2004/05 NFI in Scotland

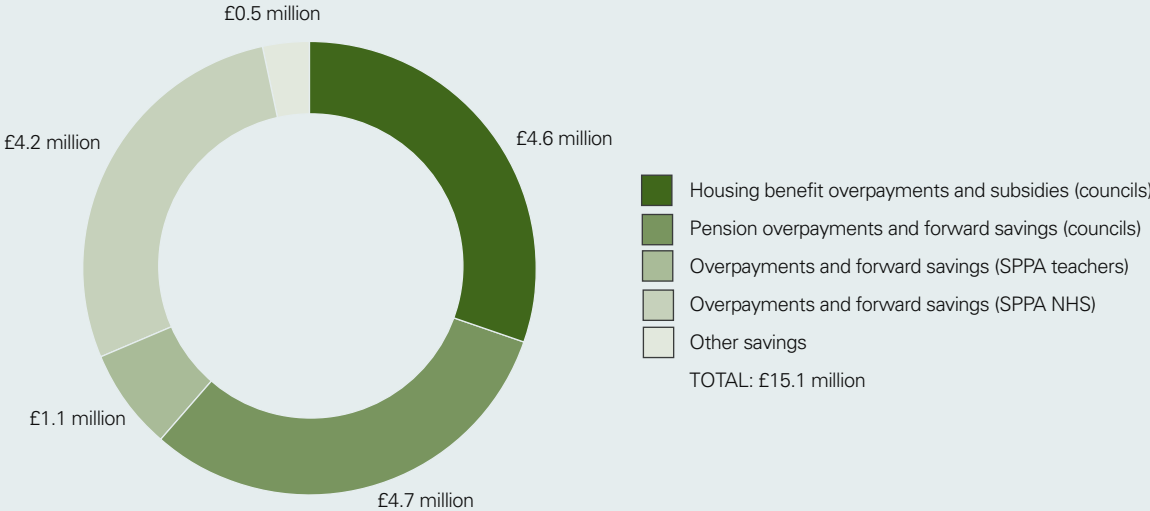


Exhibit 3

NFI in Scotland – summary of outcomes

- 270** cases involving occupational pension payments to deceased pensioners. 
- 215** housing benefit overpayment cases involving students. 
- 564** housing benefit cases involving public sector employees or pensioners. 
- 53** prosecutions or cases referred to the procurator fiscal. 
- 90** housing benefit cases resulting in official cautions/administrative penalties. 
- 32** employees dismissed/resigned or disciplined as a result of NFI investigations. 
- 2** benefit overpayment cases linked to failed asylum seekers. 

26. Relative to the number of pensioners in the schemes, Edinburgh City, Fife and Falkirk Councils also achieved significant results in this area (£342,000, £189,000 and £110,000, including forward savings of £193,000, £125,000, and £89,000, respectively).

Case study 1

A local government finance officer retired early but subsequently returned to work in a relatively senior capacity with another local authority. The officer failed to disclose the re-employment to the pension authority and was overpaid £31,000 over a period of more than two years. The officer resigned and repaid the amount involved in full.

Housing benefit overpayments

27. This was the first NFI exercise in Scotland where housing benefit and council tax benefit (HB) information was included for all 32 councils. The total amount of HB overpayments and savings identified is significant, at £4.6 million, although three councils contributed more than half of this. Some councils reported much lower savings in the area of housing benefits. However, these include islands councils where the benefit caseload is significantly less than the mainland councils and the close-knit nature of the communities may be a significant factor in helping to deter fraud. These councils can nevertheless take assurances from the exercise.

28. Taking into account the relative levels of benefits expenditure in the mainland councils, and the comments made by external auditors about councils' commitment and approach to NFI in their 2004/05 annual audit reports, four councils achieved particularly good results:

- Glasgow City Council identified or has ongoing investigations into more than £1.7 million of HB overpayments and savings. Glasgow has also been proactive in piloting new NFI matches involving disabled parking badge-holders and care home residents (see Part 3) that will be made available to councils throughout the UK in 2006/07.
- Renfrewshire Council identified £593,000 of HB overpayments and savings which, considering its total caseload, is more than any other council. The external auditor reported that Renfrewshire had shown a clear commitment to the exercise and had systematically following up the reported matches.
- Aberdeen City Council identified £317,000 of HB overpayments and savings.
- Stirling Council identified £72,000 of HB-related savings despite having one of the lowest levels of benefit expenditure of the mainland councils. The external auditor remarked that Stirling had reacted positively to recommendations to make a number of improvements to its arrangements.

Case study 2

A council identified an employee who had claimed housing benefit since April 1998 without declaring their earnings. Overpayments amounted to more than £11,000. The employee was dismissed and the case reported to the procurator fiscal.

29. Most of the HB overpayments related to applicants understating or not declaring income from occupational pensions. However, the identification of fraudulent activity in one area can often lead to the discovery that an individual is acting improperly in other respects.

Case study 3

A council investigated an NFI match that suggested that a benefit claimant had not declared an occupational pension. Further investigations identified a range of circumstances that had not been disclosed, including a second bank account, earnings from employment and property rental income. The council also found that an improvement grant had been claimed using the same restricted income. Overpayments totalled nearly £5,000. The case has been passed to the procurator fiscal.

30. Although some councils have not identified the same level of overpayments and savings as others, in a number of these cases the auditors still remarked positively about the councils' commitment to the NFI exercise.

31. Audit Scotland recognises that councils had limited scope to assess the extent of the work that would be involved in investigating the matches from this first comprehensive NFI exercise and to have resources in place to deal with this at the start of the exercise. This was because the number of reported matches could not be predicted. All councils should be better placed to handle this work in future and will have more experience at identifying those NFI matches that should be prioritised for investigation.

Payroll fraud

32. The NFI matches payroll information principally to detect cases of payroll fraud, but may also reveal instances of employees in breach of conditions of service or EU working time directives. Our Audit Commission colleagues have found that this type of match can reveal, for example, an individual with two full-time jobs where the employee is on long-term sickness absence from one organisation while working for another. Also, two posts may have overlapping hours of employment so that it would be impossible to cover both jobs. Apart from the financial consequences, these cases may pose public safety risks in some cases.

33. On this occasion, Scottish councils reported very little irregularity in this area.

Part 3. Way forward



34. The results of the 2004/05 NFI make a strong case for extending the scope of the exercise in time for the next NFI, which commences in October this year. Consideration is being given to including a wider range of public sector employees and the 2006/07 exercise will require councils to provide information about tenants that, among other things, should help them recover higher amounts of former tenants' arrears.

35. In addition, audited bodies and their external auditors will consider jointly a range of other matches. If these are considered to represent an area of risk to the authority, the auditor will again require the information to be provided for NFI purposes, as part of the external audit. These risk-based data-sets will include:

- payments to suppliers – to help councils identify duplicate payments, etc
- disabled parking badge-holders (blue badges) – which are often misused after the death of the legitimate holder and can impact on parking revenues
- private care home residents – pilot work in England and Scotland has already demonstrated that councils can sometimes continue to be charged for private care home places after a resident has died
- personal injury claims – where councils will be able to establish if the same individual is abusing the system by making multiple claims from different councils, and whether persons who have received substantial injury settlement payments are in receipt of housing benefits but not declaring the capital.

36. In 2004/05, a small number of councils remarked that the resources required to investigate payroll matches were significant compared with what they found. Councils should filter their matches down to the best cases for investigation and take an earlier decision to stop work if it is clear that they are not finding any irregularities. Audit Scotland and our Audit Commission colleagues will continue to assist councils to ensure that resources are deployed efficiently and effectively. For example, the NFI 2006/07 application will allow Scottish bodies to 'switch off' matches that have been reported on a previous occasion. They will therefore be able to ignore any 2004/05 matches that recur at the next NFI, if they are satisfied that these have already been adequately considered.

37. Problems were also encountered with the quality of some of the data provided for the 2004/05 exercise and with data being provided late. Some payroll data was submitted too late to be included in the NFI processing run, which led to the need for a second unplanned run to be carried out and a supplementary set of matches distributed.

38. This affected more than just the councils that submitted late or poor quality data, and we will work with these councils to try and ensure that the same problems do not recur in the 2006/07 exercise.

39. Audit Scotland looks forward to continuing its NFI partnership with the Audit Commission so that the significant expertise and infrastructure that already exists can be used to bring the full benefit of this work to Scottish public bodies.

Part 4. Conclusions



40. The 2004/05 NFI exercise has been successful, with total overpayments and savings of more than £15 million being identified. More than 50 people face possible prosecution, 22 public sector employees have been dismissed or resigned, and another ten have been disciplined. The exercise, therefore, should act as a deterrent against fraud in the future.

41. The resources used by public bodies in this exercise have not been quantified, but some of them confirmed that they had not employed any additional staff. These included councils that achieved the highest levels of HB savings. Audit Scotland contributed £71,000 towards the Audit Commission's costs of processing the Scottish data but, along with the appointed auditors, we also managed our role within existing staffing resources.

42. Even where bodies did not find significant levels of fraud and overpayments, if they approached the exercise properly, they will have taken assurances about their existing systems and arrangements for preventing and detecting fraud.

43. The 'proper officer' in local authorities, usually the Chief Finance Officer, is required in statute to make arrangements for the proper administration of the organisation's financial affairs. These include arrangements for preventing, deterring and detecting fraud. Auditors' statutory duties and their other responsibilities under Audit Scotland's Code of Audit Practice provide us with the opportunity, through NFI, to help those officers satisfy their statutory responsibilities.

44. More importantly, NFI is serving the interests of every citizen and taxpayer in Scotland, by helping to reduce the amounts of public money that are lost to fraud and error.

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