

National Fraud Initiative in Scotland 2006/07



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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 Government 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 cumulative savings from NFI in Scotland are now around £37 million.



Key messages

- The 2006/07 National Fraud Initiative (NFI) exercise has helped to identify fraud and error of at least £9.7 million. The cumulative savings from NFI in Scotland are now around £37 million.
- The 2006/07 results suggest that NFI and other anti-fraud work is making an impact in deterring fraud, and that bodies are improving their systems of control.
- The 2008/09 NFI exercise will commence in October 2008 when data will again be collected from the participating bodies.
- Audit Scotland is liaising with the Scottish Government Criminal Justice Directorate about the provision of express powers for data matching in Scotland.

1. Audit Scotland, working with the Audit Commission, external auditors and a range of public bodies in Scotland, has undertaken another major counter-fraud exercise. These exercises, known as the National Fraud Initiative in Scotland (NFI), are undertaken every two years as part of the statutory audits of the public bodies. The latest exercise (NFI 2006/07) commenced in October 2006 and is now complete, or substantially complete, at most participating bodies.

2. Seventy-four bodies took part in NFI 2006/07. These included councils, police authorities, fire and rescue authorities, Strathclyde Partnership for Transport, health boards, the Scottish Public Pensions Agency (SPPA) and the Student Awards Agency for Scotland. The 2006/07 exercise built on the 2004/05 NFI and pilot exercises carried out in previous years.

3. NFI uses computerised data matching to compare a range of information held on bodies' systems (eg, housing benefits, public sector pay and pensions, students, disabled persons' 'blue badge' parking permits and a government register of deceased persons) to identify inconsistencies or other circumstances that might indicate fraud or error. These 'matches' are provided to the audited bodies via a secure website for them to investigate.

4. To date, fraud and overpayments of £9.7 million have been found as a result of the 2006/07 NFI in Scotland, and this amount is expected to increase in the months ahead. The main outcomes included:

- 186 occupational pensions stopped because the pensioner was found to be deceased
- 1,552 housing benefit cases involving public sector pensioners
- 672 housing benefit cases involving public sector employees
- 969 disabled blue badges cancelled after NFI identified that the holder was deceased.

5. The cumulative fraud and error detected by the NFI in Scotland is now around £37 million, and this does not reflect the extent to which NFI may help to deter more fraud.

6. The level of fraud and error identified from the 2006/07 exercise is about a third less than that reported at the 2004/05 exercise. This is not especially surprising. The most likely reasons are that:

- 2004/05 NFI was the first significant roll out of NFI for councils in Scotland, and outcomes from that exercise

were always likely to be untypical. NFI 2004/05 helped bodies to identify the longest-running frauds and errors; whereas most fraud and error found at the 2006/07 exercise should only have run for two years at most

- NFI, and other anti-fraud work by bodies, is making an impact in deterring fraud
- informed by the fraud and error cases identified previously, bodies have made improvements to their systems of control
- in addition, SPPA had not completed its investigations at the time of preparing this report and its final results are expected to reduce the difference between the 2004/05 and 2006/07 NFI outcomes.

7. Audit Scotland will continue to work with the Audit Commission on NFI and will commence the 2008/09 exercise in October 2008. We are currently revising our Code of Data Matching Practice to ensure that NFI exercises continue to comply with data protection requirements, and to reflect best practice in notifying individuals about the use of their information in NFI exercises.

8. Audit Scotland is also in discussion with the Scottish Government Criminal Justice Directorate about providing Scotland with the same express data matching powers that were recently given to other UK audit agencies by the Serious Crime Act 2007.

Part 1. What is NFI?

“The National Fraud Initiative... has quickly become an established part of our anti-fraud arrangements.”
(North Lanarkshire Council)

Key messages

- NFI is a counter-fraud exercise undertaken as part of statutory audits. Seventy-four bodies took part in NFI 2006/07 in Scotland.
- The addition of NHS bodies in 2006/07 broadly aligned the scope of the NFI in Scotland with England and Wales. The Scottish Government Health Directorates and NHS Scotland Counter Fraud Services have been very supportive of NFI.
- Participating bodies supplied data for NFI 2006/07 in October 2006; data matches have been available to bodies for investigation since late January 2007.
- Data matches are accessed by bodies via a website that offers high levels of security and functionality. An encrypted upload facility added in Autumn 2007 avoids data having to be sent on CDs. This upload facility is now the only permissible means of providing information for NFI processing.

“The National Fraud Initiative and the information that we obtain from it have quickly become an established part of our anti-fraud arrangements. The council publicised locally its participation in the NFI in order to create a further deterrent to those who might consider attempting fraud.”

Alistair Crichton, executive director of Finance and Customer Services, North Lanarkshire Council

9. 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.

10. The exercise allows:

- public bodies to investigate these matches and, if fraud or error has taken place, to stop payments; attempt to recover the amounts involved; and strengthen controls for the future
- auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud and error, including how they approach the NFI exercise itself. NFI takes place in Scotland as part of statutory audits.

11. Audit Scotland first became involved in the NFI in 2000/01. The Audit Commission, our sister organisation in England, had undertaken data matching exercises prior to that and had substantial expertise and systems already in place. Audit Scotland has been able to benefit from that existing infrastructure and, while NFI in Scotland is a separate exercise, the matching of Scottish data is undertaken on our behalf by the Audit Commission.

12. Since 2000/01, NFI has developed in Scotland on a managed basis and in 2006/07 involved, broadly, the participation of the same types of public bodies and collection of the same types of information (datasets) as in England. A key stage has been the addition of Scottish health bodies

in NFI 2006/07 and we are grateful to the Scottish Government Health Directorates and NHS Scotland Counter Fraud Services for their support for NFI.

13. Audit Scotland issued a Code of Data-Matching Practice in July 2006 aimed at ensuring compliance with data protection requirements during NFI 2006/07. Apart from the different legal framework in Scotland, this code is identical to the Audit Commission's code, which carries a foreword by the Information Commissioner. The Information Commissioner's office has previously confirmed that, in its view, NFI in Scotland is carried out under appropriate legislation. The code requires that all individuals who are subject to NFI checks are notified about the use of their information for the purpose of preventing and detecting fraud; information should only be handled by authorised persons; and destroyed when it is no longer required. All bodies and auditors participating in NFI in Scotland are expected to follow this code.

14. Participating bodies were required to provide the information for the 2006/07 exercise in October 2006 to the Audit Commission, who matched the data on behalf of Audit Scotland and our appointed auditors. It was mandatory for bodies to provide the datasets set out in [Exhibit 1](#).

Exhibit 1

The information that bodies were obliged to provide for NFI 2006/07

Dataset	Bodies*
Housing and council tax benefits	Councils
Payroll	Councils, police authorities, fire and rescue authorities, Strathclyde Partnership for Transport, health bodies, Audit Scotland.
Student data	Student Awards Agency for Scotland
Occupational pensioners (former local government, police, fire, teachers and NHS employees)	Councils that administer the local government pension scheme, police and fire and rescue authorities, Scottish Public Pensions Agency.

* 74 public bodies in Scotland participated in NFI 2006/07.

Source: Audit Scotland

Exhibit 2

Examples of the types of data matches undertaken

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 and public sector occupational pensions	Employees or occupational pensioners may have claimed benefit without declaring their income or have under-declared the level of their income.
Employees to employees	An employee may be on long-term sick leave at a body but, at the same time, be working at another body.
Public sector pensions to deceased persons' records held by the Department for Work and Pensions	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 reduced. If the pensioner has not disclosed their re-employment they may be receiving too high a pension.
Employees to failed asylum-seekers or expired visas	It is unlawful for bodies to employ persons who are not entitled to be in the UK or who are working without the relevant permit.
Blue badges to deceased persons' records	The permit-holder's death may not have been reported to the council. The permit continues to be used invalidly or may have been sold for improper use.

Source: Audit Scotland

15. In addition to the datasets in Exhibit 1, NFI benefits from the inclusion of information about deceased persons, failed asylum-seekers and expired visas, provided by other government departments.

16. For the 2006/07 exercise, local authority participants were also required to submit information from a menu of 'risk-based' datasets where, in conjunction with their auditors, the bodies considered that there were special risks or they were likely to benefit from the matching. These risk-based datasets included:

- disabled blue badge holders and other parking permits
- private supported care home residents
- taxi licences
- trade creditor payments.

17. Exhibit 2 gives examples of the types of data matches that are undertaken and the potential frauds and errors that may be found.

18. During 2006, in conjunction with our colleagues in the Audit Commission, Audit Scotland provided guidance and held training events for Scottish participating bodies and their auditors. This included demonstrations of a new secure web-based NFI application. The application is accessed by bodies via the internet, and incorporates password access and encryption controls similar to internet banking. The web-based application is the means of providing the data matches to bodies. It avoids the need to send matches on CDs, eliminating the risk of loss in transit or poor physical security once delivered.

19. The NFI application also provides facilities that allow bodies to:

- tailor the disclosure of information so that individual approved officers can access only the match reports they need to discharge their responsibilities
- filter and sort matches in reports so that the best and/or highest-value matches can be investigated first. These filters allow bodies to apply a 'recommended filter', with the click of a mouse, or filters can be designed locally
- use the application as a case management system. Bodies can annotate reports or individual matches with details of their approach to investigations and their progress, and update the status of each investigation (eg, under investigation, cleared, fraud (or error) after investigation). The financial outcomes of individual investigations can also be recorded and the aggregate overpayments identified at a glance. This facility also negates the need to prepare and send returns of findings to the NFI team and should improve the accuracy of reported outcomes
- monitor for improper use of the application, including failed login attempts.

20. The 2006/07 NFI matches were available in late January 2007, when the senior responsible officer in each participating body was provided with the initial user name and password permitting access to their body's area of the secure NFI application. Since then, participating bodies have been investigating the NFI matches that are most likely to result in the identification of significant fraud or error.

21. In Autumn 2007, the web-based application was further developed to allow bodies to submit datasets for NFI purposes using a secure upload facility. Data submitted this way is automatically encrypted and this is now the only permissible means of submitting data for NFI processing.

Part 2. Outcomes and impact

Overpayments and savings from NFI 2006/07 are at least £9.7 million. NFI is also helping to deter fraud.

Key messages

- The overpayments and savings identified from NFI 2006/07 are at least £9.7 million. The main areas of savings are again in housing benefits and pension payments.
- Overpayments and savings are less than identified from the 2004/05 NFI and, among other things, this may demonstrate that NFI is also an effective deterrent.
- 186 pensions were stopped after NFI identified that the individual was deceased.
- Councils identified 2,224 housing benefit overpayments relating to public sector employees and pensioners.
- 969 blue badges were cancelled after NFI helped identify that the holder was deceased.
- Several significant payroll frauds or irregularities were also identified. One council found that an employee had claimed significant levels of sick pay while, at the same time, was working in the health service.

22. Based on the outcomes recorded by bodies in the web-based application at 8 April 2008, the overpayments and savings identified from NFI 2006/07 are £9.7 million ([Exhibit 3](#)). This is another substantial outcome to add to the £15.1 million identified around the same stage of the 2004/05 exercise. Most of the £9.7 million can be considered to be real savings; bodies have reported that they are seeking to recover about £2.8 million of overpayments, and future incorrect pension payments of about £3.9 million will not now be made.

23. The reduction in overpayments and savings is not surprising and represents a positive outcome in itself. While the scope of the exercise was broader in 2006/07 and local authority participants had the benefit of their experience of previous NFI exercises, significant frauds and errors identified from the 2006/07 exercise should, for the most part, have occurred between October 2004 and October 2006, and run for two years at most. The NFI 2004/05 frauds and errors are likely to have gone on for longer, on average, since that was the first relatively full roll out of NFI in Scotland.

24. NFI, and other fraud prevention and detection measures, deters fraudsters and the 2006/07 results probably demonstrate that impact. Bodies should also have improved

their systems of control, informed by the circumstances of the frauds and errors found previously.

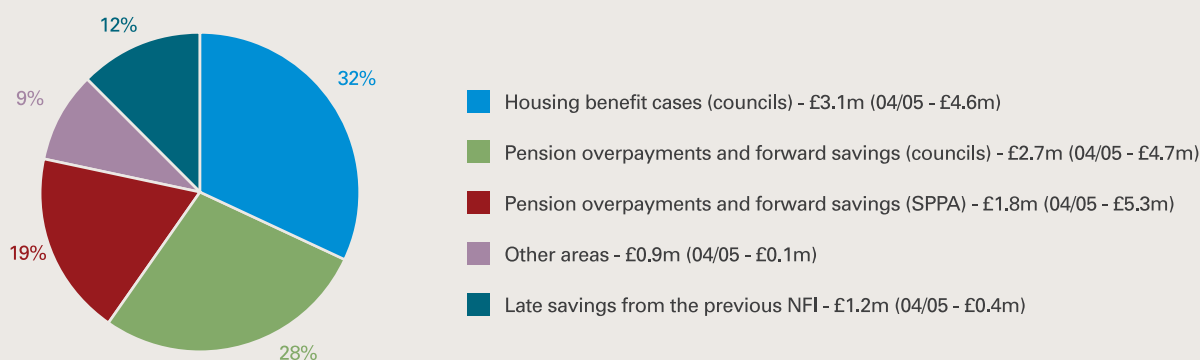
25. [Exhibit 4 \(page 10\)](#) summarises the main outcomes from NFI 2006/07 in Scotland.

26. Of the 175 cases where sanctions were applied, 49 were reported to the Procurator Fiscal (PF). While this is a small number, compared to the case numbers in [Exhibit 4](#), there can be many reasons for this. Overpayments may not be considered to have resulted from deliberate actions or there may be insufficient evidence to justify prosecution. Councils may not refer cases to the PF if previous experience suggests that the case will not be accepted for prosecution or if the individual is elderly or in poor health.

27. Significantly, however, based on the experience of the 2004/05 NFI, it is likely that the number of cases referred to the PF or subject to other sanctions will increase significantly. Audit Scotland's report on the 2004/05 NFI, *No Hiding Place*, published in May 2006, identified that 53 cases had been referred to the PF by 31 March 2006. Having recently contacted the councils that reported these cases, it is now apparent that the number ultimately passed to the PF was at least 200. Of these, 75 successful prosecutions have been secured to date.

Exhibit 3

Analysis of savings from the 2006/07 NFI in Scotland



Source: The NFI web-based application (Audit Commission)

Exhibit 4

NFI in Scotland 2006/07 – summary of outcomes



186 occupational pensions stopped after NFI identified that the pensioner was deceased



1,552 housing benefit (HB) cases involving public sector pensioners



578 HB cases involving local authority employees



94 HB cases involving NHS employees



173 HB overpayment cases involving students



43 HB overpayments linked to matches to taxi licences



969 blue badges cancelled after NFI helped identify that the holder was deceased



21 cases where residential care home payments were being made after the resident had died



17 employees dismissed or resigned as a result of NFI-related enquiries



175 cases passed to the PF, administrative penalties imposed or official cautions issued

And:



75 successful prosecutions secured to date as a result of the culmination of 2004/05 NFI work

Source: The NFI web-based application (Audit Commission)

Case study 1

A pension body cancelled a pension in October 2007 in respect of a scheme member who had died in October 2004. The deceased was a widower who had latterly been resident in a nursing home. By the date the pension was cancelled overpayments of more than £25,000 had been made.

Source: Auditor

Pensions overpayments

28. NFI continues to provide pensions administering councils and SPPA with an efficient and effective means of checking that payments are only being made to living persons. NFI 2006/07 helped these bodies to stop payments in respect of 186 pensioners whose deaths had not been reported to them. Including pension abatement cases (ie, cases where early retirees have returned to work but not reported circumstances that require their pension to be reduced) and forward savings¹, the amounts for NFI 2006/07, so far, are about £4.5 million.

29. As in 2004/05, the majority of the impact in local government (£2.7 million) arises in the largest pension fund, the Strathclyde Pension Fund administered by Glasgow City Council. The Lothian Pension Fund, administered by City of Edinburgh Council, achieved pension savings (including forward savings) of £286,000.

Housing benefit (HB) overpayments

"The tremendous results the council achieved from the NFI exercise were only possible due to forward planning undertaken to ensure that dedicated and well-trained investigative resources were available within our Fraud Team when the data matches were received. In addition, our partnership working with the Department for Work and Pensions has proved highly beneficial."

Sue Bruce, chief executive, East Dunbartonshire Council

30. NFI 2006/07 helped councils to identify HB overpayments and savings of around £3.1 million. About 14 per cent of the housing benefit NFI outcomes were considered to involve fraud.

31. For the 2006/07 NFI, certain types of benefit matches were

¹ Forward savings assume that pensions would have continued to be paid to age 90 had the exercise not detected these cases. Where the deceased is over 90, one year's forward saving is counted. This calculation is commonly used in the pensions industry. Forward savings amount to about £3.9m.

passed directly to Job Centre Plus (JCP) and The Pension Service (TPS). This avoided councils having to make local arrangements and allowed JCP/TPS to undertake further automated sifting using intelligence held by the Department for Work and Pensions. Across the UK, £2.6 million of Income Support and Job Seeker Allowance fraud and overpayment has been identified from these matches. A regional analysis of this amount was not available at the time of preparing this report and Scotland's share is not included in any of the other amounts quoted.

32. In absolute terms, North Lanarkshire Council and Glasgow City Council have achieved the highest levels of savings to date from their 2006/07 NFI benefits investigations (£615,000 and £533,000 respectively). Relative to council size (measured by total annual benefit expenditure), East Dunbartonshire Council has the highest yield from 2006/07 HB investigations with £235,000 of overpayments and fraud.

33. Again, taking account of size, the following councils have achieved the highest yields from their benefits investigations at both the 2004/05 and 2006/07 NFIs:

- Aberdeen City
- East Dunbartonshire
- Inverclyde
- North Lanarkshire
- Renfrewshire
- South Lanarkshire
- Stirling.

34. NFI provides councils with the opportunity to identify a wide range of benefits frauds and errors. The most common frauds and errors, however, are related to undeclared occupational pensions and undeclared earnings from public sector employment. By 8 April 2008, councils had identified benefit overpayments to 1,552 public sector

Case study 2

An NFI match in a council identified a tenant who was allegedly working with the council while in receipt of benefit. During an interview under caution it was established that the tenant had a partner who was also a council employee and is also alleged to have received benefits improperly. Both parties will be reported to the PF. The combined overpayments are around £100,000.

This outcome was achieved through successful joint working between investigators from the council and the Department for Work and Pensions. The same council reported another joint working case which had also identified overpayments of around £100,000.

Source: Audited body

Case study 3

A domestic assistant working in the NHS was recently found guilty of benefit fraud after a council identified that they had failed to declare their earnings since 2003. The claimant, while working, had also submitted medical certificates stating that they were unfit for work. Housing benefit, council tax benefit and income support overpayments amounted to around £19,000.

Source: Auditor

Case study 4

Following NFI 2004/05 investigations, a benefit applicant pleaded guilty to obtaining £5,000 in benefits by failing to declare an occupational pension. The same applicant was identified in the council's 2006/07 matches and is alleged to have obtained a further £6,000 in benefits by concealing a partner's pension in a bank account opened after being convicted of the previous offence. Neither the partner's pension nor the new bank account had been disclosed.

Source: Auditor

pensioners, 578 local government employees and 94 persons working in the NHS in Scotland.

Payroll fraud

35. The NFI matches payroll information to identify cases of potential payroll fraud, but fraud investigations may also lead to the discovery that employees are in breach of conditions of service or EU working time directives. Apart from other consequences, excessive working hours may pose public safety risks.

36. Payroll information is also matched to Home Office information about failed asylum-seekers and expired visas.

37. Scottish bodies reported very little in the way of payroll fraud from the 2004/05 NFI, but some significant outcomes have been reported from 2006/07 investigations. Payroll matches are the only NFI reports where NHS bodies may require to take the lead in conducting investigations, although they should also review matches to housing benefits and occupational pensions to look for potentially high-profile cases (eg, senior officers) and to request that the other body includes these cases in its own investigations.

38. In addition to case studies 7 to 9, ten public sector employees have been dismissed or resigned after bodies confirmed that they did not hold a valid permit to work in the UK.

Case study 5

Another housing benefit applicant has been reported to the PF for allegedly improperly obtaining £40,000 in housing and other benefits. The case involved undeclared earnings from employment with the same council.

This case was identified from an NFI 'prior year' match (ie, a match that also occurred in 2004/05) and illustrates the importance of reviewing prior year matches, regardless of how thoroughly bodies consider they have been checked previously.

Source: Auditor

Case study 6

A retired police officer claimed housing benefit without disclosing their occupational pension. This non-declaration dates from 1998, which is as far back as the council has been able to check its records. Overpayments of housing and council tax benefits amounted to more than £17,000. The case was referred to the PF. A guilty plea has been entered and sentence is awaited.

Source: Auditor

Case study 7

One council identified that an employee had been working for a health board while on sick leave from the council. The employee had invalidly received sick pay of £20,000 from the council over a period of two years. This case has been reported to the police.

This is a good example of the type of fraud that bodies might fail to detect if they conclude too readily that it is normal for employees to have two jobs. The NFI application allows bodies to filter cases, for example, those with a certain level of earnings in each job, and identify cases where the combined amount could be implausible. In these cases bodies should share information about shift patterns and sickness records before clearing these matches.

Source: Auditor

Case study 8

When reviewing its payroll matches, a health board identified an employee on the 'nurse bank' who had previously been dismissed from a full-time nursing post. The nurse had not disclosed their dismissal when applying to join the bank and has again been dismissed.

Source: Auditor

Case study 9

One of the NHS special boards had only nine NFI matches to consider and only two 'pay-to-pay' matches. The board identified that both these matches involved staff with jobs at another health body and who had previously been requested to review their long working hours. Neither employee had acted on these requests and following the NFI investigations both resigned.

Source: Audited body

Other matches

39. Bodies are required to submit data in other areas, such as tenancy information and former tenants' arrears. They may also submit information, in conjunction with their auditors, from a range of 'risk-based' areas. For example, information about blue badges and care home residents can be submitted for checking against records of deceased persons. Bodies may also submit data about trade creditor payments, for example, to allow checks for duplicate payments.

40. The most significant outcomes from the risk-based datasets came from the blue badge and care home resident matches:

- Aberdeen City and Scottish Borders Councils between them cancelled 656 blue badges after NFI identified that the holders were deceased. The councils can now try to recover these permits to avoid any future misuse and review their systems for finding out about deaths. If each badge is used to avoid parking charges and fines of say, £500, the savings to the public purse in these two councils alone would amount to £328,000.
- Inverclyde Council was able to update its records in respect of 471 blue badges. These were a combination of cases where records had not been updated after the return of a badge (about 60 per cent) and cases where the council had not previously been notified that the badge holder had died (about 40 per cent).
- Renfrewshire Council identified 12 cases where payments for private supported care home residents had continued after the date of death. In one case, the resident died in November 2005. In total, the council is recovering around £70,000 in overpayments. The total NFI savings are higher than this, as payments might well have continued in these cases.

Part 3. How did bodies perform?

Auditors reported that the vast majority of bodies performed their role in NFI satisfactorily.

Key messages

- The vast majority of bodies made adequate arrangements for managing their role in the NFI exercise.
- About a quarter of bodies could plan better for NFI, demonstrate more commitment to the exercise, or start work on their NFI matches more promptly.
- Bodies should review their approach to selecting matches for investigation, especially if they experience diminishing returns. Better use could be made of the facilities in the web-based application.
- Six bodies, in particular, need to address a number of weaknesses in their approach.

41. The appointed external auditors monitored bodies' participation in NFI 2006/07. In each case the auditors included a reference to the body's performance in their 2006/07 annual audit report.

42. Because annual audit reports were issued at the end of October 2007 (or July 2007 in the case of health bodies), the auditors provided up-to-date information about each body's performance and progress at the end of February 2008. For the purpose of this, the auditors did not base their conclusions predominantly on the NFI outcomes or savings achieved by bodies. While it is natural to view high levels of NFI savings as a good result, bodies may have significant NFI outcomes because their systems are not preventing enough fraud and error in the first place. These are matters for auditors to consider as part of their wider audit duties.

43. The auditors reported that the vast majority of participating bodies performed their role in NFI 2006/07 satisfactorily.

44. Almost all of the 'key contact' officers nominated to marshal the exercise in each body were considered to be appropriate for that role and to have adequately discharged their duties. Almost all councils duly considered which risk-based datasets they should be required to submit.

45. Further, the vast majority of bodies were considered to be committed to the NFI exercise, prioritised their investigations and made sufficient progress with reviewing matches and conducting more detailed investigations, where appropriate.

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

- About a quarter of participants could have planned their work better and, as a result, failed to make a prompt start to the follow-up of the matches when they were available in late January 2007. While most caught up, in about ten per cent of bodies the auditors concluded that adequate progress had not been made with the investigation of matches.
- In about ten per cent of bodies there needs to be more evidence of commitment to NFI. For example, progress with investigations and other outcomes were not reported regularly to senior management, elected members, audit committees or boards.
- Several bodies submitted data for NFI 2006/07 long after the specified processing deadline, and a second processing run had to be specially organised by the Audit Commission at a later date. These bodies lost several months on the other participants while waiting on their matches. Other bodies also received a late batch of matches, as a result.

- Bodies should review how they select matches for investigation before NFI 2008/09. Bodies with very low numbers of matches might be expected to investigate them all. Where the numbers of matches are higher, the web-based application provides facilities for bodies to filter and sort matches (eg, by value) so that they can investigate the 'best' ones first. Bodies can apply recommended filters and/or tailor the filters to their own requirements. The expectation is that the results of the investigation of this first sample will help bodies decide whether to select more and, in due course, to decide when diminishing returns suggest they should stop. In Audit Scotland's view, these facilities are under-used.

47. Bodies are entitled to investigate all matches, and significant frauds and errors can be found outside the best quality or highest priority reports. However, if bodies *do* check all matches, they should not form negative views about the NFI exercise if they do not achieve a level of savings to justify their efforts. Auditors considered that about ten per cent of bodies had deployed excessive resources on certain reports as a result of not using the available filters efficiently.

48. Bodies could also improve the way they record their work on the NFI application, although this should improve with experience. Bodies should avoid the temptation to demonstrate progress by devoting resources to updating match reports first with individual cases they have eliminated after filtering, or know they can 'clear' without substantive investigation work. The application is designed so that bodies approach their work from precisely the opposite direction, ie to investigate first the matches that are most likely to reveal significant fraud or error.

49. Six participants, in particular, need to address a number of weaknesses in their approach, and their auditors concluded, overall, that arrangements for managing the NFI exercise were inadequate (Exhibit 5).

50. Each of these bodies advised Audit Scotland that it faced challenges with allocating sufficient resources to the NFI exercise (eg, due to other important priorities or as a result of key contacts or investigation staff leaving). As indicated previously, health bodies also took part in NFI for the first time in 2006/07.

51. Each body and/or its appointed auditor has confirmed that it has, or will, address the matters identified and agree steps to bring about improvements prior to NFI 2008/09.

Exhibit 5

Bodies that need to address a number of weaknesses

Body	Key areas requiring improvement
Scottish Public Pensions Agency	Planning; starting follow-up sooner; prioritising follow-up; overall progress with follow-up.
City of Edinburgh Council	Planning; commitment; more detailed consideration of risk-based datasets; improved coordination with other inspection agencies to allow the council to prioritise work on follow-up.
Midlothian Council	Planning; commitment; starting follow-up sooner; overall progress with follow-up.
Ayrshire and Arran Health Board	Overall marshalling of the exercise; planning; commitment; starting follow-up sooner; prioritising follow-up; overall progress with follow-up.
Forth Valley Health Board	Overall marshalling of the exercise; planning; commitment; starting follow-up sooner; prioritising follow-up; overall progress with follow-up.
NHS 24	Planning; commitment; starting follow-up sooner; overall progress with follow-up.

Source: Auditors

Part 4. Conclusions and way forward

It is important that Audit Scotland is provided with the same express data matching powers that have been given to other UK audit agencies.

Key messages

- NFI 2006/07 has been effective in identifying at least another £9.7 million of fraud and overpayments. Cumulative savings are now around £37 million.
- Where fraud and overpayments are not found bodies should, nevertheless, be able to take positive assurances from the exercise.
- All public bodies have a duty to protect public funds by preventing and detecting fraud. Overall, NFI savings are a significant multiple of any marginal (additional) costs of undertaking the exercise.
- The wider public interest dimension of NFI is not always recognised. There can be a tendency to focus on potential impediments instead of taking a more 'enabling' approach to the interpretation of legislation. For this and other reasons, it is important that Audit Scotland is provided with the same express data matching powers that have recently been given to other UK audit agencies.

Conclusions

52. The 2006/07 NFI exercise has been another success with total overpayments and savings of at least £9.7 million identified. Moreover, there is evidence that NFI and other counter fraud measures are an effective deterrent to fraud.

53. Cumulative savings from NFI in Scotland are now around £37 million; but even where a body does not find significant levels of fraud and overpayments, if it approaches the exercise properly, it can take positive assurances about its control systems and arrangements for preventing and detecting fraud and error.

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

55. Public bodies cannot ignore this duty and it is essential that they address NFI matches promptly. The resources they deploy are for them to decide, but our partner in NFI, the Audit Commission, has provided a sophisticated application aimed at helping bodies achieve the highest return for the least amount of effort. Feedback from users about the web-based application has been very positive.

56. While it is acknowledged that there is an opportunity cost to participating in NFI (ie, resources could be spent on other activities), the vast majority of bodies told their auditors that they had discharged their NFI responsibilities from existing staffing resources.

57. About ten per cent of bodies employed additional staff or authorised overtime working. However, the most significant additional resources appear to be two temporary staff engaged on housing benefit matches at South Lanarkshire Council. This council, for its size, has identified among the highest levels of fraud and overpayments through NFI.

"The facilities in the web-based application enabled us to ensure that cases with the highest risk of fraud were prioritised. To increase the effectiveness of the exercise the council also provided additional staffing for the fraud team. The excellent results achieved in detecting fraud and overpayments are the result of the quality of the information provided through the NFI and the additional resources deployed."

Patrick Murphy, head of Support Services, South Lanarkshire Council

58. Audit Scotland paid the Audit Commission £125,000, which was almost exclusively for processing the 2006/07 data. Along with the appointed auditors, Audit Scotland again managed the coordination of the exercise within existing staffing resources.

The way forward

59. The next NFI exercise will commence in October 2008. The scope is likely to be similar to NFI 2006/07, although it will be made mandatory for councils to submit the risk-based datasets that have been most successful in 2006/07 (eg, blue badges). We are pleased that the Scottish Government Health Directorates have supported our decision to require the continued participation of health bodies.

60. Our relationship with the Audit Commission is central to the development of NFI in Scotland. For example, the Audit Commission will continue to develop the web-based application. NFI 2008/09 will see the addition of online interactive training modules that will make it easier for officers to learn about the application, and how to use it efficiently and effectively, at the times when it best suits them. The NFI team in the Audit Commission and Audit Scotland will continue to support bodies, when necessary, but this key development will avoid the need for large numbers of staff to travel to NFI training events.

61. So far as possible, we will continue to develop our exercise in line with the matches that are available in England. An extension to NFI to match council tax records with the electoral register is currently being undertaken (ie, between the 2006/07 and 2008/09 NFI exercises). This exercise will mainly help councils to detect invalid claims for council tax single person discount. Based on the results of pilot studies in England, and the fact that cancelled discounts will improve the council tax base for the three years of the local government grant settlement, the Audit Commission estimate that the

impact of this work throughout the UK could exceed £200 million.

62. However, there are some restrictions and challenges in pursuing the development of NFI in Scotland.

63. It is important that those bodies where the auditors have reservations about commitment, or any other aspect of the approach to NFI, review their arrangements and make improvements. We are not aware of any council or board where there is not support at the very highest level for NFI (eg, board or elected members) although this is not always replicated at officer level.

64. Audit Scotland often finds it challenging to extend NFI into new bodies or to introduce new datasets, even where the success of the data matching has already been demonstrated elsewhere in the UK. A few bodies have also expressed frustration at the reluctance of others to help with NFI investigations by sharing information, despite the fact that data protection legislation provides for personal information to be disclosed for the purpose of preventing and detecting crime.

65. Audit Scotland urges all audited bodies and officers who are, or who become, involved in NFI to recognise the wider financial and public interest benefits that are being served. Audit Scotland accepts that data protection and other legislation can be complex or unclear. But the public interest is best served by bodies and officers working with Audit Scotland and auditors to construct reasonable legal arguments to enable data matching, rather than focusing on impediments that might be argued to prevent it.

66. The Audit Commission, Wales Audit Office and the Northern Ireland Audit Office were all given new express powers to conduct data matching exercises within the Serious Crime Act 2007 (SCA). However, because of other legislative priorities at the time of the Scottish Parliament elections in 2007, these

provisions were not fully extended to Scotland. Audit Scotland features in the provisions (for example, the Audit Commission is given express powers to disclose the results of cross-border data matching to Audit Scotland), but Audit Scotland could not currently, for example, participate fully in the cross-border matching that is now provided for within the SCA.

67. It is important that Audit Scotland is given the same express powers that are now available to other audit agencies throughout the rest of the UK in order to:

- allay any residual concerns that may exist about our data matching exercises and avoid any future issues with data matching or delays in the provision of information to Audit Scotland for legitimate audit purposes
- ensure that Scotland is equipped to tackle fraud as effectively as the rest of the UK and to avoid any perception that we are any less determined to tackle the problem.

68. Discussions have taken place with the Scottish Government Criminal Justice Directorate, although any new Scottish legislation will not be available in time for NFI 2008/09.

National Fraud Initiative in Scotland 2006/07

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