

The Highland Council
Resources Committee – 26 August 2015

Agenda Item	24
Report No	RES/ 80/15

National Fraud Initiative (NFI)

Report by Director of Finance

Summary

This Report provides information about the council's general approach to the prevention and detection of fraud and error and details performance for Audit Scotland's biennial National Fraud Initiative 2012/13 and so far, for the 2014/15 exercise.

1. Background

- 1.1 When there is a suspicion or allegation of fraud or error, Services within the council investigate, and if fraud or error has taken place, stop payments and take steps to recover the overpaid amounts. The council's fraud and error prevention measures within the council provides assurances that systems are operating well; can help to identify where systems and processes can be improved; and help educate applicants and potential applicants about proper claiming and reporting of changes in circumstances.
- 1.2 The council operates a range of counter-fraud measures. The National Fraud Initiative (NFI) is one such measure which in Scotland is led by Audit Scotland and overseen by the Cabinet Office for the UK as a whole. NFI uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems and across geographical boundaries, to identify circumstances (matches) that might suggest the existence of fraud or error.
- 1.3 A NFI match does not automatically mean that fraud or error exists and investigations, on a case by case basis, must be undertaken to enable the correct conclusion to be drawn for each match.
- 1.4 NFI matches are provided to the council by Audit Scotland biennially and are linked to the statutory audits of participating bodies. This report relates to the NFI exercise for 2012/13 and provides information relating to the ongoing exercise for 2014/15.
- 1.5 For the NFI 2012/13, the data of 127 bodies were matched and all participating bodies were mandated to provide specified data. Audit Scotland included data about its own employees and those of audit firms that carried out external audit work for the Auditor General for Scotland and the Accounts Commission. As a participating body, the council was mandated to provide a range of information, including payroll and pension, licensing and housing information. Housing benefit information is supplied by the Department for Work and Pensions (DWP). This list is not exhaustive.

2. Roles and responsibilities

- 2.1 Since the pilot NFI exercise, in around 2004, the council's NFI Key Contact has been the Benefits and Welfare Manager within the Finance Service. This involves, but is not restricted to, being the point of contact between NFI and Council Services, user access control to the NFI website, official returns and reporting, facilitating cross-Service investigations/lessons learned and liaison with auditors. The Key Contact also ensures that Council-wide performance information is provided to Members via the monthly Members' Bulletin.
- 2.2 The Services that participate in NFI are Finance, Community Services and Corporate Development. Representatives from each of these Services are responsible for extracting the relevant data from their IT systems and uploading data sets to the NFI website within the timescales determined by the NFI team. Each Service representative then co-ordinates the investigation of each match identified by Audit Scotland's data matching process and records the outcomes on the NFI website. As the investigative process per match can be extremely resource intensive, Services adopt a risk based approach to the planning of this work as part of their ongoing and broader planning and scheduling of service delivery. Data governance and compliance are the responsibility of Services and the NHS is now responsible for data matches relating to Adult Services.
- 2.3 From August 2015, the Key Contact role will be undertaken by the council's Corporate Fraud Team based within Internal Audit and Risk Management. As reported within the updated Finance Service's Service Plan to Resources Committee in May 2015, two members of the Fraud Investigation Team transfer to Internal Audit and Risk Management in order to form a Corporate Fraud Team. The remaining posts (3fte) transfer to the DWP as part of the national model to deliver fraud management on welfare benefits. This will ensure business continuity and provides assurance that appropriate expertise is available for NFI in future years.
- 2.4 The Senior Investigator within the Benefits and Welfare Team, who is fully trained and experienced in NFI, is one of the staff transferring to the Corporate Fraud Team. This will ensure business continuity and provides assurance that appropriate expertise is available for NFI in future years.
- 2.5 The council's approach to fraud and error detection and prevention means that when it is appropriate to do so, some cases are reported to the Procurator Fiscal for consideration. This may involve cases progressing to court for prosecution.

3. Audit Scotland's Timetable 2012/13

- 3.1 In October 2012, participating bodies were required to extract pre-determined data from their IT systems and to upload these to the NFI website.
- 3.2 In January 2013 NFI made the matches available to participating bodies for investigation.

3.3 The inherent weaknesses of this time lag continue to be discussed with Audit Scotland and have been highlighted in previous reports to members of this Committee; many matches are superseded in the intervening months from the time when the data was initially extracted to the time the matches become available to participating bodies for investigation. Officers have no way of identifying matches that are out of date and therefore must sift through all matches which is resource intensive.

4. National Outcomes

4.1 Cumulative outcomes reported by Audit Scotland over the last decade from NFI in Scotland are £94 million (£1.17 billion across the UK) with £10.5 million of fraud and error being identified from the 2012/13 exercise in Scotland. These fraud and error outcomes have been derived from many sources, for example pension overpayments, housing and other benefits and students. This list is not exhaustive.

5. Local Outcomes

5.1 Local outcomes are detailed for Members on a monthly basis via the Members' Bulletin.

5.2 2012/13

For the 2012/13 exercise, the Council uploaded data in October 2011 and received 3,129 matches in January 2012 with 98 remaining under investigation.

5.3 Fraud and error has been established in 94 cases to date, totalling £83,391 of which £19,012 is being recovered.

5.4 2014/15

For the 2014/15 exercise, participating bodies uploaded their data sets to the NFI website in 6 October 2014 and received matches from Audit Scotland on 29 January 2015.

5.5 8,751 matches have been identified through data matching. Of these, Audit Scotland recommends investigations in 2,158 cases of which 1,727 are identified as high risk. Officers make use of the tools within the NFI website, such as the filter and sort options, to help prioritise matches that are the highest risk.

5.6 At the time of writing this report, 6,125 have been processed and closed, 198 remain under investigation and 6,099 matches have been cleared. This significant resource effort across Council Services has identified 49 errors to the value of £3,707 all of which is being recovered. No fraud has been identified by Services.

5.7 Investigations into Licensing and Blue Badges are complete and did not identify fraud and error. The Housing Section of Community Services has processed all of their cases and completed 54% of their matches. Of the remaining cases, 8% are being further investigated by Area Housing Teams.

- 5.8 In total, the Finance Service received 7,671 matches, of which Audit Scotland recommended 1,375 for investigation, the bulk of which involve creditor payments. The council has dedicated software to deal with duplicate creditor records and as a result these are dealt with outwith the NFI process as part of the council's measures for the prevention and detection of fraud and error. This software is an effective solution and has not identified any fraud within the creditors system. Members will also wish to note that matches relating to council tax single occupancy discount were not investigated as part of the NFI initiative. Instead, the Council made effective use of an external provider for this purpose as explained in more detail in paragraph 6 below.
- 5.9 In addition to external and internal audit arrangements, Services have other arrangements in place to check the probity of their systems. NFI is not therefore treated in isolation but is part of the Council's overall approach to the prevention and detection of fraud and error.

6. Council Tax Single Occupancy Discount Review

- 6.1 During Quarter 4 2014/15, the Finance Service commenced a Single Occupancy Discount Review. Council Tax Payers who live by themselves are entitled to a Single Occupancy Discount which reduces their Council Tax bill by 25%. When counting the number of adults living in a property, some people who meet specific conditions are not included such as Students, Apprentices and Carers.
- 6.2 For the first time, a review of all Single Occupancy Discounts has been undertaken. There are over 37,000 accounts (of the total 115,000) that have a single occupancy discount in payment.
- 6.3 This Review is one of the Finance Service's budget savings for 2015/16–18/19 approved at Full Council on 18 December 2014. This exercise, which is electronic data matching, is expected to deliver savings in excess of £300k through identifying people that are not entitled to this discount.
- 6.4 Councils can establish ongoing entitlement by manually issuing review forms to those in receipt of this discount. However this is an inefficient approach and does not provide sufficient challenge as to the validity of the claim. Alternatively, intelligence-based reviews can be undertaken using a range of information held electronically which means validity checks are more secure and the review letters issued are only to those where there is some doubt to their entitlement. The council opted to take this approach.
- 6.5 Following a procurement exercise, Northgate undertook a review (data matching using both public and private sector information) of all current council tax single occupancy discounts. The data matching information was available within days of running/identifying the matches.
- 6.6 Nearly 2,000 accounts (5%) have been reassessed (discount cancelled) following this exercise. The majority of the work is complete and the indications are the estimated additional income will be delivered. The significant majority of single occupancy discount claims made were correct at the time of application but subsequent change in circumstances was not reported. As reported to Resources Committee in May 2015,

undertaking this review in advance of 2015/16 has also resulted in some changes in respect of 2014/15 liability of approximately £230k.

7. Conclusions

- 7.1 The National Fraud Initiative is mandatory and is biennial. Audit Scotland's approach provides several thousands of matches being made available to Council Services at the same point in time.
- 7.2 As a result of the NFI timetable, some matches are superseded before they are made available to the council for processing and investigation. One development that could improve the outcomes of the NFI scheme is the ability to make matches available to participating bodies on a more regular basis (eg monthly) as that would ensure that the data is current and make for a manageable workload for Services. A NFI Flexible Matching Service is available to public bodies that enable matches to be undertaken at a time and frequency to suit organisation's operational needs. However, unlike the biennial data which incurs no upfront costs, the Flexible Service incurs fees such as £300 per dataset. The current return such as reported at 5.6 (£3,707) does suggest that continuing with receiving data on a biennial basis at no cost for this mandatory exercise may be the better of the 2 approaches. Council Officers will continue to work with Audit Scotland on this matter including a possible trial of the NFI Flexible Matching Service.
- 7.3 As NFI is one of several fraud and error tools available to the Council a risk-based approach is taken by Services within the wider context of the preventative measures that are undertaken. These include reviewing and updating IT systems, processes and forms, checking decisions and payments, implementing audit recommendations, internal referrals and referrals from the public, monthly housing benefit data matching services, compliant sharing of information, and other reviews such as the Council Tax single occupancy discount review.

8. Implications

- 8.1 Resource and risk implications are set out in the paper. There are no legal; climate change/Carbon Clever; or Gaelic implications.
- 8.2 Rural Implications – fraud and error is not restricted by geographical boundaries and neither is the NFI. This initiative will impact on individuals living in rural and urban areas.
- 8.3 Equalities – by its very nature, the NFI initiative will have equalities impacts as it matches a range of data including but not restricted to working age; pensioners; and those with disabilities.
- 8.4 Anti-poverty – the aim of the NFI is to ensure that fraudulent activity and error do not enter into systems and to stop those that do. In doing so, the benefits and welfare budget can be more effectively targeted to those eligible to claim.

Recommendation

The Committee is asked to consider:

1. the council's counter-fraud approach
2. the NFI process and timetable for data uploads, data matches and investigations
3. investigations arising from, and outcomes derived, from these initiatives
4. note the estimated additional income arising from the Council Tax Single Occupancy Discount review

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Data Sets and Potential Fraud and Error

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

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

Source: Audit Scotland