

Agenda Item	8
Report No	AS/5/20

THE HIGHLAND COUNCIL

Committee: Audit & Scrutiny Committee

Date: 24th September 2020

Report Title: **The National Fraud Initiative in Scotland 2018/19**

Report By: Corporate Audit Manager

1. Purpose/Executive Summary

- 1.1 This presents the latest National Fraud Initiative (NFI) report published by Audit Scotland in relation to the 2018/19 exercise and highlights the key messages. Details are also provided of the Council's results arising from the NFI matches.

The NFI report was updated to reflect the fraud risks arising from Covid-19 and since this report was published, 2 further publications were issued by Audit Scotland on this topic. Links are also provided to these reports at section 5.3.

2. Recommendations

- 2.1 Members are asked to:

- i. Consider the Audit Scotland NFI report, the results for the Highland Council and the associated commentary.
- ii. Consider the additional reports issued by Audit Scotland relating to fraud risks associated with Covid-19. This includes the suggested questions provided in the guide for audit and risk committees to help them effectively scrutinise and challenge the key areas.
- iii. Note that Audit Scotland will be issuing further guidance to public bodies as they move from the response phase of the pandemic into recovery and renewal.

3. Implications

- 3.1 Risk – Participating in the NFI exercise assists the Council in addressing/ reducing the risk of fraud or error in the payments made to individuals. The nature of this work means that this has resource implications for staff as previously outlined. There are also equality and rural implications for Highland citizens as this may impact upon individuals with disabilities, low incomes or in receipt of pensions, and as there are no geographical boundaries, it may affect those living in rural or urban areas. However, the aim is to

ensure that payments are made to those who are legitimately entitled, including benefit claimants, and that public money is properly spent.

In a change to previous years, the report also recognises the current fraud risks arising from Covid-19 (see 5.1).

3.2 Resource – Staff resources across the Services are required to investigate the matches. However, guidance is provided to ensure that these are targeted at the high risk matches and that the most effective process is followed.

3.3 There are no Legal, Climate Change / Carbon Clever or Gaelic implications.

4. Background

4.1 The NFI is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. It uses computer data matching techniques to detect possible cases of fraud and error. Audit Scotland lead and report upon the exercise across Scotland which is undertaken every two years. The report can be found at: <https://www.audit-scotland.gov.uk/report/the-national-fraud-initiative-in-scotland-201819>. The report also reflects the current fraud risks associated with Covid-19.

5. Key messages from the report

5.1 There are 4 key messages:

1. Covid-19 - the Covid-19 pandemic has brought about additional fraud risks that must be managed including:
 - Staff working remotely and increase in cyber-crime arising from this
 - Staff working under extreme pressure plus increase in phishing e-mails and scams targeting these staff to click on links which allow fraudster access to systems
 - Government support packages for individuals and businesses provided quickly with less scrutiny than normal.

Since the pandemic began, the risk of fraud and error has increased as organisations became stretched and controls and governance processes were changed.

2. Outcomes - since the last report in June 2018, outcomes valued at £15.3 million have been recorded across Scotland.
3. Results - the outcomes value was £2.4 million less than the previous exercise. This is in part due to the decision not to include immigration data as a result of the review into the Windrush generation. Details are provided within the report of the significant changes in the different types of matches including an increase in council tax discounts and housing benefit, and reductions in pensions and payroll matches.
4. Process - most organisations demonstrate a strong commitment to counter-fraud and the NFI. However, some could act more promptly and ensure that sufficient staff are in place to investigate the matches, prevent fraud and correct errors.

5.2 The report contains 4 overall recommendations which are detailed below. Commentary is also provided upon the action taken within Highland to address these.

1. Covid-19 risks - need to be aware of emerging fraud risks e.g. due to Covid-19 and take appropriate action. This has been done by the Corporate Audit Manager who during the pandemic has kept up to date through professional network groups, information sharing with other authorities about fraud incidents and guidance issued by organisations including Audit Scotland, CIPFA and the Chartered Institute of Internal Auditors. These were taken into account when preparing the Internal Audit Plan for 2020/21 which is provided as a separate agenda item.
 2. Maximise the benefits - all participants should maximise the benefits of participating in the exercise. The Highland Council takes part in the two-yearly exercise. When the matches were received details of best practice in how to investigate these were provided to officers undertaking this task to ensure that the most effective process was followed.
 3. Self-appraisal checklist - Audit Committees and staff leading the NFI should review the NFI self-appraisal checklist. As part of the preparation for the 2018/19 exercise, part B was completed by the Corporate Audit Manager who is the key contact for NFI. Part A for those charged with governance was submitted to the Committee Chair and Vice-Chair for their consideration.
 4. Take action - action should be taken to address any local areas for improvement identified. It should be noted that no such actions have been identified for Highland.
- 5.3 Since the NFI report was issued, Audit Scotland have published 2 further reports relating to Covid-19 and the associated fraud risks:
1. "Emerging fraud risks" was issued in July 2020 and can be found at https://www.audit-scotland.gov.uk/uploads/docs/report/2020/briefing_200723_covid.pdf. The approach to considering Covid-19 fraud risks is outlined in the preceding section and this publication was one of the sources of information used.
 2. In August, "Covid-19 Guide for audit and risk committees" was issued, link as follows: <https://www.audit-scotland.gov.uk/report/covid-19-guide-for-audit-and-risk-committees>. This provides a set of useful questions to assist Members in effective scrutiny and challenge in 4 key areas during the response phase of the pandemic:
 - Internal controls and assurance
 - Financial management and reporting
 - Governance
 - Risk management.

6. Highland Council results

6.1 The 2018/19 NFI exercise results are as follows:

Type	Actual (no. cases)	Actual £	Estimate £	Total £
Council Tax – Discounts	700	135,805	410,252	546,057
Housing Benefit	52	11,826	6,184	18,010
Pensions	13	1,671	549,610	551,281
Council Tax – Reduction	6	5,922	2,588	8,510
Totals	771	155,224	968,634	1,123,858

Details of the basis of the estimated figures can be found at Appendix 2 of the report. These assume that these would have continued undetected if not for the NFI matches and does not take account of any controls or retrospective checks operating within the Council that could have identified these cases. For example, a data matching service is used for pension payments which undertakes monthly mortality checks and highlights potential matches for investigation.

Designation: Corporate Audit Manager

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Background Papers: