

**ANGUS COUNCIL**

**SCRUTINY AND AUDIT COMMITTEE – 23 AUGUST 2016**

**NATIONAL FRAUD INITIATIVE UPDATE**

**REPORT BY JANINE WILSON, SERVICE MANAGER-GOVERNANCE AND CONSULTANCY**

**ABSTRACT**

This report advises members of the publication of Audit Scotland's report 'The National Fraud Initiative in Scotland' and provides information on National Fraud Initiative (NFI) planning for 2016/17. It also provides members with a final update on the outcomes of NFI 2014/15.

**1. RECOMMENDATIONS**

It is recommended that the Committee:

- (i) Consider the contents of the Audit Scotland report 'The National Fraud Initiative in Scotland' and provide any comments on the self-appraisal checklist.
- (ii) Consider the local outcomes of approx. £93,000 from NFI 2014/15, of which £64,000 represents a notional value attached to cancelled Blue Badges.
- (iii) Note the continued participation of Angus Council in NFI.

**2. ALIGNMENT TO THE ANGUS COMMUNITY PLAN/SINGLE OUTCOME AGREEMENT/COPORATE PLAN**

This report supports services in the delivery of all local outcomes contained within the Angus Community Plan and Single Outcome Agreement 2013-2016.

**3. BACKGROUND**

3.1 The remit of the Scrutiny and Audit committee includes the consideration of reports on the adequacy and effectiveness of the Council's counter fraud arrangements. NFI is a major counter-fraud initiative which uses computer data matching techniques to detect fraud and error. The exercise is undertaken every two years and participation is compulsory for Scottish Local Authorities as part of their statutory audit. The NFI in Scotland is coordinated by Audit Scotland and the 2014/15 exercise involved 104 bodies from the local government, health and central government sectors.

3.2 The datasets for the 2014/15 NFI exercise were submitted in October 2014. The results of the data-matching exercise were released through the NFI secure web application during the first quarter of 2015. A small number of additional matches were released in December 2015. A match does not automatically mean that there is a fraud error; an initial review is carried out to determine which matches can be eliminated and which should be investigated further.

**4. AUDIT SCOTLAND NATIONAL REPORT**

4.1 Audit Scotland publishes a national report setting out the progress of each biennial NFI. The report includes a summary of the national outcomes as calculated by Audit Scotland from the outcomes recorded on the secure NFI website by participating bodies. The latest report, "The National Fraud Initiative in Scotland" was published in June 2016 and can be accessed from Audit Scotland's website:

[http://www.audit-scotland.gov.uk/uploads/docs/report/2016/nr\\_160630\\_national\\_fraud\\_initiative.pdf](http://www.audit-scotland.gov.uk/uploads/docs/report/2016/nr_160630_national_fraud_initiative.pdf)

- 4.2 In June 2015, Audit Scotland asked external auditors to complete and submit a questionnaire in regard to their audited bodies' engagement with the NFI 2014/15 exercise at that point in time. Follow-up questionnaires were completed and submitted in February 2016. The results from both questionnaires were used to inform the national report.
- 4.3 For each question, auditors were asked to conclude whether arrangements were satisfactory, mostly adequate or unsatisfactory. The assessment for Angus Council was satisfactory for all relevant questions.
- 4.4 The national report includes five recommendations, two for all participating bodies and three for local authorities. Table A summarises Angus Council's position in relation to each of the five recommendations

**Table A: NFI 2014/15 Recommendations**

<b>NFI Recommendation</b>	<b>Angus Council position</b>
Audit Committees, or equivalent, should review the self-appraisal checklist at Appendix 2, Part A to ensure that they are fully informed of the planning and the progress being made by their officers investigating the NFI 2016/17 exercise.	The self-appraisal checklist is included as an appendix to this report, for members' information and comment.
All public bodies participating in the NFI should ensure that they maximise the benefits of their participation in the NFI. In particular, they should consider: <ul style="list-style-type: none"> <li>• whether it is possible to work more efficiently on the NFI matches</li> <li>• using the NFI matches in conjunction with alternative matching services either internally or from other providers where appropriate</li> <li>• where appropriate using the NFI flexible data matching service and point of application data matching service</li> </ul>	The overall approach is agreed with the Head of Corporate Improvement & Finance and the Service Manager Governance & Consultancy at the start of each exercise. It takes account of recommendations for efficient working.  Use of alternative data matching services is reviewed on a regular basis by the counter-fraud team.
Local authorities should ensure they have sufficient capability to investigate non housing benefit fraud or corporate fraud, including relevant NFI matches.	The Council has a specialist counter-fraud team within the Governance & Consultancy Unit.
Local authorities that administer pension schemes should consider regular matching to deceased records where they do not already do so.	Not applicable
Local authorities should ensure that they embed the regular use of data matching as part of their overall control arrangements to identify council tax discount fraud and error in order to maximise council tax income.	Data matching exercises are undertaken by the corporate fraud team on a regular basis. Results are reported to the Scrutiny & Audit committee.

## **5. NFI NATIONAL AND LOCAL OUTCOMES**

- 5.1 Table B below sets out a summary of the national outcomes included within the 2016 national report, together with the corresponding figures for Angus Council. The outcomes (ie the value of NFI to the public purse) are measured by Audit Scotland by the amounts of overpayments (whether due to error or fraud) that were identified and stopped, estimates of amounts that bodies will save by stopping incorrect payments that would have continued if not identified by NFI and, in some cases, attaching an appropriate value to other significant findings.

**Table B: Summary Outcomes from April 2014 to March 2016**

<b>Category</b>	<b>National Value £M</b>	<b>Angus Council Value £M</b>	<b>Note</b>
Pension Overpayments	4.6	N/A	Data submitted by Dundee City Council and the Scottish Public Pensions Agency as the administering authorities for the pension schemes.
Housing Benefit	3.0	0.026	NFI calculation assumes that the incorrect payment would have continued for a further 21 weeks. The Angus Council figure here has been adjusted for comparison with the national report. The figure for HB overpayments shown in Table C (below) is the actual value of overpayments identified.
Blue Badges	2.4	0.064	For each Blue Badge cancelled, NFI attaches a value of £575 to reflect lost parking and congestion charge revenue. This does not mean however that each badge was being abused.
Other	1.2	0.003	"Other" outcomes includes: payments to private residential care homes; creditors; insurance; and housing tenants. Angus Council value relates to creditors – see Table C below.
<b>NFI 2014/15 excluding council tax discounts</b>	<b>11.2</b>	<b>0.093</b>	
Council tax discounts	5.6	0.170	See 5.2 below
<b>National Report total</b>	<b>16.8</b>	<b>0.263</b>	

5.2 Council Tax discounts

Members will be aware that Angus Council does not participate in the NFI Council Tax Single Person Discount exercise, but internal data matching exercises are undertaken by the Corporate Fraud Team. The value reported by NFI for council tax discounts assumes that the incorrect discount would have continued for a further two years. The Angus Council total in Table B above is only the incorrect discount, as previously reported to this committee in reports 255/15 and 158/16. It has not been possible to recalculate the total on the same basis as that used by NFI.

5.3 Progress on following up the NFI 2014/15 matches was reported to this committee in August 2015 (report 320/15). Work on the matches identified for investigation is now complete and Table C provides the updated position. One fraud was identified and a number of errors have been corrected.

**Table C: NFI 2014/15 Angus Council Outcomes**

Match type	Total number of matches	Number of matches closed	Number of errors	Outcomes
Creditors	1,456	64	1	One duplicate payment of £2,876, which had not been identified prior to receiving NFI matches.
Housing Benefits	1,202	94	12	Investigation of NFI matches identified <ul style="list-style-type: none"> <li>• 1 fraud, which had resulted in overpayment of £1,577</li> <li>• 6 errors, which had resulted in overpayments, total value £13,897.</li> </ul> In each case, the overpayment is being recovered through reduction in current benefit payment.  5 errors related to incorrect national insurance numbers – systems have been updated.  A further 23 matches have been referred to DWP SFIS for investigation.
Blue Badge	592	545	112	Checking of the NFI matches has resulted in the cancellation of 112 Blue Badges, where we were not aware that the badge holder had died.
Payroll	85	14	0	
Housing tenants	101	65	8	National insurance number errors which have been corrected.
Right to Buy	23	16	0	
Personal budgets	21	20	0	
Private residential care homes	40	0	0	
Insurance	1	1	0	

5.4 Table B shows that the estimated value of the 2014/15 NFI outcomes to the public purse is £16.8 million. Some of this represents overpayments that will never be recovered and estimated values that have been attached, for example to cancelling a blue badge. Audit Scotland estimates that the actual cash savings or recoveries for the public purse are at least half of the total outcomes of £16.8 million.

5.5 Angus Council is seeking recovery in full of overpaid housing benefit (£15,474), incorrect council tax discount (£170,091) and the duplicate payment (£2,876).

## 6. NFI 2016/17

6.1 Participation in NFI is an integral part of the Council's corporate approach to the prevention and detection of fraud and error. The recently revised Counter-Fraud & Corruption Strategy, submitted to this committee for comment (Report 308/16) makes specific reference to participation in NFI.

6.2 Audit Scotland have recently published instructions for participants in NFI 2016/17. As in 2014/15, all datasets are mandatory. Council tax reduction scheme and housing waiting list data are new requirements for 2016/17. Data will be extracted from council systems at the

start of October 2016 for upload to the secure NFI website and the matches are expected to be available in January 2017.

- 6.3 The low level of outcomes identified to date provides assurance that, for those areas covered by NFI, the internal control framework of the Council is operating effectively.

## **7. FINANCIAL IMPLICATIONS**

There are no financial implications arising directly from this report.

## **8. EQUALITIES IMPLICATIONS**

The issues contained within the report fall within an approved category that has been confirmed as exempt from an equalities perspective.

**NOTE:** No background papers, as detailed by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to a material extent in preparing the above report.

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### **List of Appendices**

1. Self-appraisal checklist for those charged with governance

**Report 307/16 – APPENDIX I: NFI IN SCOTLAND: SELF-APPRAISAL CHECKLIST  
(from Audit Scotland national report, published June 2016)**

**Part A: For those charged with governance**

<b>Part A: for those charged with governance</b>	<b>Comment</b>
1. Are we committed to NFI? Has the council/board, audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff?	
2. Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error?	An updated Counter-Fraud & Corruption Strategy has been approved by EMT. It is submitted to this committee for information and comment and will be submitted to the Policy & Resources committee on 30 August for approval. (Report 308/16 refers) The Strategy makes specific reference to the Council's participation in NFI.
3. Have we considered using the real-time matching (Flexible Matching Service) facility and the point of application data-matching service offered by the NFI team to enhance assurances over internal controls and improve our approach to risk management?	To date we have not used the Flexible Matching Service, due to the low level of outcomes from NFI. The counter fraud team carries out a number of internal data matching exercises and future use of the additional services provided by the NFI team will be kept under review.
4. Are the NFI progress and outcomes reported regularly to senior management and elected/board members (eg, the audit committee or equivalent)?	Reports on NFI 2014/15 were submitted to the Scrutiny & Audit committee in August 2015 and August 2016.
5. Where we have not submitted data or used the matches returned to us, eg council tax single person discounts, are we satisfied that alternative fraud detection arrangements are in place and that we know how successful they are?	As in previous years, the Council did not submit the electoral register to NFI. Alternative data matching exercises were carried out by the counter fraud team. Results were reported to the Scrutiny & Audit committee in June 2015 (R255/15) and April 2016 (R158/16)
6. Does internal audit, or equivalent, monitor our approach to NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?	The NFI Key Contact is a member of the Governance & Consultancy Unit and works closely with the counter fraud and internal audit teams.
7. Do we review how frauds and errors arose and use this information to improve our internal controls?	
8. Do we publish, as a deterrent, internally and externally the achievements of our fraud investigators (eg, successful prosecutions)?	Results are reported to the Scrutiny & Audit committee.