



Audit Scotland report: The National Fraud Initiative in Scotland

Committee Audit and Standards

Date of meeting 14 September 2018

Date of report 4 September 2018

Report by Assistant Chief Executive

1. Object of report

To advise the committee on the issue of an Audit Scotland report titled '*The National Fraud Initiative (NFI) in Scotland*', and provide a position statement on the work completed to date to support the Partnership's participation in the 2018/19 NFI exercise.

2. Background

Audit Scotland report

On 5 July 2018, Audit Scotland published a report titled '*The National Fraud Initiative in Scotland*'.

The report says that since Audit Scotland last reported on '*The National Fraud Initiative in Scotland*' in June 2016, outcomes valued at £18.6 million have been recorded from the 2016/17 NFI exercise and the cumulative outcomes from the NFI in Scotland are now at £129.2 million.

In total, 113 Scottish public sector bodies participated in the 2016/17 NFI exercise, with 656,955 matches being identified for these Scottish bodies to consider.

Members may recall that the initial 2016/17 NFI exercise identified 963 matches from 3 datasets submitted by SPT, of these, 959 were trade creditor matches. The remaining 4 related to payroll matches (3 related to members and 1 employee). An additional 6 matches were released during 2017 in relation to Companies House data.

Audit testing analysed and investigated the matched data and found no error or fraud. The findings of this exercise were then reported back to Audit Scotland using NFI website tools.

The National Fraud Initiative (NFI) in Scotland

The NFI is linked to the statutory audit of participating bodies and the results are reported every two years by Audit Scotland.

The NFI in Scotland is now well established with the 2018/19 exercise being the sixth biennial exercise since 2006/07. The NFI enables public bodies to take advantage of computer data matching techniques to detect fraud and error. The NFI remains the largest

national fraud detection and prevention scheme that can provide data matches within and between public bodies. Its key features are that it:

- acts as a deterrent to potential fraudsters;
- identifies errors and fraud thus enabling appropriate action to recover money and/or press criminal charges;
- can provide assurances, similar to a regular health check, that systems are operating well and can also identify where improvements are required;
- operates across boundaries between public bodies in different sectors and countries;
- represents value for money in terms of the efficiencies deliverable through centralised data processing and identifying targeted high priority matches.

The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called '*matches*'. A match does not automatically mean that there is a fraud or error and investigations are required to enable the correct conclusion to be drawn for each match. Participating bodies investigate these and record on a secure web application appropriate outcomes based on their investigations.

The full report can be found at:

<http://www.audit-scotland.gov.uk/report/the-national-fraud-initiative-in-scotland-201617>

3. Outline of proposals

The following sections outline the work completed to date and proposed actions to support the Partnership's participation in the 2018/19 NFI exercise.

3.1 Self-appraisal checklist

In accordance with good practice, Audit Scotland's self-appraisal checklist has been completed, prior to involvement in the 2018/19 NFI exercise (see Appendix 1).

3.2 Awareness

As part of the fraud response plan, employees and members will be made aware of the Partnership's participation in NFI via a note in their payslip and from a news article on the intranet site.

3.3 Timetable

Datasets will be uploaded to the NFI website in accordance with prescribed timetable.

3.4 Findings from 2018/19 NFI exercise

A follow-up report on the outcome of the 2018/19 NFI exercise will be presented to the Audit and Standards committee following investigation of '*matches*'.

4. Conclusions

Audit Scotland published a report titled ‘*The National Fraud Initiative in Scotland*’ in July 2018. The report says that since Audit Scotland last reported on ‘*The National Fraud Initiative in Scotland*’ in June 2016, outcomes valued at £18.6 million have been recorded from the 2016/17 exercise and the cumulative outcomes from the NFI in Scotland are now at £129.2 million.

Preparatory work has been completed and further actions proposed to support the Partnership’s participation in the 2018/19 NFI exercise.

5. Committee action

The committee is asked to note the contents of this report and the Audit Scotland report titled ‘*The National Fraud Initiative in Scotland*’.

6. Consequences

Policy consequences	<i>In accordance with the Counter Fraud Strategy.</i>
Legal consequences	<i>The NFI exercise is carried out under powers given to Audit Scotland for data matching included in the Criminal Justice and Licensing (Scotland) Act 2010. Disclosure of and results from data matching are specified in section 26D of the Public Finance and Accountability (Scotland) Act 2000.</i>
Financial consequences	<i>None</i>
Personnel consequences	<i>None</i>
Social Inclusion consequences	<i>None</i>
Risk consequences	<i>Participation in the biennial NFI exercise mitigates fraud risk.</i>

Name Valerie Davidson

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Title Assistant Chief Executive

Title Chief Executive

For further information, please contact Iain McNicol, Audit and Assurance Manager on 0141 333 3195.

National Fraud Initiative

Self-appraisal checklist

Provided by Audit Scotland

March 2018

Part A: for those charged with governance	Yes/No/Partly	Is action required?	Who by and when?
Leadership, commitment and communication			
1. Are we committed to NFI? Has the audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff?	Yes	No	
2. Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error?	Yes, NFI forms part of the Partnership's Counter Fraud Strategy	No	
3. Are the NFI progress and outcomes reported regularly to senior management and elected/board members (e.g., the audit committee or equivalent)?	Yes	No	
4. Where we have not submitted data or used the matches returned to us, e.g. council tax single person discounts, are we satisfied that alternative fraud detection arrangements are in place and that we know how successful they are?	N/A	No	
5. Does internal audit, or equivalent, monitor our approach to NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?	Yes	No	
6. Do we review how frauds and errors arose and use this information to improve our internal controls?	Yes	No	

7. Do we publish, as a deterrent, internally and externally the achievements of our fraud investigators (e.g., successful prosecutions)?	Yes	No	
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Part B: for the NFI key contacts and users	Yes/No/Partly	Is action required?	Who by and when?
Planning and preparation			
1. Are we investing sufficient resources in the NFI exercise?	Yes	No	
2. Do we plan properly for NFI exercises, both before submitting data and prior to matches becoming available? This includes considering the quality of data.	Yes, NFI is included in the Internal Audit plan 2018/19	No	
3. Is our NFI key contact (KC) the appropriate officer for that role and do they oversee the exercise properly?	Yes	No	
4. Do KCs have the time to devote to the exercise and sufficient authority to seek action across the organisation?	Yes	No	
5. Where NFI outcomes have been low in the past, do we recognise that this may not be the case the next time, that NFI can deter fraud and that there is value in the assurances that we can take from low outcomes?	Yes	No	
6. Do we confirm promptly (using the online facility on the secure website) that we have met the fair processing notice requirements?	Yes	No	
7. Do we plan to provide all NFI data on time using the secure data file upload facility properly?	Yes	No	
8. Do we adequately consider the submission of any 'risk-based' data-sets in conjunction with our auditors?	Yes	No	

<p>9. Have we considered using the real-time matching (Flexible Matching Service) facility offered by the NFI team to enhance assurances over internal controls and improve our approach to risk management?</p>	<p>N/A At present the Flexible Matching service relates to Benefits/Council Tax services</p>	<p>No</p>	
<p>Effective follow up of matches</p>			
<p>10. Do all departments involved in NFI start the follow-up of matches promptly after they become available?</p>	<p>Yes</p>	<p>No</p>	
<p>11. Do we give priority to following up recommended matches, high-quality matches, those that become quickly out of date and those that could cause reputational damage if a fraud is not stopped quickly?</p>	<p>Yes</p>	<p>No</p>	
<p>12. Do we recognise that NFI is no longer predominantly about preventing and detecting benefit fraud? Have we recognised the wider scope of NFI and are we ensuring that all types of matches are followed up?</p>	<p>Yes</p>	<p>No</p>	
<p>13. Are we investigating the circumstances of matches adequately before reaching a 'no issue' outcome, in particular?</p>	<p>Yes</p>	<p>No</p>	
<p>14. (In health bodies) are we drawing appropriately on the help and expertise available from NHS Scotland Counter Fraud Services?</p>	<p>N/A</p>	<p>No</p>	
<p>15. Are we taking appropriate action in cases where fraud is alleged (whether disciplinary action, penalties/cautions or reporting to the procurator fiscal)? Are we recovering funds effectively?</p>	<p>Yes</p>	<p>No</p>	
<p>16. Do we avoid deploying excessive resources on match reports where early work (e.g., on recommended matches) has not found any fraud or error?</p>	<p>Yes</p>	<p>No</p>	

17. Where the number of recommended matches is very low, are we adequately considering the related 'all matches' report before we cease our follow-up work?	Yes	No	
18. Overall, are we deploying appropriate resources on managing the NFI exercise?	Yes	No	
Recording and reporting			
19. Are we recording outcomes properly in the secure website and keeping it up to date?	Yes	No	
20. Do staff use the online training modules and guidance on the secure website and do they consult the NFI team if they are unsure about how to record outcomes (to be encouraged)?	Yes	No	
21. If, out of preference, we record some or all outcomes outside the secure website have we made arrangements to inform the NFI team about these outcomes?	N/A	No	

The National Fraud Initiative in Scotland



 AUDIT SCOTLAND

Prepared by Audit Scotland
July 2018



Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Audit team

The core team consisted of: Anne Cairns, Parminder Singh, Mark Laird, Alison Turner and Paul Bonfanti, with support from other colleagues and under the direction of Angela Canning.

Links

-  PDF download
-  Web link

Key facts



NFI outcomes in Scotland from the 2016/17 exercise

£18.6 million

The 2016/17 Scottish outcomes are derived from the 2016/17 exercise and late outcomes from the 2014/15 exercise

2016/17
£16.8m

2014/15
£1.8m

£1.69 billion

NFI outcomes cumulatively in the UK

£129.2 million

NFI outcomes cumulatively in Scotland

Note: An NFI outcome describes the overall amounts for fraud, overpayments and error that are detected by the NFI exercise and an estimate of future losses that it prevents. Examples of NFI outcomes include housing benefits being stopped or reduced, council tax discounts being reduced or removed, and blue badges being stopped or flagged for future checks.

Summary




Key messages

- 1** Public bodies spend billions of pounds of taxpayers' money for the benefit of the Scottish population. Public spending systems are complex and mistakes can happen. Some people also seek to exploit the systems and fraudulently obtain services and benefits to which they are not entitled.
 - 2** Fraud does not recognise organisational or geographic boundaries. Sharing data allows organisations to match data held in different systems in their own organisation and held in other organisations. Audit Scotland, working closely with public bodies, auditors and the Cabinet Office, has completed another major data sharing and matching exercise. The National Fraud Initiative (NFI) exercises significantly contribute to the security and transparency of public sector finances. It helps confirm that services are provided to the correct people and reduces fraud and error.
 - 3** The outcomes from the NFI include amounts for fraud and error detected and an estimate for those future losses that have been prevented. Since we last reported on the NFI in Scotland in June 2016, outcomes valued at £18.6 million have been recorded. The cumulative outcomes from the NFI in Scotland since 2006/07 are now £129.2 million. These outcomes represent a significant return to the public sector at a time when Scotland's public finances continue to be under pressure. Across the UK, the cumulative total of NFI outcomes are now £1.69 billion.
 - 4** Data sharing enables matches to be made between bodies and across national borders. Data submitted by Scottish bodies for the 2016/17 NFI exercise helped other organisations to identify outcomes of £1.1 million.
 - 5** Most organisations take advantage of the opportunities provided by the NFI. But some could act more promptly and ensure that sufficient staff are in place to investigate matches, prevent frauds and correct errors.
-

**NFI
contributes
to the
security and
transparency
of public
sector
finances**

Recommendations

All participants in the NFI exercise should:

- ensure that they maximise the benefits of their participation. They should consider:
 - using the NFI AppCheck point of application service, the flexible matching service and the Equifax Public Sector Gateway service as appropriate when planning their counter-fraud activities ([paragraph 51](#))
 - whether it is possible to work more efficiently on the NFI matches by reviewing the guidance section within the NFI secure web application ([paragraph 61](#))
- audit committees, or equivalent, and officers leading the NFI should review the [National Fraud Initiative: Self-appraisal checklist](#) . This will ensure they are fully informed of their organisation's planning and progress in the 2018/19 NFI exercise ([paragraph 58](#))
- where local auditors have identified specific areas where improvements could be made, the public bodies should act on these as soon as possible ([paragraph 63](#)).

Local authorities should:

- investigate the council tax single person discount (SPD) matches, in conjunction with other data-matching suppliers as they determine appropriate, to ensure that their awarded discounts are valid ([paragraph 28](#)).
-

Part 1

Background



Key messages

- 1** The NFI is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud.
- 2** Data matching is an effective and efficient way to identify areas for further investigation by connecting discrepancies between different data sets.
- 3** The success of the NFI comes primarily from the public servants who investigate the data matches and the external auditors who review their arrangements.

The NFI aims to detect and prevent fraud and error

- 1.** The NFI is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The Cabinet Office oversees it and Audit Scotland leads the exercise in Scotland, working with a range of Scottish public bodies and external auditors. The NFI takes place every second year. The last one was for 2014/15, and we reported on the findings from that exercise in June 2016.¹
- 2.** The NFI in Scotland is now well established, with the 2016/17 exercise being the sixth exercise since 2006/07. The NFI enables public bodies to use computer data matching techniques to detect fraud and error. [Exhibit 1 \(page 8\)](#) shows the NFI's key features and [Exhibit 2 \(page 9\)](#) illustrates how the NFI exercise works.
- 3.** Public bodies that take part in the NFI in Scotland include the Scottish Government and other central government bodies, all councils, NHS bodies, pension administering bodies, the Scottish Fire and Rescue Service, Police Scotland and colleges.
- 4.** We carry out the NFI process under powers in The Criminal Justice and Licensing (Scotland) Act 2010. It is important for all parties involved that this exercise is properly controlled and data handled in accordance with the law. [Appendix 1 \(page 31\)](#) summarises the key legislation and controls governing the NFI data matching exercise.

the NFI is a counter-fraud exercise across the UK public sector

Exhibit 1

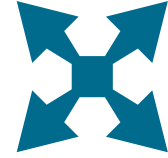
Key features of the National Fraud Initiative



Acts as a deterrent to potential fraudsters



Identifies errors and fraud enabling appropriate action to be taken



Operates across boundaries and public bodies in different sectors and countries



Can provide assurances that systems are operating well



Can identify where system improvements are required



Represents value for money through centralised data processing and identifying targeted high-priority matches

Source: Audit Scotland

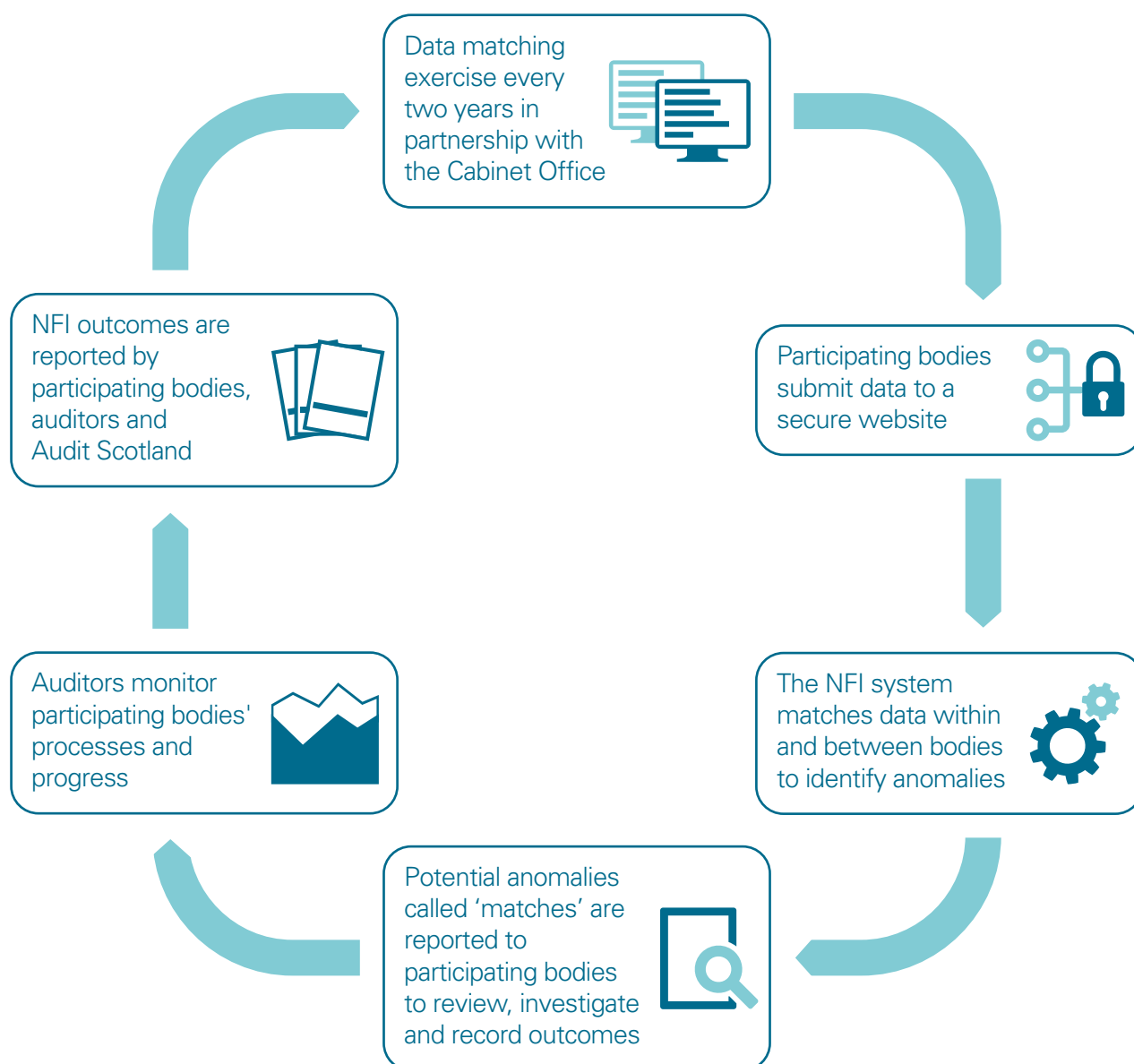
5. Fraud does not recognise organisational or geographic boundaries. Data sharing enables the NFI to use technology to compare information about individuals held by different public bodies, and on different financial systems, that might suggest fraud or error exists. This means public bodies can take action if any fraud or error has taken place, and allows auditors to assess the fraud prevention arrangements that those bodies have.

6. The NFI exercises significantly contribute to the security and transparency of public sector finances by:

- ensuring that services are only delivered and benefits are only paid to the correct people
- preventing, identifying and reducing fraud and error
- allowing overpayments to be recovered
- enabling penalties to be imposed.

Exhibit 2

How the biennial NFI exercise works



Source: Audit Scotland

7. The NFI uses data matching to identify potential inconsistencies. Data matching involves comparing sets of data against other records held by the same or another body. This enables us to identify potential inconsistencies, called matches, which may indicate fraud or error and need to be investigated. Public bodies taking part in the NFI exercise investigate matches and record the outcomes based on their investigations. It is up to individual bodies to decide which, and how many, matches to investigate.

8. The NFI matches data in many areas. Examples include the following:

- Council tax records to the latest electoral register, to identify any unreported changes that would affect a resident's council tax discount.
- Housing benefit claimants to various data sets, to check whether a claimant has incorrectly declared their income.
- Public sector pensions to payroll and deceased persons' records. This checks if the death of a pensioner has not been reported. It also identifies where a pensioner has gone back into employment but not reported changes which should have resulted in their pension payment being reduced.
- Blue parking badges to deceased persons' records, to check that the badge is cancelled when a permit holder dies.

9. The NFI outcome figures referred to in this report include amounts for fraud and error detected as well as an estimate for those future losses that have been prevented. Estimates are included where it is reasonable to assume that fraud, overpayments and error would have continued undetected without the NFI data matching.

10. While the cost of fraud and error prevention measures may be estimated, the NFI also has an important deterrent effect that cannot be measured. Regular data sharing and matching exercises such as the NFI may deter people who are considering committing fraud.

11. The NFI's success comes primarily from the public servants who investigate the data matches. External auditors also have an important role. They review and conclude on how effective the local NFI arrangements are. They also provide assurance on the progress being made on the NFI investigations.

12. The public also have a duty to report any change in circumstances that could affect their entitlement to public services such as pensions, benefits or council tax discounts. If they do not, the consequences can be serious and lead to action against them to recover overpayments and possibly being prosecuted for fraud.

Part 2

Results of the 2016/17 NFI exercise



Key messages

- 1** Across the UK, £301 million of outcomes have been identified by the 2016/17 NFI exercise.
- 2** In Scotland, £18.6 million of fraud and error outcomes were identified from the 2016/17 NFI investigations.
- 3** Cumulative NFI outcomes are £1.69 billion for the UK, and £129.2 million for Scotland.
- 4** As at 31 March 2018, there was £4.8 million of recovery action being taken in Scotland on overpayments identified by the 2016/17 NFI exercise.

The NFI has identified £18.6 million of fraud and error

13. Overall, the 2016/17 NFI exercise has identified outcomes valued at £301 million across the UK, with a cumulative total of £1.69 billion since the first NFI exercise in 2006/7.

14. NFI outcomes in Scotland have increased from £16.8 million in the 2014/15 exercise, to £18.6 million in the 2016/17 exercise. Cumulative outcomes from the NFI in Scotland are now at £129.2 million and represent a significant return to the public finances of Scotland.

15. The 2016/17 outcomes for Scotland are split:

- £16.8 million of outcomes from the 2016/17 NFI matches.
- £1.8 million from late outcomes from the 2014/15 NFI.

16. In total, 113 Scottish public sector bodies participated in the 2016/17 NFI exercise, with 656,955 matches being identified for these Scottish bodies to consider. In the 2014/15 NFI exercise, 104 Scottish bodies took part and received 347,715 matches. It is up to individual bodies to decide which, and how many, matches to investigate.

17. The evidence from previous exercises is that between reports, outcomes continue to be delivered. The 2014/15 and 2012/13 NFI reports showed that 12 per cent and 20 per cent of the outcomes arose after March 2016 and March 2014 respectively. If this pattern is continued we could expect to see further outcomes in the region of £2 million from the 2016/17 NFI.

**£18.6 million
of fraud
and error
identified in
the Scottish
public sector**

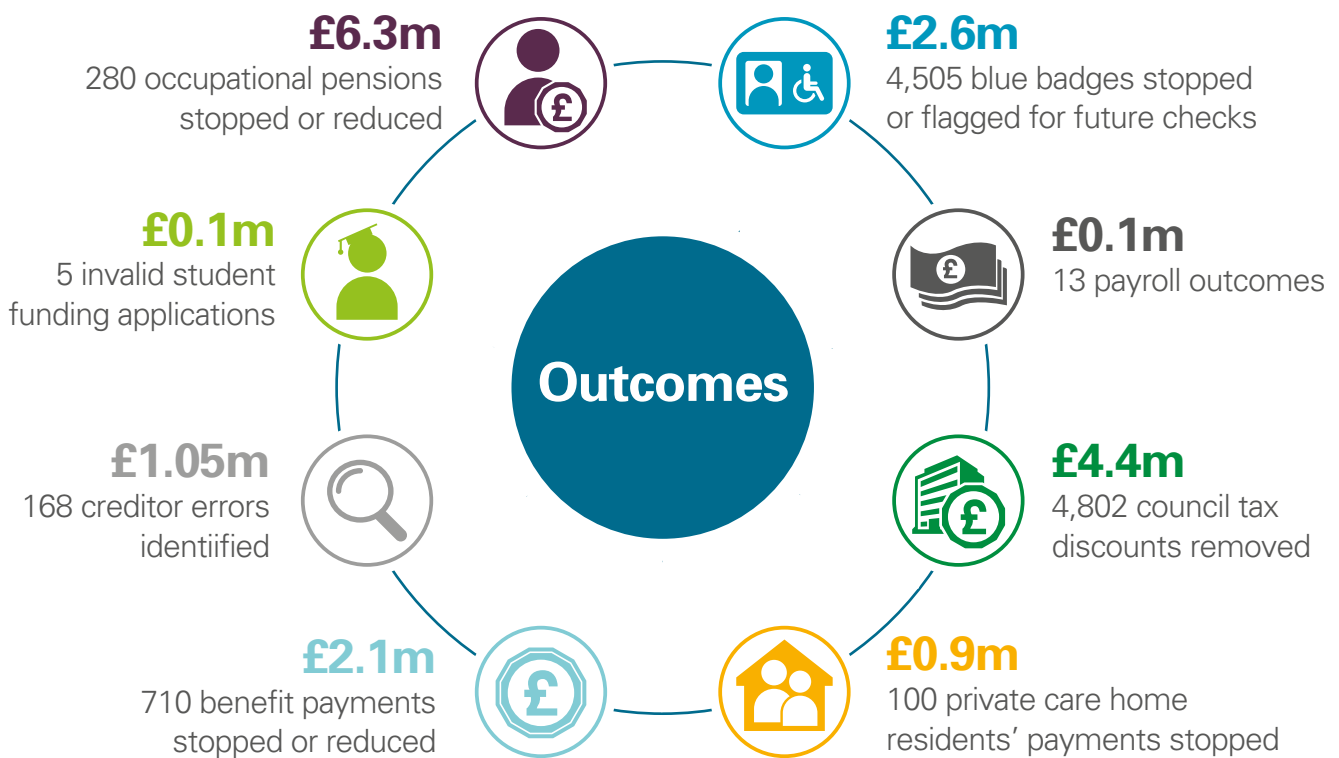
18. Importantly, once overpayments have been identified, public bodies can take appropriate action to recover the money. As at 31 March 2018, public bodies were taking action to recover £4.8 million (£4.6 million was being recovered at the end of the 2014/15 NFI in March 2016).

19. The areas which generated the most outcomes from the current exercise were ([Exhibit 3](#)):

- pensions – 34 per cent (£6.3 million)
- council tax discounts – 24 per cent (£4.4 million)
- blue badges – 14 per cent (£2.6 million).

Exhibit 3

Eight areas generated about 95 per cent of the NFI outcomes in Scotland



20. The NFI outcome figures include amounts for fraud and error detected as well as an estimate for those future losses that have been prevented. High levels of outcomes could be due to increased fraud and error in the system, better detection of fraud and error or poor internal controls.

21. Equally important is the assurance the NFI gives to the public bodies with few matches that, in the areas covered by the exercise, there do not appear to be significant problems. These bodies also benefit from the deterrent effect the NFI creates.

NFI outcomes from specific matches

Pensions

22. The NFI provides councils that administer pensions and the Scottish Public Pensions Agency (SPPA) with an efficient and effective way of checking that they are only paying people who are alive. The 2016/17 NFI helped these bodies identify 225 pensioners whose deaths had not been reported to them (195 in NFI 2014/15).

23. The number of outcomes for pensioners who have gone back into employment that should have resulted in their pension being reduced has increased from 22 to 55 since the 2014/15 NFI. This may indicate that people are more inclined to work after pensionable age.

24. In total, pensions' outcomes for the 2016/17 NFI are £6.3 million compared with £4.6 million for 2014/15 ([Exhibit 3, page 12](#)). This equates to an average outcome of £22,500 for each case.

Case study 1

SPPA – NHS superannuation scheme re-employment controls



As a result of the NFI matches identifying pensioners who have entered re-employment, controls have been strengthened in the re-employment data set within the payroll administration system to include earnings limits. This should help identify pension overpayments in the future.

Source: SPPA

Council tax

25. People living on their own, or with no countable adults in the household, are eligible for a 25 per cent Single Person Discount (SPD) on their annual council tax bill. The Scottish Government estimates that two-fifths of chargeable dwellings were entitled to the discount in 2017. Based on the average band 'D' council tax charge for Scotland in 2017, this equates to an annual discount cost of £285 million.² This demonstrates that the SPD is of considerable value.

26. The 2016/17 NFI exercise found that the total council tax discount incorrectly awarded across Scottish councils totalled £4.4 million (£5.6 million in 2014/15) ([Exhibit 3](#)). This is an average outcome of £916 for each case.

27. It is not for Audit Scotland to decide which data matching service a council should use and when. The NFI is one of the proven ways councils can address fraud and error in this area. Councils can also use credit reference agencies to match single-person details against a wider range of data sets such as credit and utility records. Angus and Perth and Kinross councils decided not to upload data for this particular data match as they use alternative data matching sources. A number of councils, which did submit data to the NFI, also use alternative data matching. For example, several councils used credit reference agencies. In addition, North Ayrshire Council carried out payroll to council tax matching.

28. We recommend that councils investigate the SPD matches, in conjunction with other data matching suppliers as they determine appropriate, to ensure that their awarded discounts are valid.

29. Council tax reduction replaced council tax benefit in 2013. It helps those on low incomes to pay their council tax bills. The NFI provides councils with the opportunity to identify a wide range of council tax reduction fraud and errors. The 2016/17 NFI is the first time council tax reduction data sets have been included within the NFI. Outcomes of £0.5 million were identified.

Case study 2



Midlothian Council – council tax SPD

An NFI match identified that another adult was resident in a property where a customer was receiving a council tax SPD of about £330 a year. An investigation established that the tenant's brother had been the only person in the property and the tenant had been privately renting another property. The tenant had also submitted several applications to buy the council property under the 'right to buy' scheme. Evidence was obtained that the tenant was married and was living with her new husband.

The 'right to buy' application was cancelled, resulting in the tenant not receiving her £15,000 discount and the tenant signed over her council tenancy back to the council. Council records have been updated and the tenant's brother is now liable for council tax from 2014. The council has issued council tax bills totalling £1,743.67.

Source: Midlothian Council and the Cabinet Office NFI secure web application

Blue badges

30. The blue badge parking scheme allows individuals with mobility problems to park for free at on-street parking meters, in 'pay and display' bays, in designated blue badge spaces, and on single or double yellow lines in certain circumstances. Badges are sometimes used or renewed improperly by people after the badge holder has died. It is an offence for an unauthorised person to use a blue badge and, importantly, the space is denied to people with actual mobility issues.

31. Councils do not always attempt to recover a badge relating to a deceased person to avoid causing distress to bereaved families. But by flagging the relevant records, they can at least ensure that badges are not incorrectly renewed in the future.

32. Scottish councils have reported correcting 4,505 blue badge records (3,073 in the 2014/15 NFI) where the NFI helped them to identify that the holder had died ([Exhibit 3, page 12](#)). North Lanarkshire Council has recorded the highest level of outcomes, correcting 751 blue badge records.

Case study 3



The Moray Council's 'tell us once' approach

The council operates a process called 'tell us once'. This means that when a death is registered, the registrar informs the relevant council and government departments. This includes advising the blue badge department to allow cancellation of blue badges on the council database. This process has reduced the risk of blue badges continuing to be used fraudulently or improperly. It also reduces the stress and burdens placed upon relatives of the deceased.

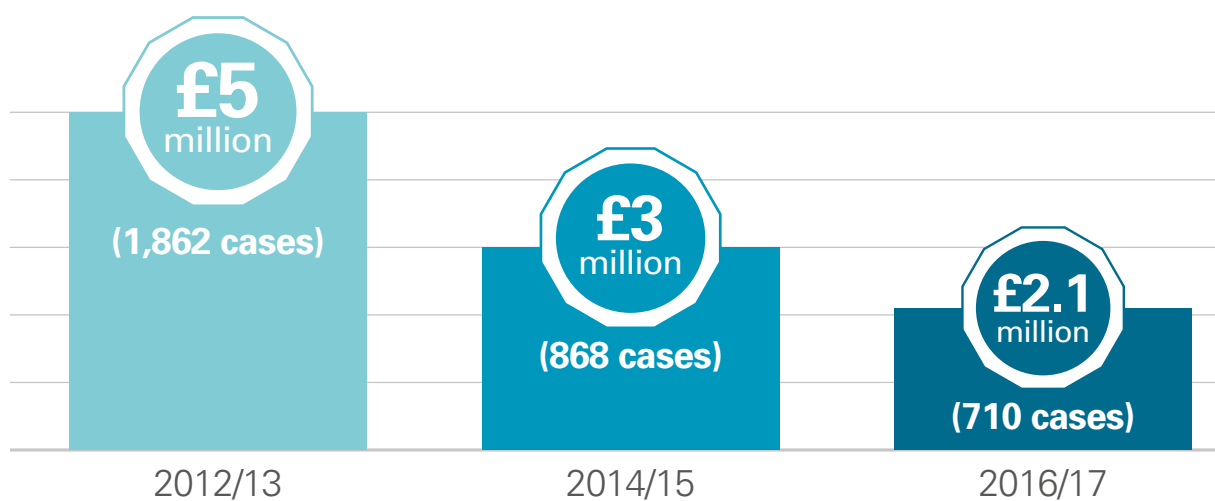
Source: The Moray Council

Benefits

33. The NFI provides councils and the Department for Work and Pensions (DWP) with the opportunity to identify a wide range of benefit frauds and errors. The most common are caused by undeclared occupational pensions and undeclared earnings from public sector employment. [Exhibit 4](#) summarises the benefit outcomes from the last three NFI exercises.

Exhibit 4

Housing and other benefit outcomes



Source: The Cabinet Office NFI secure web application

34. This indicates that there has been a further decline in benefit outcomes since the last exercise. The possible reasons are as follows:

- The transfer of responsibility for investigating benefit fraud from councils to the DWP's Single Fraud and Investigation Service from 2015/16. This means that local authority investigators are now concentrating on other areas.
- The DWP is now using real-time information (RTI) payroll and pension information, to help prevent benefit overpayments occurring.
- The DWP only investigates potential frauds of a significant value.
- Efforts by public bodies to continuously improve housing benefit systems. Councils are also participating in DWP schemes such as the Right Benefit Initiative from April 2017, which aims to identify and reduce housing benefit fraud and error.

35. The number of housing benefit cases recorded with overpayments has fallen from 868 in the 2014/15 NFI to 710 in the 2016/17 NFI ([Exhibit 3, page 12](#)). Although the individual value of overpayments has also fallen from £3,515 to £2,923, it still indicates that councils are effectively targeting high-value and high-risk matches first.

36. In terms of value, Glasgow City Council and Aberdeen City Council have so far achieved the highest levels of outcomes from their 2016/17 NFI benefits investigations, with £306,645 and £224,666 respectively.

Case study 4



East Dunbartonshire Council – housing benefit and council tax reduction

A housing benefit and council tax reduction scheme match identified that a claimant was no longer residing in the local area. This resulted in £4,200 of overpaid housing benefit and council tax reduction being identified. It was also established that the landlord had returned to live in the property and had evaded his £7,200 council tax liability by not informing the council of the change of occupancy. The landlord is currently repaying his council tax debt.

Source: East Dunbartonshire Council and the Cabinet Office NFI secure web application

Creditors

37. The NFI provides an efficient way to check for duplicate payments and that payments are made only to appropriate creditors. The 2016/17 NFI detected 168 creditor overpayments of £1.05 million compared to 139 overpayments worth £0.71 million in 2014/15 ([Exhibit 3](#)). Recovery action is taking place for £1.03 million (154) of these overpayments. In other cases, overpayments have already been returned or credit notes provided. These outcomes are all as a result of duplicate payments made in error.

38. Those bodies delivering the highest value of error from 2016/17 investigations are the Scottish Government (£278,981) and the Scottish Fire and Rescue Service (£134,892).

Case study 5



NHS Lanarkshire – creditors

Previous NFI exercises identified a few duplicate payments which had not been picked up through the health board's normal creditor controls. Based on this, the finance department put in place a new monthly IT report to identify duplicate payments. This additional control has resulted in a reduction in duplicate payments and where NFI now picks up duplicate payments these have already been resolved by the finance department.

Source: NHS Lanarkshire

Payments to private care homes

39. Councils have identified 100 cases of overpayments to care home providers for people who have died. These were worth £865,173 ([Exhibit 3, page 12](#)). Eight cases totalling £103,111 were identified in the 2014/15 NFI exercise. All of these overpayments are being recovered.

40. Owing to the significant increase in identifying overpayments to care providers, East Dunbartonshire Council has undertaken a pilot looking at matching all social care costs for clients to deceased records ([Case study 10, page 29](#)).

Case study 6



Aberdeen City Council – residential care homes

Following the death of a resident, the care home is responsible for notifying the council. The 2014/15 NFI identified an issue involving payments to care homes. In some cases, care homes were not notifying the council quickly when residents died resulting in payments continuing when they should have stopped.

Processes were introduced to use information from the council's 'tell us once' initiative. This data is checked daily, resulting in payments to care homes being stopped much earlier.

Source: Aberdeen City Council

Payroll

41. This match includes all participating bodies' employee payroll data as well as those of MSPs and councillors. The NFI can identify cases of potential payroll fraud. Investigations may lead, for example, to the discovery that employees are in breach of conditions of service or EU working time limits. Excessive working hours may also pose public safety risks.

42. The NFI also matches payroll data to Home Office immigration data. It is unlawful to seek employment if you are not entitled to live or work in the UK. The NFI allows public bodies to supplement their recruitment checks.

43. Thirteen payroll outcomes valued at £128,963 have been reported for the 2016/17 NFI exercise ([Exhibit 3, page 12](#)). The matches also resulted in the following:

- One public sector employee being dismissed. The employee was dismissed after he did not return from annual leave, could not be contacted and it was confirmed that he did not have permission to live or work in the UK.
- An employee resigning after being challenged about residency status.
- Two public sector employees being removed from the NHS bank staffing lists after it was confirmed that they did not have permission to live or work in the UK. One was in the process of being removed from the list after the NHS board became aware that they were no longer permitted to work in the UK. The other employee was removed from the bank list after the Home Office informed the NHS board that the employee no longer had the right to work in the UK.

Student immigration checks

44. The NFI provides the Student Awards Agency Scotland (SAAS) with matches identifying cases where students may not hold valid permissions to live or study in the UK.

45. The NFI exercise identified five cases where students were found not to be entitled to receive support. These students had received student support amounting to £0.1 million ([Exhibit 3](#)). The 2014/15 NFI identified overpayments of £0.2 million in ten cases where students were not entitled to support.

New matches were introduced in 2016/17

Housing waiting lists

46. Housing waiting list data was a new data set required for the 2016/17 NFI exercise. The aim is to identify possible cases of waiting list fraud. This happens when an individual has registered on the waiting list but there are possible undisclosed changes in circumstances or false information has been provided.

47. Councils identified 90 cases where applicants were removed from waiting lists. East Dunbartonshire Council identified 71 (79 per cent) of these cases.

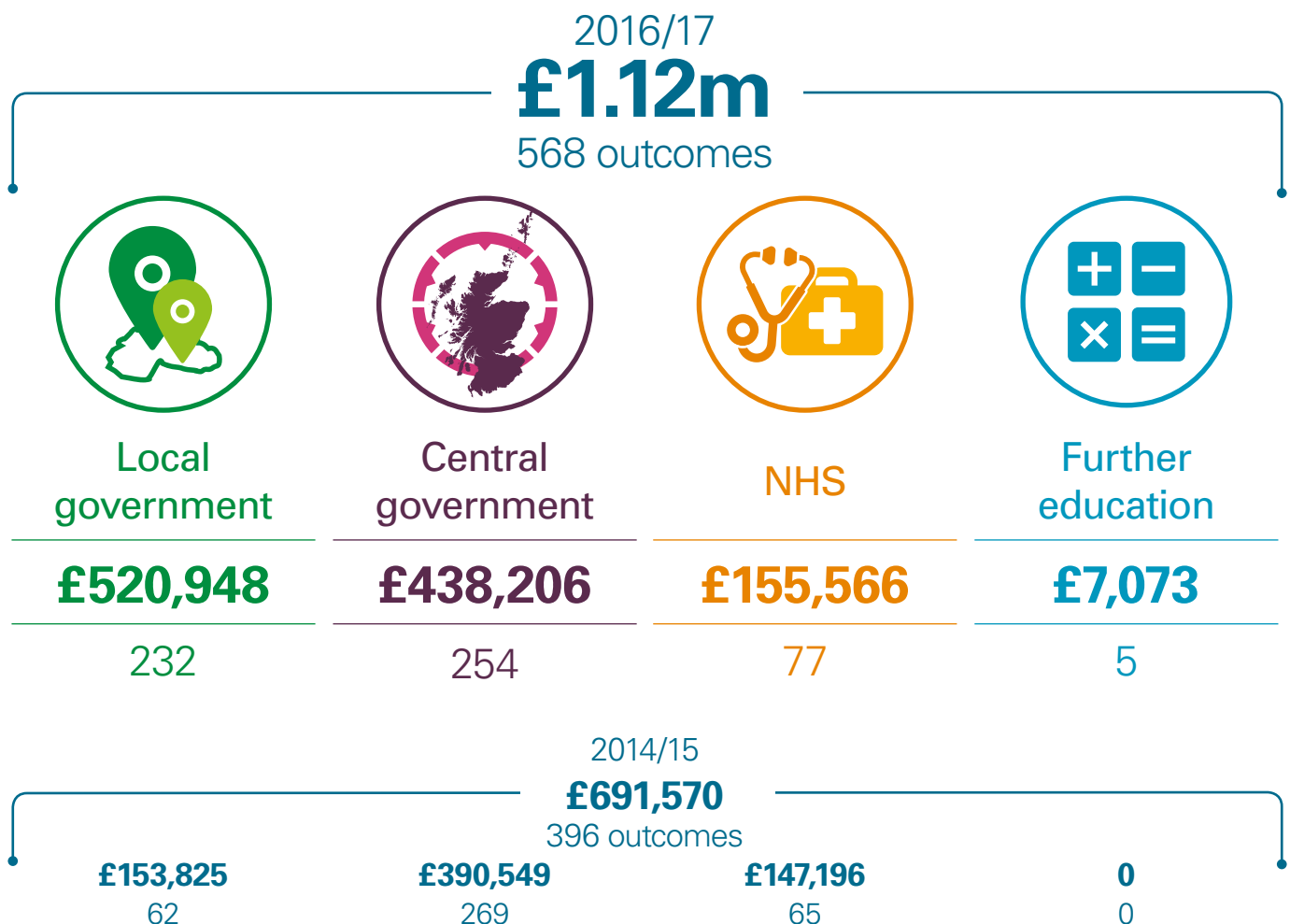
Matches benefiting other public bodies

48. One key benefit of a UK-wide data matching exercise is that it enables matches to be made between bodies and across national borders. Scottish data for the 2016/17 NFI exercise benefited wider public bodies, both within and outwith Scotland to take action on 568 outcomes worth £1.12 million ([Exhibit 5](#)). There were 396 outcomes totalling £0.7 million in the 2014/15 NFI. Most of these outcomes are from cross-body housing benefits, council tax reductions and housing waiting list matches.

49. For those public bodies taking part in the NFI which may not always identify significant outcomes from their own matches, it is important to appreciate that other bodies and sectors may do so.

Exhibit 5

Matches benefiting other bodies both within and outwith Scotland



Source: The Cabinet Office NFI secure web application

Other NFI services to prevent and detect fraud

50. As well as the main data matching exercise which takes place every two years, the NFI exercise provides other services to help identify and prevent fraud and error:

- The NFI AppCheck helps bodies check applications at the start of the process. New applications for jobs, a service or benefits bring risks. The person applying may not be who they say they are, or they may fail to declare relevant information. This preventative service provides access to information allowing organisations to stop fraudulent applications from being successful. For example, it allows users to verify an applicant's immigration status, validate details provided on application forms and verify the applicant's welfare entitlement.
- The flexible data matching service allows participating bodies to re-check any of the existing NFI data matches when it is convenient for them. This service matches data from the most recent NFI exercise with regularly refreshed data.
- With the Equifax Public Sector Gateway, NFI participants can complete additional checks on the NFI matches. This function allows NFI users to check current residency data, records of deceased persons and data about other individuals who may be living at an address.

51. Several Scottish organisations have used these additional NFI services. We recommend that bodies consider using the NFI AppCheck, flexible matching service and the Equifax Public Sector Gateway service when planning their counter-fraud activities.

Case study 7



East Dunbartonshire Council – use of AppCheck

An individual applied to East Dunbartonshire Council for a taxi licence. The council used AppCheck and discovered that the applicant has a Glasgow address and also a tenancy in Milton Keynes. The investigation led to Milton Keynes Council recovering their property.

Source: East Dunbartonshire Council

Costs and benefits of participating in the NFI

52. The estimated value of the NFI to the public purse since we last reported in June 2016 is £18.6 million in outcomes. Some of this represents overpayments that will never be recovered and estimated values that have been attached, for example to cancelling a blue badge. These amounts may not translate into cash savings, but they are still valuable outcomes.

53. We previously consulted public bodies and established from those that responded that the NFI overpayments are usually subject to the same recovery processes that apply to other debt. Most bodies do not keep separate records of

the NFI recoveries. Indeed, we would prefer that bodies devoted their resources to investigating, rather than separately recording the NFI overpayments that are often recovered by frequent small payments over long periods of time.

54. Based on the current NFI exercise, public bodies have indicated that the NFI overpayments being recovered are £4.8 million (88 per cent of overpayments identified, excluding estimates). The estimated forward savings are £13.1 million from areas such as benefits and pensions. This is public money that has been prevented from being paid out in fraud or error following investigations. We estimate that at least 70 per cent of the total outcomes of £18.6 million are actual cash savings or money being recovered for the public purse.

Part 3

How public bodies work with the NFI



Key messages

- 1** 83 per cent of participating public bodies managed their roles in the 2016/17 NFI exercise satisfactorily. This is an improvement since the NFI 2016 report, when it was 80 per cent.
- 2** All bodies have taken appropriate action in cases where fraud is alleged.
- 3** The effectiveness of the NFI arrangements has improved across the central government and NHS sectors. The picture for councils is mixed.
- 4** NFI arrangements in colleges are generally sound but could be further developed.
- 5** 62 per cent of audit committees reviewed our last NFI report and carried out the self-assessment checklist contained within it. This is an improvement since the 2014/15 NFI report when only 31 per cent of audit committees reviewed the self-assessment checklist.
- 6** About a third of bodies could follow up their matches more promptly. This is a slight improvement since the 2016 NFI report, when the figure was 41 per cent.

most public bodies manage their role in the NFI satisfactorily

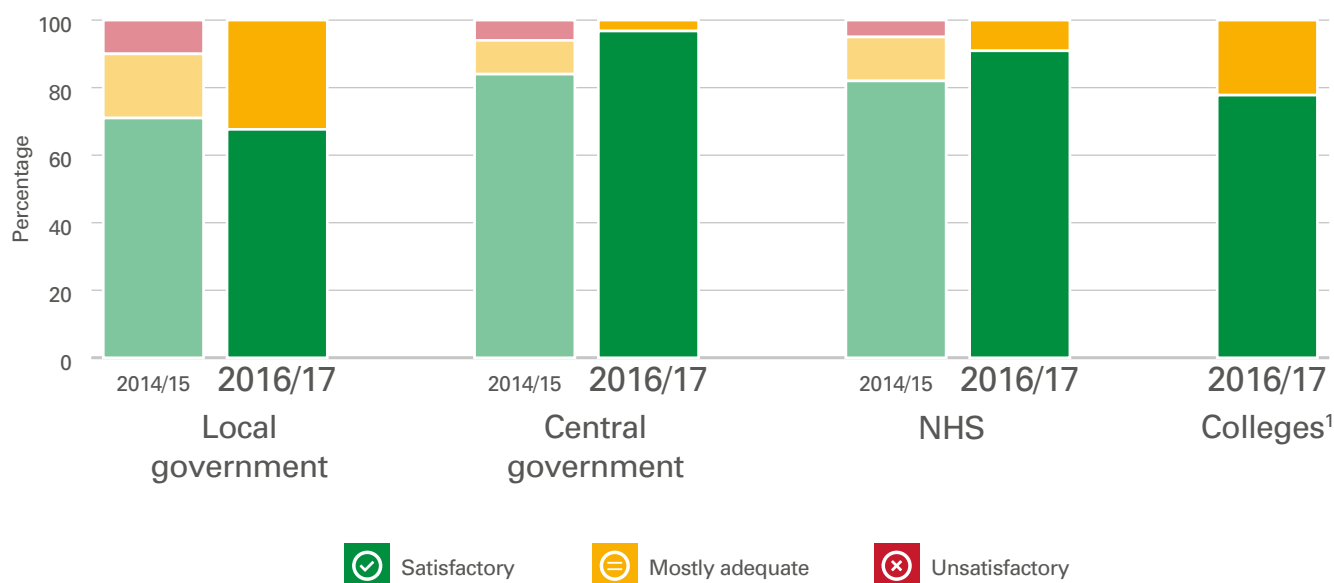
Overall findings

55. Auditors concluded that 83 per cent of participating bodies had managed their role in the 2016/17 NFI exercise satisfactorily (80 per cent in the NFI 2016 report). No participating bodies were assessed as requiring to improve urgently. These conclusions continue to indicate a high degree of commitment to the NFI and that most participating bodies are taking the NFI seriously by putting adequate arrangements in place.

56. Audit work indicates that central government bodies have better arrangements compared with the NHS, local government and college sectors ([Exhibit 6, page 23](#)). This may be because many central government bodies have less direct interaction with the public. This, in turn, means that most central government bodies have fewer types of data matches to process for the NFI exercise.

Exhibit 6


External auditor review of NFI arrangements



Note: 1. Only two colleges took part in the 2014/15 NFI.

Source: External auditors

57. We held an NFI workshop in March 2017 for participating bodies. The workshop was well attended with over 50 participants from NHS, councils and central government bodies. The aim was to work through recommended approaches to the NFI with both experienced users of the NFI system and other new users for the 2016/17 exercise. The NFI team facilitated the sharing of good practice on the day. We plan to hold more events in autumn 2018 to help improve public bodies' outcomes from the next NFI exercise.










58. We recommend that all bodies use our [National Fraud Initiative: Self-appraisal checklist](#)  to self-appraise their involvement in the NFI before and during the 2018/19 NFI exercise.³ Part A of the checklist is designed to help audit committee members when they are reviewing, seeking assurance over or challenging how effectively their public body participates in the NFI. Part B of the checklist is for staff involved in planning and managing the NFI exercise.




Areas for further improvement

59. Auditors reviewed each body's planning and progress five months after the release of matches to participants and provided recommendations for improvement where appropriate. Overall, auditors' conclusions demonstrate that there is a high level of involvement by participating bodies with the NFI. There are still areas where they could improve further ([Exhibit 7, page 24](#)). In particular, auditors assessed 17 per cent of participating bodies overall as being 'mostly adequate'. This means that although these bodies' NFI arrangements are generally sound, there are some specific areas where they must improve further.

Exhibit 7

Conclusions from audit work on NFI participating bodies

Key questions (from local auditor questionnaire)	Conclusion
Overall, how do you rate your audited body's engagement with the NFI exercise (planning, progress and response to outcomes)?	 83% 17% 0%
Has the body completed its review of the 2016/17 matches?	 75% 23% 2%
In the auditors' judgement has the body made satisfactory progress with processing its NFI matches?	 78% 22% 0%
Has the body taken appropriate action in cases where fraud is alleged?	 100%
Has the body reported internally or externally on NFI progress and outcomes, eg to senior management/elected members/audit committees?	 83% 15% 2%
Does internal audit, or equivalent, monitor the body's approach to the NFI and the main outcomes, ensuring that any weaknesses are addressed in relevant cases?	 78% 13% 9%
Do all departments involved in the NFI start the follow-up of matches promptly after they become available?	 70% 23% 7%
Did the body's audit committee (or equivalent) and the key contact review the self-appraisal checklist in the 2016 NFI report as a means of monitoring the body's planning and progress with the 2016/17 exercise?	 62% 23% 15%
Is the body deploying appropriate resources on managing the NFI exercise?	 85% 11% 4%

 Satisfied
  Mostly adequate
  Unsatisfactory

Source: Audit Scotland based on audit work in Scottish public sector bodies

60. It is worth noting from audit work that:

- auditors reported concerns in seven per cent for not following up matches promptly. This figure has improved considerably from the 2014/15 NFI exercise when auditors reported concerns in 41 per cent
- most of the staff directly involved in preparing for the NFI and following up matches demonstrate commitment. Auditors identified that there were issues in four per cent of bodies because of limited NFI skills, insufficient authority and/or not enough time available to coordinate the exercise. This is an improvement from the 2014/15 NFI exercise (16 per cent)
- auditors reported that in 15 per cent either the audit committee (or equivalent) or the key contact did not review the self-appraisal checklist to monitor the body's planning and progress with the 2016/17 NFI exercise. This compares favourably with the 2014/15 NFI exercise (69 per cent).

61. We recommend that bodies review the guidance section within the NFI secure web application to identify possible ways of working more efficiently on the NFI matches.

62. Overall, auditors found an improved picture of involvement by all bodies compared with the 2014/15 exercise.

63. We recommend that where local auditors have identified specific areas where improvements could be made, the public bodies should act on these as soon as possible.

Actions to improve the NFI

Scottish Parliament post-legislative scrutiny review of the NFI

64. The Scottish Parliament's Public Audit and Post-legislative Scrutiny Committee published a report in September 2017 following its post-legislative scrutiny review of the NFI.⁴ The committee concluded that the NFI was a success story in Scotland. It had improved the transparency of public finances and clawed back millions of pounds that would otherwise have been lost to fraud or error. The committee outlined several recommendations for ways in which the NFI could be strengthened.

65. We welcome the committee's report and recommendations on the NFI. We have been considering the report's implications and are working alongside the Scottish Government and partner bodies to enhance the impact of the NFI in the following ways:

- Raising awareness of the NFI by promoting the publication of this report on our website and social media. We also gave presentations earlier this year on the NFI at national events on tackling fraud and error in Scotland.
- Holding events with NFI participants, the Cabinet Office and the NFI data processing contractor to identify new and emerging key fraud risks within public sector bodies. The outcomes from these events will be used to enhance the existing NFI processes and data sets where possible.
- Working with the Cabinet Office and other UK audit agencies to identify additional data sets to include in the NFI.

- Working to identify additional public bodies which may benefit from being included in the NFI. For example, the Scottish Government is considering the feasibility of an NFI pilot for housing associations. All new public bodies created in Scotland will be considered for inclusion in the NFI, such as the new social security agency.

Case study 8



NHS Scotland Counter Fraud Service – use of social media

In February 2018, the NHS Scotland Counter Fraud Service launched a new social media page on Twitter. This page provides details of its work protecting the NHS and public sector from financial crime and provides updates and advice from counter-fraud services.

Source: NHS Scotland Counter Fraud Service

Case study 9



NHS Scotland Counter Fraud Service – *Accurate and Honest Declarations Guide*

The NHS Scotland Counter Fraud Service is working on patient applications for exemptions by supporting its partner organisations as they design systems and processes that reduce fraud. The service has published an *Accurate and Honest Declarations Guide* to designing application forms and declarations. It provides an explanation of the principles that should be adopted by those designing application processes, both internal and external. It also includes the latest insights from behavioural economics and a section on digital signatures.









Source: NHS Scotland Counter Fraud Service

Costs of NFI

- 66.** Audit Scotland funds the cost of the NFI system and the biennial data matching for Scottish public sector bodies (£189,650 for the 2016/17 exercise). Participating bodies incur costs following up matches and investigating. Participating bodies also incur costs for additional services such as the AppCheck pre-application screening, which currently costs £1,850 a year.
- 67.** Many bodies do not keep separate records for NFI costs as it is just one of many counter-fraud activities they are doing. Those that did have records were able to estimate that their costs ranged from £255 to £40,000 ([Exhibit 8, page 27](#)). This compares favourably with the average outcome for each public body in Scotland of £165,000 for the 2016/17 NFI.
- 68.** Overall, the £18.6 million of outcomes from the 2016/17 NFI outweigh the costs.

Exhibit 8

Cost of NFI

Sector	Details	Cost
 Local authority	7 councils estimated the financial cost	Costs range from £9,000 to £40,000 
 Central government	7 bodies estimated the financial cost	Costs range from £255 for a small body to £20,000 for larger bodies 
 Health	7 boards estimated the financial cost	Costs range from £600 for a special board to £20,000 for a territorial board 
 Colleges	1 body estimated the financial cost	£2,000 

Source: NFI local auditor questionnaire

Part 4

Future developments



Key messages

- 1** The 2018/19 NFI is due to start in autumn 2018 and we will review which bodies should be asked to submit data.
- 2** The NFI is now developing new ways to prevent and detect fraud.

Participating bodies and data sets

69. The 2018/19 NFI exercise is due to start in autumn 2018. We will continue to look at which bodies should be asked to submit data and which data sets should be included in the NFI. It is unlikely that the number of bodies will increase significantly.

70. We continue to work with NFI participants to find new ways to prevent and detect fraud and error. This includes identifying any emerging fraud risks.

71. Providing social care is one of the largest expenditure areas for councils. This is a complex area where client care requirements often change. Council social work services need to ensure that payments are accurate and reflect the level of care being provided. East Dunbartonshire Council has reviewed its social work systems to investigate, through an NFI pilot exercise, if it can use data matching to ensure that social care payments are cancelled when a customer dies ([Case study 10, page 29](#)). As a result of the pilot, an optional additional data match will be available to all councils for the 2018/19 NFI exercise.

72. The Cabinet Office and the Wales Audit Office are considering if they can use HMRC data along with credit reference data to identify any fraud and error in student awards. The aim of this pilot exercise is to identify economically active residents in the same household as students who have not been declared on student funding applications. This pilot work is being taken forward in Scotland through the Student Awards Agency for Scotland.

73. We are also investigating the possibility of working with the NHS Scotland Counter Fraud Service to identify potential areas for further data matching using NFI data sets in preventing and detecting patient exemption fraud.

74. We continue to work with the Scottish Government in promoting and enhancing participation in the NFI.

we continue to work with public bodies to find new ways to prevent and detect fraud and error

Case study 10



East Dunbartonshire Council – NFI pilot in social care

A pilot was undertaken to investigate if data matching could be used to ensure that social care payments were cancelled when a client died. Currently the NFI only matches the following:

- Private residential care home residents to deceased person records.
- Personal budget direct payments to housing benefits, pensions, Amberhill¹ and other councils' personal budget data.

The council matched data for all clients on the social work system against deceased person data and identified 15 errors. This consisted of nine clients who received care from external providers and payments continued after the client's death, and six additional clients who received care from the council. The overpayments identified for the nine clients of the external providers totalled £40,266. The council has now recovered the full amount from the care providers. In the cases of the six clients who received care from the council, it was confirmed that the care had stopped when the client had died.

The council has now introduced additional controls to strengthen its systems.

Note: 1. Amberhill is a system used by the Metropolitan Police to authenticate documents presented for identity verification.

Source: East Dunbartonshire Council and the Cabinet Office NFI secure web application

The Code of Data Matching Practice

75. Audit Scotland's Code of Data Matching Practice has been updated for the 2018/19 NFI exercise. It was issued for a six-week consultation in May 2018. The revised Code reflects important data protection changes introduced by the General Data Protection Regulation (GDPR) (Regulation (EU) 2016/679) and the subsequent Data Protection Act 2018. Once finalised, we will conduct data matching exercises under the requirements of the new Code.

The 2018/19 NFI exercise



76. The 2018/19 NFI will be continuing with successful batch data matches. We will also continue to promote the flexible and real-time data matching options aimed at fraud prevention through the application checker module (AppCheck) and the flexible matching service.

77. The data sets included within the NFI are being reviewed with a view to adding more. The Cabinet Office and other UK audit agencies are seeking to raise awareness of, and get more bodies involved in, the NFI.

78. We look forward to the next NFI exercise and continuing to work with the Cabinet Office, other UK audit agencies, and participating bodies in progressing NFI improvements. This will include promoting NFI wherever possible. This should strengthen arrangements to help safeguard public money against losses from fraud and error.

Endnotes



- 1 [*The National Fraud Initiative in Scotland 2014/15*](#) , Audit Scotland, June 2016.
- 2 [*Scottish Local Government Financial Statistics 2016/17*](#), Scottish Government, February 2018.
- 3 [*National Fraud Initiative: self-appraisal checklist*](#) , Audit Scotland, March 2018.
- 4 [*Post-legislative Scrutiny: The National Fraud Initiative*](#), The Scottish Parliament Public Audit and Post-legislative Scrutiny Committee, September 2017.

Appendix 1

NFI governance arrangements



Background

This appendix summarises the key legislation and controls governing the NFI data matching exercise.

Legislation

The 2016/17 NFI exercise was carried out under powers given to Audit Scotland for data matching included in The Criminal Justice and Licensing (Scotland) Act 2010.

The Criminal Justice and Licensing (Scotland) Act 2010 includes important data protection safeguards. These include a requirement for us to prepare a Code of Data Matching Practice, and to consult with the UK Information Commissioner and others before publication. Our code that was in place for the 2016/17 NFI exercise, The Code of Data Matching Practice 2010, ensures that the NFI exercises continue to comply with:

- data protection requirements
- best practice in notifying individuals about using their information for the NFI.

We have updated the Code of Data Matching Practice for the 2018/19 NFI exercise. We did this to reflect important data protection changes introduced by the General Data Protection Regulation (GDPR) (Regulation (EU) 2016/679) and the subsequent Data Protection Act 2018.

The NFI web application

Bodies access the application online using passwords and encryption controls similar to internet banking. The secure website is the safest method of providing the data matches to bodies. The Cabinet Office regularly reviews the application and implements changes to improve its functionality, ease of use, and security.

Interactive training is available to participating bodies and auditors through the web application to support the Cabinet Office and Audit Scotland Guidance.

Security review and accreditation

The NFI system has gone through the Cabinet Office's information assurance and risk management process. This means the system is HM Government-accredited annually to store and process data.

Any firm processing data for the Cabinet Office will do so under a contract in writing. This imposes requirements covering technical and organisational security standards. Under the contract the firm may only act on instructions from the Cabinet Office. The Cabinet Office, assisted by Audit Scotland and the other UK public sector audit agencies, reserves the right to review the firm's compliance with these standards at any time. The Cabinet Office also requires annual security testing, supplemented by additional tests as appropriate.

This accreditation involves demonstrating that the NFI is suitably secured and that information risks are managed to government standards.

All of these measures provide current and future NFI participants with assurances that data is processed according to rigorous government security standards.

Appendix 2

Estimation bases



The figures used in this report for detecting fraud, overpayments and errors include outcomes already delivered (actual amounts participants have recorded) and estimates. Estimates are included where it is reasonable to assume that incidents of fraud, overpayments and errors would have continued undetected without NFI data matching.

Details of estimate calculations used in the report are shown below.

Data match	Basis of calculation of estimated outcomes
Pensions	Annual pension multiplied by the number of years until the pensioner would have reached the age of 85.
Council tax single person discount	Annual value of the discount cancelled multiplied by two years.
Council tax reduction scheme	Weekly change in council tax discount multiplied by 21 weeks.
Housing benefit	Weekly benefit reduction multiplied by 21 weeks.
Blue badges	Number of badge holders confirmed as having died multiplied by £575 to reflect lost parking and congestion charge revenue.
Payroll	<p>£5,000 for each employee who is dismissed or resigns as a result of NFI matching, or £10,000 for each resignation or dismissal for employees who have no right to work in the UK. Estimates based on the past value of fraud (for example incorrect payment of sick leave), the costs associated with removing fraudulent employees from their posts, and the preventative forward savings for avoidance of a Home Office penalty for employing illegal workers.</p> <p>£50,000 for employees removed from the UK.</p>
Social housing waiting lists	£3,240 for each case based on the annual estimated cost of temporary accommodation and the likelihood that future losses would occur owing to waiting list fraud, multiplied by two years.
Private care homes	£7,000 for each case based on average weekly cost of residential care multiplied by 13 weeks.

The National Fraud Initiative in Scotland

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