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**REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 8 MAY 2024**

**SUBJECT: NATIONAL FRAUD INITIATIVE 2022/23**

**BY: AUDIT AND RISK MANAGER**

**1. REASON FOR REPORT**

- 1.1 To advise the Committee of outcomes from the Council's participation in the National Fraud Initiative for 2022/23.
- 1.2 This report is submitted to Committee in terms of Section III (I) (2) of the Council's Scheme of Administration relating to considering reports from the Council's Internal Auditor.

**2. RECOMMENDATIONS**

- 2.1 **Committee is asked to consider the contents of this report; seek clarification on any points noted and otherwise note the report.**

**3. BACKGROUND**

- 3.1 The National Fraud Initiative (NFI) is a data matching project conducted by the Cabinet Office on behalf of Audit Scotland. Public bodies, including Local Authorities, are mandatory participants in this process. Each body is required to submit data it holds on individuals and businesses that receive public funds either as paid employees or suppliers of goods, works or services, or in the form of benefits. Information is also provided on individuals with housing tenancies, housing waiting lists and recipients of blue badges.
- 3.2 The matching process takes place and extracts data 'matches' for each participant that are considered worthy of investigation. There is no presumption of fraud, simply a match comprises two or more records where there appears to be some anomaly that would merit further review. For example, if an individual is on Moray's council house waiting list from an address in Dundee but is in receipt of council tax reduction at an address in Aberdeen, this is recorded as a match. Most likely, the 'error' is that the information is out of date, as the individual has relocated to Aberdeen and our waiting list has not been updated. Similarly, an individual employed as a teacher may be identified on two payroll records with different authorities. This will appear as a match but is not irregular if the individual is employed part time at each council.

3.3 A further and common reason for matches occurring is simply timing differences i.e. if an individual changes jobs or address around the time the data for matching is submitted, the old and new information can appear as a match but on checking can be quickly discounted. This timing difference was also noted due to HM Revenue & Customs (HMRC) submitting their information after the deadline for other public bodies.

3.4 The 2022/23 matching process for Moray Council at the time of drafting this report disclosed 2,976 matches across eight data themes. The total breakdown of the data matches set is as follows:

• Creditors (Payments to Suppliers)	1496
• Council Tax Reduction Scheme	325
• Council Housing Waiting List	206
• Blue Badges	254
• Housing Tenancies	544
• Procurement	51
• Housing Benefits	28
• Payroll	72
	<u>2976</u>

3.5 While this volume of matches is significant, experience from prior exercises has shown that the incidence of fraud is not. The review of findings from an investigation of matches for the 2022/23 NFI data matching exercise again proved this to be the case, with no instances of fraud. A proportionate approach was taken to testing, which involved a high level 'scanning' of all matched data and more in-depth testing of a sample of items to confirm the outcomes were as expected. Investigation of matches is time consuming requiring significant staff resources from Services and within the Internal Audit Section. Moving forward, it is intended to continue and refine the sampling process of future data matching exercises to ensure the most effective use of staff resources is based on the findings from the investigations undertaken. Further detail is provided below, which concludes that the principal benefits of participating in the exercise are two-fold:

- it provides confirmation that control systems within the scope of the exercise to prevent fraud are working effectively;
- there is an opportunity to undertake data cleansing to improve the currency and accuracy of data held in council systems.

**Outcomes**

3.6 **Creditor Payments** matches consider payee names, addresses, bank account details and VAT calculations, looking mainly for duplicate or erroneous payments. While a high volume of matches was generated, it should be noted that the Council routinely makes legitimate payments of the same amount to a single supplier. Typical examples are monthly school transport invoices where a contracted daily rate applies, purchases by fleet services of more than one vehicle with identical specifications, and payments for monthly care packages for an individual.

- 3.7 Testing of the matches found the majority related to legitimate payments, e.g., regular contracted purchases for the same amount. However, duplicate payments of £15,803 were found, of which £13,070 was related to an administrative error of paying an incorrect supplier with a similar name to the intended payee. This duplicate payment has now been recovered.
- 3.8 **Council Tax Reduction Scheme (CTRS)** entitles qualifying households to a reduction in the amount of council tax they pay. The level of reduction depends on individual circumstances. CTRS awards are referenced to other CTRS claims, public sector payroll and pension records, taxi licensing, housing tenancies, Department for Work and Pensions (DWP) and HMRC records. The matches are designed to ensure claim forms have been accurately completed and disclose information e.g. on income, that can influence the amount of the CTRS award. In most cases the correct disclosures had been made and related to timing issues of when information was uploaded to the NFI from participating organisations. However, for a small number, further investigations are being undertaken. Regarding these investigations, it should be noted that where an individual is also receiving other benefits, the NFI system requires onward referral of the match to the DWP. The DWP determines any investigation work needed and the Council receives no feedback on the outcomes of these referrals.
- 3.9 **Council Housing Waiting List** applicants are referenced to other councils waiting lists, housing tenancy records, housing benefit claimants, DWP and HMRC records. The number of matches within this category has fallen compared to the previous NFI exercise. This has been due to the implementation of a new housing waiting list system that has contributed to improved accuracy of the information held by the Council. However, an annual review of applicants included in the Council's Housing Waiting List was being undertaken while uploading the data to the NFI. This resulted in timing differences and explained the reasons for the majority of the data matches.
- 3.10 **Blue Badge** parking permits are compared with permits issued by other councils and DWP records of deceased persons. The relatively high number of matches from these datasets has occurred because of the need to cancel badges on the system. The NFI has calculated this as a potential financial saving of £150,150. However, this is an estimated calculated figure as the risk, in theory, if not in practice, that a badge no longer required by its recipient may be misused by others to avoid parking charges or to park in designated spaces to the detriment of those entitled to use them. A recent internal audit review highlighted improvements to current operating practices. The Service has agreed to all the recommendations that should assist in improved administrative arrangements.
- 3.11 **Housing Tenancy** records are referenced to other Councils tenancy records, housing benefit claims, housing waiting lists, information held by the HMRC and DWP records, all with the purpose of validating the accuracy of information the Council has on the occupancy of its Council housing. Findings from sample testing of the data matches found legitimate reasons for the matches, e.g. a recent move or family change of circumstances, with detailed information available to evidence why matches had been generated. As information was provided by HMRC later in 2023, this resulted in matches due

to the timing differences of when all other public bodies provided information for the NFI data matching exercise.

- 3.12 **Procurement** matches compare the Council's Payroll records with supplier records, including company director information held by Companies House. Matches are looking at potential conflicts of interest in the award of Council contracts, but none was disclosed; those highlighted being known (e.g. Councillors who are paid and also Directors of Moray Leisure) and not considered irregular.
- 3.13 **Housing Benefit** matches are referenced to recipients of student loans, housing tenancy records, taxi licensing information, housing waiting lists, recipients of council tax reduction and DWP records. The matches are designed to ensure claim forms have been accurately completed and have disclosed information e.g. on income, that can influence the amount of the Housing Benefit award. The number of matches in this category is reducing as more claimants move to Universal Credit. Testing found matches were due to timing issues in changes in circumstances of individual claimants. However, one claimant has been referred to the DWP for further investigation.
- 3.14 **Payroll** matches are compared with other payroll, public sector, pension and creditor payment records. The matches were mostly related to valid reasons why the information was held within other databases, individuals with two part-time jobs and timing issues. No fraud or irregularity resulting in financial loss was found from the testing undertaken.

#### **4. SUMMARY OF IMPLICATIONS**

**(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))**

Fraud and irregularity has the potential to impact on the council's ability to deliver on its key strategic outcomes, although the results of this exercise suggest that the council's control systems are working well and mitigating this risk.

**(b) Policy and Legal**

Participation in the NFI is mandatory for all Scottish councils, however this has advantages in that national protocols have been developed and agreed for data management and security.

**(c) Financial implications**

There are costs for staff time associated with organising and submitting the data and reviewing the returned matches. These can be set against 'notional' savings e.g. a cancelled blue badge is valued by NFI at £650, but these savings are indirect at best and more likely the benefits from participation are in improving the accuracy of the systems from which data is derived.

**(d) Risk Implications**

The risk of not adequately checking returned matches is that a significant fraud may go undetected resulting in substantial financial loss. However with no such fraud being detected in this council since NFI has operated in Scotland, a proportionate approach to checking the matches is judged to be the most prudent approach.

**(e) Staffing Implications**

Work linked to the NFI is covered in the day to day duties of data owners in Services and within ICT and time is made available in the audit plan for Internal Audit to co-ordinate and overview the exercise.

**(f) Property**

No implications directly arising from this report.

**(g) Equalities/Socio Economic Impact**

No implications directly arising from this report.

**(h) Climate Change and Biodiversity Impacts**

No implications directly arising from this report.

**(i) Consultations**

The Chief Financial Officer as the NFI Senior Responsible Officer has been consulted with the content of this report.

**5. CONCLUSION**

**5.1 Participation in the NFI exercise for 2022/23 has highlighted no issues in the way of fraud or irregularity. It is a time consuming exercise to manage and investigate data matches by Services and the Internal Audit Section. Based on the findings, the main benefits from participation arise from the assurances provided that the Council's main systems are accurate and up to date and that system Controls are working well.**

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Background Papers: NFI Database  
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