



REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 16 FEBRUARY 2022

SUBJECT: NATIONAL FRAUD INITIATIVE- 2020/21

BY: DEPUTE CHIEF EXECUTIVE (EDUCATION, COMMUNITIES AND ORGANISATIONAL DEVELOPMENT)

1. REASON FOR REPORT

1.1 To advise the Committee of outcomes from the Council's participation in the National Fraud Initiative for 2020/21.

1.2 This report is submitted to Committee in terms of Section III (I) (8) of the Council's Scheme of Administration relating to consideration of reports prepared by the Accounts Commission/Audit Scotland.

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 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, rates relief, or Covid-19 Business Grants. Information is also provided on individuals with housing tenancies and housing waiting lists, on taxi licence holders and on recipients of blue badges.

3.2 The matching process takes place and this 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 Most likely the 'error' is that the information is out of date, as the individual has relocated to Aberdeen and our waiting list has not been updated.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.

3.4 The 2020/21 matching process for Moray Council at the time of drafting this report disclosed 2,748 matches across ten data themes as follows:

• Creditors (Payments to Suppliers)	1394	
• Council Tax Reduction Scheme	396	
• Council Housing Waiting List	380	
• Blue Badges	208	
• Housing Tenancies	148	
• Business Rates Relief	89	
• Procurement	43	
• Housing Benefits	32	
• Payroll	23	
• Business Grants	<u>35</u>	<u>2748</u>

3.5 While this volume of matches is significant, experience from prior exercises has shown that the incidence of fraud is not. Accordingly, a proportionate approach has been taken to testing this time, which involved a high level 'scanning' of all matched data and more in-depth testing of a sample of items to confirm the outcomes are as expected. Further detail is provided below which concludes that the principal benefits from participating in the exercise are two-fold:

- It provides confirmation that control systems designed 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, vat calculations etc. looking mainly for duplicate or erroneous payments. While a high volume of matches were 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. Testing did disclose minor data cleansing issues that have been addressed e.g. where the same supplier had two creditor records (the second having been set up in error). No fraud or irregularity resulting in financial loss was disclosed.

- 3.7 **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, to public sector payroll and pension records, to taxi licensing, housing tenancies and to Department for Work and Pensions (DWP) records of deceased persons. 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 although for small number, further investigations are being undertaken. In terms of these investigations it should be noted that where an individual is also in receipt of other benefits, the NFI system requires onward referral of the match to the DWP. The DWP determines any investigation work required and the council receives no feedback on the outcomes from these referrals.
- 3.8 **Council Housing Waiting List** applicants are referenced to other councils' waiting lists, housing tenancy records, Housing Benefit claimants, and DWP records of deceased persons. Audit testing of these datasets disclosed the data held in many cases was out of date with references in many cases to limited or no contact with an applicant for many years. These cases had remained on the waiting list even where the applicant had changed address /been rehoused elsewhere in the interim. This has been acknowledged by the Housing Service and a new system for managing the Housing waiting list was introduced in early 2021 to address this issue.
- 3.9 **Blue Badge** parking permits are compared with permits issued by other councils and to DWP records of deceased persons. The relatively high number of matches from these datasets has occurred because the council did not have a mechanism to cancel current badges on the system - (a badge being valid for three years) immediately after a badge was no longer required. This increases 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. Current arrangements are being amended to ensure the Service receives a notification of any changes to an individual's entitlement for a blue badge.
- 3.10 **Housing Tenancy** records are referenced to other councils' tenancy records, Housing Benefit claims, housing waiting lists and DWP records of deceased persons all with the purpose of validating the accuracy of information the council holds on the occupancy of its council housing. Sample testing noted there were 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.
- 3.11 **Business Rates Relief** looks at rating records held by all councils to validate awards of rates relief. This is new data match that recognises that eligibility for rates relief can be affected by the number and combined rateable value of premises occupied by a single business in different council areas across Scotland. Testing found the correct award of rates relief applied for different premises occupied by the same business.

- 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 of deceased persons. 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. Audit testing disclosed a small number of data cleansing issues. Testing found no fraud or irregularity, however the review has resulted in the need to update some Council records.
- 3.14 **Payroll** matches are compared with other payroll records and public sector pension records. Again the number of matches was low and mainly related to individuals with two part time jobs or where employee address details had not been recently updated.
- 3.15 **COVID 19 - Business Grants** matches related to businesses that had received Small Business Grant Fund and Retail Hospitality Leisure Grant payments. Reports detailed payments made to companies with multiple premises both within and outwith Moray. Testing found no issues and payments had been made in accordance with Scottish Government Guidelines.

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 £575, 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 for the 15 years the 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 service departments and within ICT and time is made available in the audit plan for Internal Audit to co-ordinate the checking of matches returned.

(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

There have been no direct consultations during the preparation of this report.

5. CONCLUSION

5.1 Participation in the NFI exercise for 2020/21 has highlighted a few issues around data cleansing and minor system improvements, some of which were already in process of implementing, but little in the way of fraud or irregularity. Based on the findings of this exercise 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
Ref: SPMAN-1042990102-86