

Public Audit and Post-Legislative Scrutiny Committee

National Fraud Initiative

Submission from City of Edinburgh Council

Introduction

The Scottish Parliament's Public Audit and Post-legislative Scrutiny Committee is conducting its first ever piece of post-legislative scrutiny and the Committee launched a call for written submissions on February 1 2017. The City of Edinburgh Council has been asked to consider providing a written submission.

This is not a mandatory request and there is an option to mark the report as confidential if required. The written submission has to be sent by electronic mail to the designated mailbox at the Scottish Government by the deadline of 31 March 2017.

The Post-legislative Scrutiny Committee has agreed to examine Section 97 of the [Criminal Justice and Licensing \(Scotland\) Act 2010](#), which put the [National Fraud Initiative](#) (NFI) on a statutory footing, and consider whether there are any improvements that could be made to the legislation underpinning it.

The questions the Committee have asked the Council are:-

- *What have been the benefits, financial and otherwise, of putting the National Fraud Initiative on a statutory footing?*
- *Could the legislation be strengthened in any way?*
- *Should participation in the NFI be strengthened? Are there any bodies who do not participate in the National Fraud Initiative who should do so?*

This briefing paper aims to provide feedback by examining the current fraud prevention activity at the Council and therefore forming an appropriate and transparent response to the Scrutiny Committee.

Background

The formation of a Single Fraud Investigation Service (SFIS), covering all welfare benefit fraud, was announced by the Chancellor of the Exchequer on 5th December 2013. The new service became operational soon after and the Council Benefit Fraud detection staff transferred to the Department of Work and Pensions (DWP) on 1 November 2014.

In conjunction with this transfer of responsibilities, the Council created a corporate fraud function to investigate potential fraudulent activities that fall out with the scope of the SFIS.

The team undertake non-housing benefit fraud investigations, allowing the Council to increase detection and enforcement activities and prosecute, where appropriate.

The newly developed function aims to have skilled professionals involved in fraud and detection and to ensure the new statutory duties of the National Fraud Initiative are followed.

The new function has been created on a phased basis with the initial remit including fraud investigation activities relating to:

- Council tax reduction scheme;
- Discretionary housing payments;
- Non-domestic rates discounts and exemptions;
- Scottish Welfare Fund;
- National Fraud Initiative Review;
- Tenancy fraud; and
- Emerging fraud activities relevant to customer services activities.

The new function also aims to consolidate related fraud prevention activities across the Council with existing policies and practices reviewed to ensure their effectiveness and consistency with existing best practice.

The success of these new arrangements is currently measured through:

- Improved service co-ordination to tackle fraudulent activities;
- Development of sophisticated fraud detection methods;
- Identification of multiple infringements by individuals and organisations; and
- Efficiencies in delivering fraud prevention activities and associated savings achieved.

Main Report

The new statutory duty for the Council means that it must provide uploads of requested data sets to NFI within specified timeframes however there is no requirement for the Council to continue processing the NFI matches as previously if a new way forward can be agreed.

Therefore, the Council has adopted a prudent and sensible approach of prioritising resources as well as considering the requirements of the NFI.

Audit Scotland and the Information Commissioner have both stated that ideally, they want to see bodies using their data legally and effectively and to ensure they are doing all they can to prevent fraud and error in the system. The process itself is considered to be an issue of governance within each organisation and participation in the initiative varies somewhat across all of Scotland's local authorities.

Evaluation of current Council approaches

In November 2016, in response to the data matching requirements of the NFI, Internal Audit (IA) and the Council Corporate Fraud Team (CFT) undertook a survey of the Council NFI Investigating Officers to establish whether there was value in continuing the data matching exercise in its current format. This was a considered response to the new statutory requirements and aimed primarily at providing an evaluation of the effectiveness in current approaches.

The overwhelming feedback was that the data was too old to be of operational use and most sections had more effective controls in place.

Examples of this would be:

- "Tell Us Once" used by several teams to identify deceased users and update their databases
- Subcontracting data matching to third parties such as Experian to identify household makeup proactively to stop Council Tax Reduction before overpayments have accrued.

There also appeared to be checks which are not useful to the Council. An example of this would be where a tenant would not be evicted from a Council House because their immigration status has changed.

However, it was acknowledged that some of the checks carried out were not as robust and joined up as they otherwise could have been. For example, payroll to creditor matches were not explored logically, merely confirming they were both genuine.

Even using the recommended matches there were such a high volume of false positives that the investigating officers became disillusioned and the process of checking became extremely unproductive meaning resources were not being utilised effectively. The majority of these false positives arise due to 3 specific reasons:-

- Timing differences where the snapshot of data has not allowed time for due process
- Addressing issues (householder addresses) such as 14/1 v 14(GF1)
- Naming issues re use of initials, misspelling etc,

It is acknowledged that there are genuine operational 'nuggets' of intelligence such as employee immigration status that are immediately investigated in conjunction with Human Resources and legal.

There are also areas which the Internal Audit team are keen to review which:-

- Detect potential internal fraud
- Take assurance that the controls identified earlier are operating effectively

A report is being prepared for Senior Management consideration of the results of the testing and the approach and if necessary the approach will be fine tuned.

In summary, 2,188 of 2,634 (83%) of recommended matches will be reviewed in the first instance and the rest will be sample checked.

Planned approach 2016/17

The following outlines the Council's planned and prioritised approach to data-matching requirements to deal with the 2,634 recommended matches with the total volume of matches associated with each individual exercise:

1. Housing Benefit cases will be passed to DWP but there is no feedback in return to the Council so they will appear to remain open. Also it is important to note that each file has to be reviewed by CFT first, so there is effort expended without any reward. [261 records]
2. Pensions will continue to review theirs as they would need committee approval to stop. [519 records]
3. Blue badges and parking will continue to review [579 records]
4. Payroll, creditor and VAT recommended matches will be reviewed by IA in conjunction with the relevant officers and appropriate action taken [787 records]. It is noted however that "Duplicate records by invoice amount & creditor ref" [633 records] is very low risk as multiple payments for the same amount are common and genuine occurrences.
5. Private Residential Care homes [80 records] will not be reviewed by the service area who use "Tell Us Once" but will be sample tested by internal audit in the first instance to evaluate controls.
6. Housing Tenancy / Waiting List [752 records] will not be reviewed by the service areas. Experience has shown that most of these are of no use to the Council or are false positives. Internal Audit will sample check these.
7. If 1 to 4 show (as outlined above) significant error rates then additional "non recommended" matches will be undertaken.
8. If Audit Sampling of 5 and 6 (as outlined above) show that alternative controls are not effective then the service areas will be instructed to carry out further testing.
9. Worth noting that activities around Disabled Blue Badge Investigations and also School Placement Investigations take up an inordinate amount of Council officer's time.

Recommended Action

Based on the feedback received from the Corporate Fraud team and the officers who are tasked with the responsibilities there is now a robust and planned approach to the process of dealing with the NFI data matching requirements across the Council.

It is therefore recommended that the Council provides the post-legislative scrutiny committee with details of the evaluation of our approach since November 2016 as this will provide insight for them into what benefits the NFI provides the Council.

To demonstrate strong governance it is also recommended that we provide details of our planned approach to demonstrate the Council's commitment to the NFI going forward and the challenges and practicalities of carrying out the specific data matching duties required of it.

By doing this the Council will also assure transparency of process and approach.

It should be noted that there was no specific or notable feedback provided in respect of the other questions posed therefore it is recommended the Council makes no comment in this respect.

References

Extract from meeting held on 1 Dec 2016 – Scottish Government:-

Discussing the NFI with Audit Scotland

The NFI in Scotland – Audit Scotland Report – June 2016

National Fraud Initiative – 4 Nov 2016 – UK Cabinet Office

Section 97 of Criminal Justice and Licensing (Scotland) Act 2010

Governance, Risk & Best Value (Referral Report) – 13 November 2014:-

External Fraud Prevention and Detection – Annual Report and Future Planned Activity (Referral report from the Finance and Resources Committee)

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