

Audit Scotland Report - National Fraud Initiative 2014/15
Report by Internal Audit Manager
1. Purpose of the Report

Audit Scotland published a report on the National Fraud Initiative (NFI) in Scotland in June 2016. The purpose of this report is to:

- provide the Audit Committee with a summary of how the Audit Scotland report relates to the work undertaken within Midlothian Council;
- review actions taken within Midlothian to address recommendations made in the Audit Scotland Report; and
- allow the Audit Committee to consider and comment on the draft self assessment questionnaire contained within the Audit Scotland report.

2. Background

2.1 Audit Scotland leads the NFI in Scotland. This is a long established national counter-fraud exercise using data matching to identify circumstances that might suggest the existence of fraud or error. All bodies in Scotland that have auditors appointed by Audit Scotland are required to take part in the NFI. Other bodies including private sector bodies are encouraged to take part.

2.2 In June 2016, Audit Scotland reported on the outcomes of the 2014/15 NFI and made recommendations for the participating bodies. The report can be found on the Audit Scotland website (see link below).

The recommendations contained in this report, along with the actions which are being progressed by Midlothian Council are recorded in the table below:

Recommendation	Comment
Audit Committees should review the self appraisal checklist.	A draft response for the self appraisal checklist has been completed and is attached at Appendix 1.
All bodies should aim to maximise the benefits of participation in the NFI by considering the following: <ul style="list-style-type: none"> • Working more efficiently on the matches; • Using the matches in conjunction with other matching services where appropriate; and • Using the NFI flexible data matching service and point of application data matching service. 	Midlothian's participation in the NFI is designed to be as efficient as possible, with resource being focused on matches that are 'recommended matches' or, in the view of the service, merit investigation. There is a cost for using these services which, based on the outcomes from the checking of matches thus far, is not considered to be required. This position will continue to be monitored.

Recommendation	Comment
Local authorities should ensure they have sufficient capability to investigate non-housing benefit fraud or corporate fraud, including relevant NFI matches.	Midlothian has established a Corporate Fraud team to investigate non-housing benefit fraud. A separate report on this area is included within today's agenda.
Local Authorities should embed the regular use of data matching as part of their overall control arrangements to identify council tax discount fraud and error in order to maximise council tax income.	The Corporate Fraud team have been working with Revenues staff to identify fraud and error in respect of council tax discounts and exemptions. Data matching is one of the techniques used to identify potential fraud or error. Internal data matching exercises are also undertaken within Midlothian.

2.2 In December 2015, Internal Audit reported to the Audit Committee the outcomes from the 2014/15 NFI exercise and the outcomes from the additional data match between Council Tax (Single Person Discount) to the Referendum Electoral Roll, uploaded in May 2015.

2.3 Since that date, Internal Audit have carried out a further data match between Council Tax (Single Person Discount) to the Electoral Roll, uploaded in December 2015.

3. Outcomes

3.1 Audit Scotland has identified national outcomes of £16.8 million (as at 31 March 2016) where outcome figures include amounts for fraud and error detected and also 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. Cumulative outcomes from the NFI in Scotland are now reported at £110.6 million.

3.2 The following table compares the national outcomes with Midlothian's outcomes as follows:

Category	National Value £m	Midlothian's Value £m	Comments
Council Tax	5.6	0.120	This outcome includes £7k reported in December 2015, £20k from the later Council Tax match and £93k in respect of a case that led to the recovery of a Council house.
Pensions	4.6	0	Midlothian Council employees are members of the Lothian Pension Fund (administered by City of Edinburgh Council) or the Teachers' Fund (administered by the Scottish Public Pensions Agency) and are therefore not included in the work undertaken by Midlothian Council.
Housing Benefit	3.0	0.009	This is the outcome from 3 matches, a further 26 matches were referred to the Department for Work and Pensions for investigation.

Blue Badges	2.4	0.014	The Audit Scotland report applies a value of £575 to each blue badge cancelled to reflect lost parking and congestion charging revenue. This figure is a result of applying this to the 24 blue badges cancelled in Midlothian. However, this does not necessarily mean that the badges have been misused.
Other	1.2	0	No outcomes in these areas for Midlothian.
Total	16.8	0.143	

3.3 During the period covered by the report, Midlothian took part in three NFI exercises as follows:

- The biennial data match which was uploaded in October 2014 and matches were made available in February / March 2015. This matching exercise was reported to the Audit Committee in December 2015 with an outcome of £9k. We did not report any outcome for Blue Badges as the badges cancelled all related to timing differences in the reporting of deaths;
- The Referendum Electoral Roll to Council Tax data match which was uploaded in May 2015. The result of this exercise was reported to the Committee in December 2015 with an outcome of £7k;
- The Electoral Roll to Council Tax data match which was uploaded in December 2015. The results of this match are included in the Corporate Fraud Report which is included in today's agenda. This report shows an outcome of £113k.

4. Report Implications

4.1 Resource

There are no additional resources required as a result of this report.

4.2 Risk

The NFI is a control that is implemented to identify potential fraud or error. Active participation in the NFI has been reported as one way bodies can demonstrate good governance and sound financial management.

4.3 Single Midlothian Plan

Themes addressed in this report:

- Community safety
- Adult health, care and housing
- Getting it right for every Midlothian child
- Improving opportunities in Midlothian
- Sustainable growth
- Business transformation and Best Value
- None of the above

