

# North Lanarkshire Council Report

## Audit and Scrutiny Panel

approval  noting

Ref KA

Date 09/12/21

## National Fraud Initiative - Update

**From** Audit and Risk Manager

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### Executive Summary

The purpose of this report is to inform the Panel of the progress made to date by the Council in response to the 2020 National Fraud Initiative (NFI) data matching exercise.

The NFI is a data matching exercise, organised by Audit Scotland, which is undertaken every two years and is widely recognised as an important tool in detecting and preventing fraud. It involves comparing data sets using criteria which allows for the identification of inconsistencies and anomalies which may be indicative of possible fraud and/or error. This information then enables public bodies to follow-up matches on a targeted and prioritised basis to establish if fraud has occurred and to take appropriate action.

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### Recommendations

It is recommended that the Panel note the contents of this report and in particular the progress made to date in relation to the follow-up of matches.

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### The Plan for North Lanarkshire

Priority All priorities

Ambition statement All ambition statements

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## **1. Background**

- 1.1 The NFI is a UK-wide exercise which enables public bodies to take advantage of computer data matching techniques to assist them in detecting fraud and error. It is organised by Audit Scotland and is carried out by them under statutory powers added to the Public Finance and Accountability (Scotland) Act 2000 by section 97 of the Criminal Justice and Licensing (Scotland) Act 2010.
  - 1.2 The NFI works by using data matching to compare a range of information held on public bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error. This information enables public bodies to follow-up these matches on a targeted and prioritised basis to establish if fraud has occurred and to take appropriate action where it has. A match does not automatically mean that there is fraud or error, therefore the Council is not expected to review and/or follow up every match. The outcomes from any investigation are recorded on the secure NFI web application.
  - 1.3 Information in relation to payroll, housing (current tenants and waiting lists), council tax reduction scheme, blue badge parking permits, taxi licenses, and creditor payments and relevant standing data was uploaded by the Council to the secure NFI database in October 2020 and the results were received on 29 January 2021.
  - 1.4 NFI 2020 also included one new data set for the Small Business Bonus Scheme (SBBS). The SBBS is a relief from non-domestic rates for businesses with a combined rateable value of all premises less than £35,000. This dataset for allows for comparison within, and between other, Councils to identify any instances where ratepayers in receipt of SBBS have not declared other properties (as this affects the level of relief due/awarded). This data was submitted in December 2020 and the matches were received on 29 July 2021.
  - 1.5 As part of the counter fraud response to the government's Covid-19 relief programme, the NFI 2020 work programme included the requirement to submit additional data in relation to the Covid-19 business grants for the Small Business Grant and Retail, Hospitality and Leisure Grant Funds. Relevant data was submitted in January 2021 and is being matched within, and between, Councils to identify potential fraud in relation to multiple grants paid to businesses at the full 100% rate; grants paid to businesses where the cumulative rateable value exceeds permitted limits; duplication between grant schemes; and payments made to businesses or individuals flagged on a proven fraud 'watchlist'. These matches were received on 20 September 2021.
  - 1.6 The Council has received a total of 14,256 matches across 97 reports.
  - 1.7 Additionally, council tax single person discount and electoral register data was uploaded to a separate area within the NFI database in December 2020. As the matches only relate to North Lanarkshire, they were made available shortly after submission and the Council received a total of 8,732 matches across two reports.
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## **2. Report**

### **NFI Progress to date**

- 2.1 Audit Scotland has indicated that they do not expect every match or report to be reviewed and has advised bodies to prioritise matches. As such, they have categorised the individual reports based on the quality of match (high, medium, address or information only), with 'high' reports being matched on National Insurance Number. Additionally, all matches contained in reports have been allocated a 'risk scoring' based on a combination of the likelihood of fraud occurring and the number of times an individual appears across the NFI data.

- 2.2 Given the high volume of matches received, there are limitations to the number of matches that can be reviewed within the resources available. Services are responsible for determining a method of prioritising their matches for investigation, ensuring timely action and update of the NFI database. This is generally done by taking account of the risk scoring allocated on the NFI database.
- 2.3 To date, 9,185 (64%) of the Council's matches have been processed, resulting in 7 frauds and 650 errors with £71,186 savings. A summary of the results by report type is detailed in the table below.

Report Type	Total Matches	Processed	In Progress	Fraud	Error	Total Value
Housing Benefit	231	209	0	0	4	£12,179
Council Tax Reduction	2,302	1,195	5	0	95	£24,272
Payroll	68	47	0	0	0	£0
Blue Badges	1,066	1,066	0	0	551	£0
Creditors	6,353	5,951	77	0	0	£0
Procurement	91	85	6	0	0	£0
Housing Tenants	2,152	484	180	0	0	£0
Waiting List	1,817	14	201	0	0	£0
SBBS	173	134	1	7	0	£34,735
Grant Recipients	3	0	0	0	0	£0
<b>Total</b>	<b>14,256</b>	<b>9,185</b>	<b>470</b>	<b>7</b>	<b>650</b>	<b>£71,186</b>

- 2.4 Matches relating to housing benefit and council tax reduction have been dealt with by the Appeals and Adjudications team within Financial Solutions. The team prioritised the high and medium risk housing benefit reports, and review of these reports is complete. They are currently in the process of reviewing the high and medium risk council tax reduction reports. To date, 99 errors have been identified with savings of £36,451.
- 2.5 Internal Audit assessed payroll to payroll matches where North Lanarkshire Council employees are also employed by other public sector organisations. These matches are generally innocent, although public bodies have previously identified matches to be indicative of 'ghost' employees or individuals holding multiple employments whilst on sick leave with one of the bodies. Review of these matches was prioritised and focused on North Lanarkshire Council employees earning more than £10,000 per annum with both bodies. No issues were identified. The remaining matches were not selected for investigation as there is a lower risk of fraud or error given the smaller sums involved.
- 2.6 The review of matches relating to blue badges is complete and has resulted in 551 badges being cancelled, generally as a result of the badge holder being deceased. Given the high number of matches in this area during the current and previous NFI exercises, the section responsible for processing blue badges has identified some improvements which should reduce the number of these matches in future NFI exercises.

- 2.7 Creditors matches, relating to potential duplicate payments and creditor references account for 45% of the total matches received. The majority of these (90%) fall into two reports matched on invoice number, invoice amount and/or creditor reference. Internal Audit has undertaken an initial review of these matches and has identified that they contain a large number of 'false positives' as some suppliers (i.e. utilities) have regular monthly charges using the account reference as the invoice number. As such, review of these matches was prioritised to focus on those where the potential for duplicate payments is greatest and the invoice value is most significant. Investigation of these matches is complete and a small number (and value) of potential duplicate payments have been identified and passed to the Creditors section within Financial Solutions for further checking.
- 2.8 Matches relating to procurement involve a comparison of North Lanarkshire Council employees to Companies House information to identify any potential undeclared conflicts of interest. Internal Audit has reviewed these matches and identified a small number of matches which merit further investigation to ascertain whether a conflict of interest exists, and if so, whether it has been declared. Work is ongoing to conclude these matches. Any issues arising will be passed to relevant management for consideration under the Council's disciplinary processes as and where appropriate.
- 2.9 Review of Housing Tenant and Waiting List matches during previous NFI exercises has been limited and matches have generally continued to reappear in subsequent exercises. Where matches have been reviewed, it has become apparent that the level of matches being generated is partly attributable to the poor quality of underlying data held on the Council's housing management system (HSMS), much of which in relation to household composition is often inaccurate and/or out of date.
- 2.10 This carries significant risks in relation to the Council's legal duty under data protection legislation to ensure that data held is accurate and up to date; and also creates potential operational issues in relation to succession of tenancy issues and the increased risk of allocating houses inappropriately.
- 2.11 As a result, Housing Solutions has prepared an action plan for reviewing these matches and the wider issues arising, committing to completion of the review by 31 December 2021. Internal Audit considers that it is important that Housing Solutions closely monitor progress and that adequate resources are devoted to ensuring that this task is completed by the agreed target timescale.
- 2.12 The review of the Small Business Bonus Scheme (SBBS) matches by Financial Solutions is well underway. Seven frauds have been identified to date where the ratepayer did not declare other business premises, resulting in savings of £34,735.
- 2.13 The matches for Covid-19 business grants were received in September 2021. The Council has only three matches and these are expected to be reviewed shortly.
- 2.14 Financial Solutions have also reviewed and considered the council tax single persons discount matches and have determined that there is little or no merit in allocating staff resources to internally review these matches in detail. The Service considers that outsourcing a separate data matching exercise using, for example, information held by credit reference agencies would be more beneficial and would be likely to generate significantly greater savings. The Revenues and Benefits Manager has confirmed that an external contractor has now been appointed to undertake this exercise and the Service are in process of finalising the relevant data sharing agreement prior to commencement of the exercise.

## **Covid-19 business grants**

- 2.15 There is widespread recognition that there was a higher risk of fraud and error associated with grant schemes put in place at short notice in response to the pandemic. Partly this was due to the absence of some controls due to significantly revised operating arrangements within public bodies, partly this was due to the speed at which such schemes were designed and implemented and partly this was due to the desire, at a UK and Scottish Government level, to make the provision of emergency financial support as frictionless as possible. Such schemes were also recognised as likely to attract the attention of serious organised crime groups.
- 2.16 Throughout the Covid-19 business grants process, Internal Audit provided advice and guidance to the Council teams responsible for administering Covid grants to assist them in implementing robust arrangements and in identifying any fraudulent claims at an early stage to prevent incorrect payments being made.
- 2.17 The Council has also participated, from early in the pandemic, in ongoing information sharing regarding potential fraudulent applications across the range of Covid support grant schemes co-ordinated by the Scottish Local Authority Investigator Group (SLAIG). This information was also shared nationally with a specialist unit within Police Scotland.
- 2.18 To date, the Council has identified 11 suspected fraudulent applications in respect of NDR Support Grant, of which payments totalling £20,000 were made for two applications. 16 suspected fraudulent applications have been identified in respect of the Strategic Framework Business Fund (SFBF), of which payments totalling £56,000 were made for six applications prior to the claims being identified as fraudulent. We are currently liaising with Police Scotland to progress one fraud case involving a number of these grant applications.

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## **3. Public Sector Equality Duty and Fairer Scotland Duty**

- 3.1 None identified – no decision requiring relevant assessments.
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## **4. Impact**

### **4.1 Financial impact**

None identified.

### **4.2 HR policy / Legislative impact**

Future data matching arrangements will be reviewed to ensure the Council remains legally compliant with relevant legislative requirements.

### **4.3 Technology / Digital impact**

None identified.

### **4.4 Environmental impact**

None identified.

### **4.5 Communications impact**

None identified.

### **4.6 Risk impact**

Failure to participate in the NFI could result in non-compliance with legislation, criticism from external audit and create additional risk of the potential for fraudulent activity not being identified at an early stage.

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**5. Measures of success**

- 5.1 Successful participation in NFI 2020, fraud and potential savings identified and positive assessment by the Council's external auditor of the Council's approach.
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**Ken Adamson, Audit and Risk Manager**