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Committee
The Scottish Parliament
Edinburgh
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Jenny,

Post-legislative Scrutiny: the National Fraud Initiative

I would like to thank you and the Committee for your continuing interest in the National Fraud Initiative (NFI). As noted in the Committee's previous report, the NFI continues to improve the transparency of public services, and is an important tool in protecting public money.

My officials are fully committed to working with and assisting Audit Scotland and the Cabinet Office to take forward the recommendations of the Committee.

A number of initiatives have been put in place to encourage voluntary participation in the NFI and my officials have been actively liaising with local authorities and housing associations in respect of pilot schemes to take place in 2018-19, among other actions.

An update on the progress being made by the Scottish Government and all parties in respect of the joint action plan, first issued in January 2018, is attached.

I will continue to ensure that my officials work with Audit Scotland to further improve engagement with the NFI in Scotland.

DEREK MACKAY



POST-LEGISLATIVE SCRUTINY: NATIONAL FRAUD INITIATIVE – ACTION PLAN – UPDATED 6 NOVEMBER 2018

Recommendation	Response
<p>1. We consider that additional publicity around the NFI could help to maximise its deterrent effect and therefore further reduce the cost of fraud to the public purse. We call on the Scottish Government and Audit Scotland to work with participating bodies to consider how best to raise public awareness of the NFI and how its successful outcomes could best be publicised. This should involve a review of current practice and consideration of a more proactive and comprehensive advertising strategy. We stress that this work should be proportionate as we do not wish to focus unfairly on particular groups of people.</p>	<p>The Scottish Government has continued to support the work of Cabinet Office and Audit Scotland in promoting the NFI, and has been working alongside Audit Scotland to raise awareness of the NFI.</p> <ul style="list-style-type: none"> • Audit Scotland published its latest report on the NFI in summer 2018. The report received a good level of coverage in the media. The report was published on the Audit Scotland website, and also promoted through social media (Twitter) in the lead up to and after publication. • Audit Scotland and the Cabinet Office delivered presentations to the Scottish Government's National Counter Fraud Forum in August 2018 on the future plans for the NFI • Audit Scotland delivered a presentation on the outcomes from the 2016/17 NFI exercise at the CIPFA national conference in Bournemouth in July 2018. • Audit Scotland delivered presentations at the Scottish Local Authority Chief Internal Audit Group and Scottish Local Authority Investigators Group in September 2018 on the NFI including outcomes to date and future developments. • Audit Scotland arranged engagement days in September 2018 with participating bodies and external auditors. These events aim to raise awareness of the importance of the NFI and to encourage participating bodies to increase local promotion, which could help to increase the public's awareness of the NFI. • Audit Scotland is developing an e-hub on its website to help promote the NFI and other counter-fraud activity. • In February 2019, local external auditors will review arrangements in place in participating bodies for raising public awareness of the NFI and the outcomes. • Audit Scotland recently arranged an engagement session day involving participants in the NFI (including The Scottish Government) and the information technology supplier of AppCheck. Case studies were used to demonstrate the successes and benefits of AppCheck, and all participants were given access to a number of free data matches. The session also provided an opportunity for participants to discuss and share experiences, as well as a chance to suggest new data sets for future matching.

Recommendation	Response
<p>2. We believe that public bodies, in publicising the outcomes of the NFI, could also use this opportunity to report on any other successful anti-fraud measures. This would help to reassure the public that credible allegations of fraud are taken seriously.</p>	<ul style="list-style-type: none"> • Audit Scotland “tweeted” various case studies from the previous NFI report in the lead up to the publication of its July 2018 report on NFI. • Audit Scotland’s 2018 NFI report contains various case studies. For example, details of the NHS Scotland Counter Fraud Service’s behavioural science activity in its counter-fraud endeavours (case study 9 of report). Audit Scotland also issues other reports regarding fraudulent activity. A case in Dundee City Council which was subject to a police investigation was the subject of an audit report under Section 102(1) of the Local Government (Scotland) Act 1973. • Individual NFI participants also promote their NFI work and other counter-fraud work locally in the media, for example Angus Council’s work was recently highlighted in a local newspaper.
<p>3. We were disappointed to hear that work is still required to ensure the effective follow up of matches. The Scottish Government should consider extending Audit Scotland’s powers to enable it to place specific requirements on mandatory bodies where it appears they have been ineffective in investigating matches and therefore potentially allowing existing fraud or error to continue. Again, it is important that any such power be used proportionately.</p>	<p>The Scottish Government and Audit Scotland agree that effective processing is not something which can easily be mandated, however the level of participation in the NFI by public bodies continues to increase and improve as a result of engagement work by Audit Scotland.</p> <ul style="list-style-type: none"> • Audit Scotland held NFI engagement days in September 2018 for participating bodies and auditors. These events emphasised the importance of following up matches promptly. • Audit Scotland has arranged for local external auditors and participating bodies to get together in February 2019 to consider the arrangements in place for reviewing the next batch of data matches (which will be shared by 31 January 2019). • The Scottish Government has been proactively engaging with housing associations to solicit participation in the NFI, and as a result Cabinet Office have provided a total of 8 housing associations with training on AppCheck to enable them to participate in the NFI. A pilot exercise is currently under way, and the Scottish Government will evaluate the results in 2019.

Recommendation	Response
<p>4. It is important to the continued success of the NFI that local authorities have access to all the data they require and we heard a clear case that access to HMRC data would help. The Scottish Government should therefore determine whether a legal remedy is required on this issue and, if so, make representations to the Cabinet Office.</p>	<ul style="list-style-type: none"> • Neither the Scottish Government nor Audit Scotland currently believe that a legal remedy is required to this issue, as demonstrated by the positive work noted below, however both parties will continue to review and monitor developments. • Audit Scotland has been working with the Cabinet Office and the Student Award Agency Scotland (SAAS) to facilitate a pilot where HMRC and credit reference data can be matched. The pilot aims to review student funding applications to establish additional economically active residents in the household whose financial details may have been omitted from student funding applications resulting in overpayments of student awards. The data matching has been completed and the matches are being reviewed with the aim of completing the pilot by the end of September 2018 (now extended to the end of October to ensure all relevant outcomes are reflected in the results). • The Scottish Government and Audit Scotland agree that with continuing positive engagement with HMRC, as well as the Digital Economy Act 2017, further access will be permitted to more HMRC data in the future.
<p>5. In general, we agree that any measures to increase the effectiveness of the NFI should be encouraged. We therefore call on the Scottish Government to consider whether there is evidence to show that any approaches adopted elsewhere in the UK have been successful and, if so, to revise Scottish legislation accordingly.</p>	<ul style="list-style-type: none"> • The Scottish Government is fully committed to supporting the development of the NFI in Scotland, however we have yet to see any evidence to support any change in legislation at this time. • All parties agree that encouraging participation is preferable to revising legislation, and continue to take actions to strengthen the NFI, for example with the Non Domestic Rates and housing association pilots, detailed at actions 7 and 10. • The Scottish Government and Audit Scotland meet regularly (most recently on 31 October 2018) to discuss NFI improvement alongside other counter fraud measures.
<p>6. We call on the Scottish Government to clarify this issue (the legal position on accessing data from the electoral roll).</p>	<ul style="list-style-type: none"> • The Scottish Government's Elections Policy officials have advised that this is covered under regulation 106 of the Representation of the People (Scotland) Regulations 2001. This sets out how local authorities can use the register, and also covers the onward supply of the register to others for the discharge of a statutory function relating to security, law enforcement and crime prevention. • The Scottish Government has identified the 2 local authorities who had originally queried the legal position and Elections Policy officials are following this up to clarify the position with the relevant registration officer, responsible for both local authorities.

Recommendation	Response
<p>7. We believe all public bodies and private organisations in receipt of public money should participate in the NFI, where this would deliver clear benefits to the public purse.</p>	<ul style="list-style-type: none"> • The Scottish Government continues to work with Audit Scotland and the Cabinet Office to review approaches taken across the rest of the UK and establish what organisations may be brought into the NFI architecture that would deliver clear benefits to the exercise in Scotland. • As mentioned at recommendation 4 above, the inclusion of HMRC into data matching for Scottish organisations is being piloted. • The Scottish Government has identified a total of 8 housing associations willing to become involved in piloting aspects of the NFI in their organisations. This exercise is currently ongoing and will be evaluated in 2019. • The number of Colleges participating in NFI has increased from 2 in the 2014-15 exercise to all colleges in the 2018/19 exercise about to start.
<p>8. Should the Scottish Government consider that further legislative change is not required to widen the scope of the NFI, we invite Audit Scotland to consider whether it could take further steps to encourage relevant organisations to participate voluntarily.</p>	<ul style="list-style-type: none"> • As discussed at recommendation 7, Audit Scotland is working with the Cabinet Office and the Scottish Government to bring in new participants to the NFI. Audit Scotland has mandated Scottish Canals and the additional Scottish colleges to participate in the 2018/19 NFI exercise. • Audit Scotland is also working with the Cabinet Office on a UK-wide basis on pilot activity looking at both new participating bodies and/or new data sets available for matching. The Cabinet Office's team with responsibility for this pilot delivered a presentation on its work to Scottish NFI participants at an event organised by Audit Scotland in September 2018. This helped the Cabinet Office to identify potential new areas/organisations in which to carry out pilots and to possibly identify participants willing to volunteer for pilot activities.

Recommendation	Response
<p>9. We also invite Audit Scotland to consider whether, in reporting on future NFI results, it could provide further information on the overall cost-benefit ratio to the public sector. Further, where there has been a significant drop in fraud associated with a particular programme, we would welcome an assurance that this is due to more effective antifraud measures, rather than, for example, public bodies being unable to investigate fully.</p>	<ul style="list-style-type: none"> • Audit Scotland's 2018 NFI report highlights a cost benefit analysis (para 66 of report). It concludes that “Many bodies do not keep separate records for NFI costs as it is just one of many counter-fraud activities they are doing. Those that did have records were able to estimate that their costs ranged from £255 to £40,000. This compares favourably with the average outcome for each public body in Scotland of £165,000 for the 2016/17 NFI. Overall, the £18.6 million of outcomes from the 2016/17 NFI outweigh the costs.” • Counter-fraud case studies were included in Audit Scotland's 2018 NFI report, for example, the use of behavioural science in the NHS and the use of “tell us once” in councils. (Case study 3 of report)
<p>10. We believe it is important to extend the NFI's scope where this would clearly help to tackle fraud in any spending areas not currently covered. We also ask the Scottish Government to confirm that, where relevant, it takes the NFI into account when considering setting up new spending programmes. Given the scale of the new social security powers, we also seek confirmation of how much it will cost to align these new powers with the NFI.</p>	<ul style="list-style-type: none"> • The Scottish Government can confirm that it includes all spending data on new programmes when participating in the NFI exercise. Both the Scottish Government and Audit Scotland work with new bodies when they are being established to ensure they are brought into the NFI where appropriate. This includes the new Social Security Agency. • The Cabinet Office's fee for participating in NFI is determined by organisation type and activity level (number of datasets, records). Typical fees range from £1,000 (NHS boards, Police, Fire); £2,000-£3,850 for local authorities. Fees vary for other bodies from £1,050 to £13,500 for the Scottish Public Pension Agency. Audit Scotland meets these costs for participating through direct funding from the Scottish Government. • Audit Scotland has arranged that all colleges and Scottish Canals will be included in the 2018/19 NFI. Previously only larger colleges participated. Social Security Scotland will participate in future NFI exercises. • Audit Scotland is working with the Scottish Government and the Cabinet Office to develop a Non Domestic Rates pilot data match. A total of 10 councils have shown an interest in being included in this pilot which is due to commence in 2019.

Recommendation	Response
<p>11. We believe it is important to tackle those who repeatedly commit fraud in order to provide reassurance that systems are effective and that public money is not being wasted. We note the Cabinet Office is considering how to address the issue and we expect the Scottish Government to work with the Cabinet Office and Audit Scotland on this as a matter of urgency. We request an update on how the problem is being tackled.</p>	<ul style="list-style-type: none">• The Cabinet Office continues to identify and incorporate relevant datasets, including those relating to known fraudsters, where they can help effectively prevent and detect fraud. The NFI already includes some known fraud intelligence, specifically the Metropolitan Police ‘Amberhill’ database. Cifas known fraud intelligence has recently been piloted and the impact is being evaluated.• The NFI system already shows if a match has been identified before.• Audit Scotland will seek to identify any other relevant datasets e.g. through discussions with clients. Additional datasets to support this work will be considered as the NFI strategy is developed through to 2020.• The Scottish Government meets regularly with Audit Scotland, most recently on 31 October 2018, to discuss NFI improvement and related matters such as these.

Recommendation	Response
<p>12. We ask the Scottish Government, working with Audit Scotland, to provide an estimate of how much could potentially be saved by AppCheck, and to confirm how much its roll out in Scotland would cost and how it would be funded.</p>	<ul style="list-style-type: none"> • An AppCheck demonstration for interested NFI participants was organised by Audit Scotland in September 2018 at the NFI participants' engagement sessions with the Cabinet Office, and promotional leaflets were handed out. Participants shared their positive experiences and Cabinet Office reiterated their offer of a free AppCheck trial for all NFI participants. • The cost for local authorities is £1850 per year and The Scottish Government has advised that it will consider assisting with future funding, if required, in situations where a clear benefit has been identified following the free trial period, on a case by case basis. • Case studies involving the use of AppCheck are detailed in the Audit Scotland report • AppCheck results for Scotland at March 2018 were: 3 councils have contracts in place for AppCheck (East Dunbartonshire and North Ayrshire councils on a "pay as you use" basis and Inverclyde Council on an annual contract). Twelve additional Scottish bodies have undertaken the free trial of AppCheck. • Appcheck outcomes recorded so far are that three applications have been declined in East Dunbartonshire Council. <ul style="list-style-type: none"> ➤ One of these was a case study in Audit Scotland's 2018 NFI report. A council tax discount/reduction application processed through Appcheck identified that an undeclared partner was resident in the property. ➤ Another Appcheck case identified that an applicant for a taxi driver licence with a Glasgow address also had a tenancy in Milton Keynes. Milton Keynes Council was then able to recover the tenancy. ➤ A housing waiting list applicant was identified as having a tenancy with another housing provider.
<p>13. This is our first post-legislative scrutiny inquiry and we were pleased to hear the general consensus, with which we concur, is that the NFI is effective at protecting public money from fraud and error. We thank all those who provided suggestions as to how it could be made even more effective and look forward to receiving the Scottish Government's response.</p>	

Recommendation	Response
<p>14. We call on the Scottish Government to confirm whether it is clearly able to distinguish the NFI's success from other anti-fraud measures, and for how long the NFI can usefully continue as a stand-alone measure.</p>	<ul style="list-style-type: none">• It is not straightforward to distinguish between one anti-fraud measure and another, particularly when you consider the deterrence a measure such as publicity can have in preventing fraud. The NFI is not a stand-alone measure, with many actions being taken across Scotland in individual organisations to support our strategic approach to fighting fraud, Protecting Public Resources. The strategy is designed to raise awareness of the continued importance of fighting fraud, bribery and corruption; provide a basis to improve fraud action plans and strategies in individual organisations; and ensure a consistent preventative approach is being taken to counter fraud across Scotland.• Audit Scotland and the Cabinet Office delivered presentations to the Scottish Government's National Counter Fraud Forum in August 2018 on the future plans for the NFI, including pilot activity and improvements to risk scoring and the NFI system and processes.