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Convener
Public Audit Committee
The Scottish Parliament
Edinburgh
EH99 1SP

03 May 2022

Dear Convener,

The National Fraud Initiative

I would like to thank you and the Committee for your continuing interest in the National Fraud Initiative (NFI). I note your interest in the Cabinet Office consultation on extension of its legal powers around the purposes for which data matching can be used, I am also keen to understand the outcomes of the consultation and look forward with interest to when this becomes available.

My officials have been recently engaging with Audit Scotland on the NFI who of course lead the process in Scotland and I am keen to support Audit Scotland in the additional consideration and consultation on data matching purposes that would be required prior to altering any legislation for those powers that might be extended which are not already covered by section 97 of the Criminal Justice and Licensing (Scotland) Act 2010.

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, subsequently updated in November 2018, and now updated for 2022 is attached. I will continue to ensure that my officials work with Audit Scotland to further improve engagement with the NFI in Scotland.

Yours sincerely,

KATE FORBES

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot



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POST-LEGISLATIVE SCRUTINY: NATIONAL FRAUD INITIATIVE – ACTION PLAN Recommendation	Response - PREVIOUS UPDATES from 6 NOVEMBER 2018 are detailed in grey and 29 APRIL 2022 updates in red
<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>	<ul style="list-style-type: none"> • <i>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.</i> • <i>Audit Scotland published its 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.</i> • Audit Scotland published its latest report on the NFI in summer 2020, with the next report due in summer 2022. The 2020 report was published on the Audit Scotland website and promoted through social media (Twitter) in the lead up to and after publication. • <i>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</i> • <i>Audit Scotland delivered a presentation on the outcomes from the 2016/17 NFI exercise (published in 2018) at the CIPFA national conference in Bournemouth in July 2018.</i> • <i>Audit Scotland delivered presentations at the Scottish Local Authority Chief Internal Audit Group (SLACIAG) and Scottish Local Authority Investigators Group in September 2018 on the NFI including outcomes to date and future developments.</i> • Audit Scotland delivered presentations on its 2020 NFI report at a number of events including meetings of SLACIAG, the Office of the Comptroller and Auditor General of Ireland and counter-fraud conferences. • <i>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. Similar sessions were held in September 2020 prior to the start of the latest NFI exercise.</i> • Audit Scotland is developing an e-hub on its website to help promote the NFI and other counter-fraud activity. This has now been developed and is at: Counter-fraud Audit Scotland (audit-scotland.gov.uk) This website contains details on the NFI and Audit Scotland's wider work on counter-fraud. • <i>In February 2019, local external auditors will review arrangements in place in participating bodies for raising public awareness of the NFI and the outcomes. This was repeated between January-March 2022.</i> • <i>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</i>

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	<p><i>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.</i></p>
<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. This was repeated in 2020 for the 2020 NFI report. • 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. • Participants tend to report larger cases identified by the NFI in the media. For example, Fife Council https://www.centrafifetimes.com/news/19833357.fife-council-former-employee-paid-20-000-five-figure-error/
<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>	<ul style="list-style-type: none"> • 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. • Audit Scotland held NFI engagement days in September 2018 for participating bodies and auditors. These events emphasised the importance of following up matches promptly. These events were repeated in September 2020 prior to the start of the current NFI exercise. • 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). • Audit Scotland arranged for local auditors to engage with participants between January-March 2022 to consider the arrangements in place and the progress made in reviewing matches. The outcome of these reviews will be reported in the next NFI report in summer 2022. • 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. The exercise was completed and Housing Associations reported mixed results –

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	<p>the current position is that only one association is still using App Check for real-time checking.</p>
<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"> • <i>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.</i> • <i>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).</i> • This pilot with SAAS was completed at the end of 2018. Over £600,000 of fraud & error was identified during the review year. Assuming that the students will complete a 4-year undergraduate course, an estimated total of over £2.4m in savings was identified in terms of potential fraud. • SAAS looked to test the effectiveness of using only Credit Reference Data in 2021 but SAAS decided to wait until the Digital Economy Act Regulations were in place before progressing more pilot work in this area. • <i>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.</i> • The Scottish Parliament approved the required Regulations on 9 March 2022, and they came into force on 16 March 2022. They are at The Digital Government (Scottish Bodies) Regulations 2022 (legislation.gov.uk) Audit Scotland is now looking to work with the Cabinet Office to include Scottish data in their next data matching exercise using DEA powers. The next data matching exercise the Cabinet Office NFI team will undertake using DEA powers is likely to start to be scoped early in 2023, with the results likely to be reported in 2024. • The Scottish Government is also undertaking work internally to map fraud risk across SG and in SG organisations, the results of which will be shared freely with Audit Scotland and can be linked to their work on NFI take up. Effective use of data is a key factor in evaluating response to fraud risk and NFI is one mechanism for doing this, and the new Digital Economy Act is another. The Scottish Government will be looking at how data is being used in the areas where the SG find there is the most fraud risk or potential impact from fraud, with NFI and data analytics being a big consideration in that. This work is currently in its early stages and the Scottish Government's Head of Counter Fraud Profession is working with colleagues from different SG public bodies in looking for opportunities to develop

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	<p>targeted data sharing between organisations to prevent fraud and error under DEA powers. There is the possibility for this to have a complementary impact to NFI in that sharing under DEA powers can be done within a tighter timeframe and frequency, and may result in better quality matches and fraud prevention/ detection outcomes.</p>
<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"> • <i>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.</i> • <i>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.</i> • <i>The Scottish Government and Audit Scotland meet regularly (most recently on 31 October 2018) to discuss NFI improvement alongside other counter fraud measures.</i> • The Scottish Government are committed to supporting Audit Scotland in their efforts to develop the NFI in Scotland – both Audit Scotland and the Scottish Government met regularly on the NFI until early in 2020 when activities in this area were paused by the Scottish Government to ensure resources were focussed on Pandemic response. Audit Scotland and SG met to discuss the NFI specifically in April 2022 but also have been in contact during the pandemic regarding the Scottish Government’s own response to the NFI and also with regards to improvement of fraud measures in general with the Head of Counter Fraud Profession in the SG leading work on supporting Covid grant fraud prevention alongside other activities. The SG and Audit Scotland will now resume their regular meetings on supporting the NFI more generally going forward.
<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"> • <i>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.</i> • <i>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.</i> • The Scottish Government consider that following this clarification that this action is closed.
<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"> • <i>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.</i> • <i>As mentioned at recommendation 4 above, the inclusion of HMRC into data matching for Scottish organisations is being piloted.</i>

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	<ul style="list-style-type: none"> • <i>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.</i> • <i>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.</i> • All new public bodies are considered for inclusion into the NFI by Audit Scotland. For example, Public Health Scotland participated in the 2020/21 NFI exercise which will be included in the 2022 NFI report.
<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"> • <i>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.</i> • <i>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.</i> • Audit Scotland considers all new public bodies under the audit remit of the Auditor General for Scotland and the Accounts Commission for inclusion into the NFI. • Other bodies can volunteer to join the NFI. There have been no volunteers in the 2020/21 exercise.
<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"> • <i>Audit Scotland's 2018 NFI report highlights a cost benefit analysis (para 66 of report). It concludes that;</i> <ul style="list-style-type: none"> ➤ <i>“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.</i> ➤ <i>Overall, the £18.6 million of outcomes from the 2016/17 NFI outweigh the costs.”</i> ➤ <i>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)</i> • Similar reporting of the costs of the NFI to both Audit Scotland and participating organisations will be included in the next NFI report which will be published in summer 2022.
<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</p>	<ul style="list-style-type: none"> • <i>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.</i>

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<p>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"> • <i>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 £1,150 (NHS boards, Police, Fire); £2,450-4,200 for local authorities. Fees vary for other bodies from £1,150 to £2,400. Audit Scotland meets these costs for participating through direct funding from the Scottish Government. (updated for 2022 costs)</i> • <i>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.</i> • <i>Social Security Scotland participates in the NFI as does other new bodies such as Public Health Scotland and South of Scotland Enterprise.</i> • <i>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. This NDR pilot has finished. Seven council participated with outcomes of £412,974 being identified. The pilot was rolled out to all Scottish councils in 2021 with results due to be reported in spring 2022.</i>
<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"> • <i>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 pilot was completed but very few outcomes were identified. Therefore, it was not repeated. However, the Cabinet Office are now data matching using fraud "watchlist" datasets which contain details of people known to have committed fraud. Further development and piloting of these watchlists is ongoing.</i> • <i>The Internal Fraud Policy is a cross-government initiative led by the Cabinet Office. Since its inception in 2015, it has sought to manage the risk of internal fraud to reduce losses and to ensure a zero tolerance approach towards fraud in government. The Internal Fraud Database holds details of Civil Servants dismissed for fraud or dismissed for fraud or dishonesty, or staff who would have been dismissed had they not resigned. These individuals should expect to have their details placed on the database and be banned from re-joining the Civil Service for 5 years.</i> • <i>The initiative was piloted in a number of government departments (Home Office, DWP, HMRC etc.) from November 2015 to March 2016 and changes have been made to reflect this experience. Fuller roll out across the Civil service has been phased in and is nearing completion. The Scottish Government were keen to participate at this time however Cabinet Office's view was that this was premature at that point until the pilot and rollout across UK departments was complete. The Scottish Government preparatory work began in 2019 for inclusion with Social Security Scotland (SSS) taking the lead on its behalf, however the resources involved then became utilised to respond to the pandemic priorities.</i>

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	<ul style="list-style-type: none"> • As pressures around the pandemic eased in Autumn 2021 SG and SSS were able to focus on this work again and in March 2022 the SG agreed to pilot and launch the initiative in Social Security Scotland where it is vital that they have safeguarding measures in place to mitigate the risk of employing those who have been dismissed from the Civil Service for reasons of fraud. • This will be reviewed over the next 6 months with a view to rolling out to the wider Scottish Government Main and to then encourage other Scottish Administration organisations to take part. • <i>The NFI system already shows if a match has been identified before.</i> • 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. In 2020/21 data matching was carried out on Covid -19 business grants. Part of this matching was to Cabinet Office watchlist data sets of people known to have previously committed fraud. • The Scottish Government meets regularly with Audit Scotland, most recently on 31 October 2018, to discuss NFI improvement and related matters such as these. As noted in point 5 above the Scottish Government and Audit Scotland will now resume their regular meetings on supporting the NFI more generally going forward
<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"> • <i>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.</i> • <i>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.</i> • <i>Case studies involving the use of AppCheck are detailed in the Audit Scotland report</i> • <i>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.</i> • <i>AppCheck outcomes recorded so far are that three applications have been declined in East Dunbartonshire Council.</i> • <i>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.</i> • <i>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.</i>

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	<ul style="list-style-type: none"> • <i>A housing waiting list applicant was identified as having a tenancy with another housing provider.</i> • SAAS is currently doing a pilot to use AppCheck to verify details on student funding applications. In addition, East Dunbartonshire Council, and SPPA used AppCheck during the last 2 years. • Results from the latest NFI exercise will be included in the next NFI report which will be published in summer 2022.
<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>	
<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"> • <i>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.</i> • The Scottish Government consider the NFI a useful tool to support the detection of fraud within key systems, with the NFI biennial exercise being just one detection tool rather than for prevention. This and applications such as the NFI's Appcheck which is the NFI's fraud prevention tool are some of the many means that bodies need to use to ensure they have a mix of prevention and detection methods at their disposal when seeking to address fraud risks, alongside having robust systems of control, fraud risk assessments and utilising data not just within the NFI but via better sharing of data where public money is being used which is absolutely something we agree with, and will support Audit Scotland and Cabinet Office in improving participation where appropriate. • <i>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.</i>