

9 January 2024

Colin Beattie
Chair
Scottish Commission for Public Audit
The Scottish Parliament
Edinburgh
EH99 1SP

Dear Chair

At the Scottish Commission for Public Audit (SCPA) meeting on 11 December 2023, you asked about the benefits and outcomes of the NFI and how an assessment is made on its value for money. You also asked for further information on the organisations covered by the NFI and the extent to which the Scottish Government has the power to broaden the scope of the organisations covered by the initiative.

Outcomes and value for money of the NFI

We believe the NFI provides good value for money. It is playing a critical role in counter-fraud across Scotland's public sector. We identify the outcomes and benefits of NFI across the following four areas:

- **Detecting error and fraud:** it is assisting in identifying cases of error and fraud from matched data, enabling appropriate action to be taken and in many cases delivering savings for participating bodies.
- **Deterring fraud:** Awareness of the NFI can act as a deterrent to potential fraud for organisations participating in the exercise.
- **Assurance:** Provides some evidence-based assurance that arrangements are operating well where no errors or fraud are detected from matched data.
- **Systems improvements:** Where errors are detected, the NFI can assist participating bodies to identify opportunities for system improvements.

While it is not possible to quantify and value all the benefits across these four categories, in our [2022 report](#) on the NFI we reported that the 2020/21 NFI exercise had identified outcomes valued at £14.9 million. This includes the amounts of fraud, overpayments and errors detected, and associated future losses prevented. The cumulative value of outcomes from the NFI in Scotland since 2006/07 is £158.5 million. The equivalent for the UK is £2.4 billion.

The £14.9 million in the 2022 report includes an amount of £2.2 million in incorrect non-domestic rates relief from pilot work for potential future NFI exercises. Pilot work also identified a £25,000 fraudulent Covid-19 grant payment and 1,737 national entitlement travel cards that should have been cancelled. These are examples of how we are always looking to widen the reach of NFI into new dataset areas. We will be looking to reintroduce the adult social care

mortality screening as part of future exercises pending a Legislative Reform Order in England. The other way to broaden the reach is to extend the exercise to new bodies.

Many bodies participating in NFI do not keep separate records for NFI costs as it is delivered as part of their other counter fraud activities. Those that do, estimate that their costs ranged from £500 to £71,000. This compares favourably with the average outcome for each public body in Scotland of £113,000 for the 2020/21 NFI exercise. Thus, on average the benefit for participating bodies exceeds reported costs, and this is before accounting for unquantifiable benefits associated with deterring fraud, assurance of systems and systems improvements.

Scottish Government's power to broaden the scope of organisations covered by NFI

The NFI in Scotland is led by Audit Scotland, and it is overseen by the Public Sector Fraud Authority for the UK. The Public Finance and Accountability (Scotland) Act 2000 (as amended by the Criminal Justice and Licensing (Scotland) Act 2010) enables Audit Scotland to mandate the participation of its audited bodies and permits us to accept data from other bodies on a voluntary participation basis.

There are around 130 public bodies in Scotland that participate in NFI. These covers all councils, NHS bodies, colleges, and all larger central government bodies, for example, the Scottish Government, Revenue Scotland, and Transport Scotland. The full list of participating organisations is available [here](#). In addition, 14 councils also include data from Arm's-Length External Organisations (ALEOs), joint boards or subsidiaries within their NFI submissions.

We are not aware of legal powers that the Scottish Government can use to mandate participation of other bodies in NFI. However, Audit Scotland continues to work with the Scottish Government in promoting and enhancing participation in the NFI across Scotland. Currently work is ongoing to include some universities and registered social landlords in future exercises on a pilot basis.

Additional Information on NFI

In our letter dated 20 December 2023 on the Audit Scotland Budget proposal we promised to share additional information about the National Fraud Initiative (NFI). Please find enclosed background note on NFI in Scotland appended as Annex 1.

We hope the above information is helpful. Please contact us if we can be of further assistance.

Yours sincerely

Stephen Boyle
Auditor General for Scotland and
Accountable Officer

Professor Alan Alexander
Chair

Annex - National Fraud Initiative in Scotland



How the National Fraud in Scotland Operates

The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland under Section 26 of the Public Finance and Accountability (Scotland) Act 2000. The NFI is overseen by the Public Sector Fraud Authority for the UK as a whole. It uses computerised techniques to compare information held by different public bodies, and on different systems that might suggest the existence of fraud or error in use of public funds. The main NFI exercise takes place every two years and forms a key part of counter fraud arrangements in the public sector.

Data submissions for the NFI and the release of match reports back to participating bodies are via a secure online portal and the exercise is governed by a [Code of data matching practice](#).

Matches are risk scored and can be filtered to enable prioritised follow-up. Guidance and support are available from Audit Scotland and from the Public Sector Fraud Authority NFI team. However, follow-up and investigation of matches is undertaken by participating bodies.

In addition to providing support Audit Scotland, together with appointed auditors, monitor the participation and progress of bodies, and at the culmination of each exercise we produce a national report. The latest report in 2022 can be found [here](#).

Current Areas and Scope of NFI in Scotland

The main categories of fraud, overpayments and errors investigated in the exercise through data matching include:

Category	Details	Key aim of data matching
Council tax single person discounts	People living on their own, or with no countable adults in the household, are eligible for a 25 per cent single person discount (SPD) on their council tax bill.	Incorrectly awarded SPDs are identified and stopped.
Non Domestic Rates - Small Business Bonus Scheme	Small businesses with a cumulative multi property rateable value of up to £35,000 can apply for mandatory rate relief.	Incorrectly awarded reliefs are identified and stopped.
Adult concessionary travel	There are concessionary travel schemes for the disabled and the elderly in Scotland.	Any fraudulent use of concessionary travel passes associated with accounts of deceased persons is identified and stopped.
Blue badge parking scheme	The blue badge parking scheme allows people with mobility problems to gain parking concessions for on-street	Blue badge holders who have died are identified, allowing their blue badge to be cancelled.

Category	Details	Key aim of data matching
	parking, allowing them to park close to where they need to go.	
Pensions	Pensions are paid by various pension schemes for those qualified.	Pensioners who have died are identified allowing pension schemes to stop pension payments.
Housing benefit	Housing benefit helps people on low incomes pay their rent.	Individuals inappropriately claiming housing benefit are identified and payments stopped.
Housing Tenancy	Social housing provides affordable accommodation, allocated according to need. It is owned and managed by public authorities (mainly councils) and housing associations (registered social landlords).	Tenants who have died or have sub-let their property are identified to allow recovery of the property. Social housing provides affordable accommodation, allocated according to need. It is owned and managed by public authorities (mainly councils) and housing associations (registered social landlords) to allow recovery of the property.
Council tax reduction scheme	Council tax reduction scheme helps those on low incomes to pay their council tax bills.	Individuals inappropriately claiming council tax reduction are identified and the reduction removed from the council tax account.
Social housing waiting lists	Social housing provides affordable accommodation, allocated according to need. It is owned and managed by public authorities (mainly councils) and housing associations (registered social landlords).	Ineligible applicants for social housing are identified and removed from the waiting list.
Creditor payments	A creditor is a person or an organisation that a public body pays money to for a good or service.	Duplicated creditor payments are identified and recovered.
Payroll	This is the earned income paid by public bodies to their employees.	Employees working illegally or working for one organisation whilst absent due to illness from a separate organisation are identified to allow action to be taken by the appropriate body.

There are around 130 public bodies in Scotland that participate in the NFI. These include councils, NHS boards, incorporated colleges, and all larger devolved central government bodies, for example, the Scottish Government, Revenue Scotland, and Transport Scotland. The full list of participating organisations is available [here](#). In addition, 14 councils also include data from Arm's-Length External Organisations (ALEOs), joint boards or subsidiaries within their NFI submissions.

Results from NFI in Scotland

We identify the outcomes and benefits of NFI across the following four areas:

- **Detecting error and fraud:** it is assisting in identifying cases of error and fraud from matched data, enabling appropriate action to be taken and in some cases delivering savings for participating bodies.
- **Deterring fraud:** Awareness of the NFI can act as a deterrent to potential fraud for organisations participating in the exercise.
- **Assurance:** Provides some evidence-based assurance that arrangements are operating well where no errors or fraud are detected from matched data.
- **Systems improvements:** Where errors are detected, the NFI can assist participating bodies to identify opportunities for system improvements.

Our last [NFI report](#) in August 2022 highlighted that a total of £14.9 million of fraud and error had been recorded in the previous two years. At that time, the cumulative total of fraud and error identified since the NFI began in 2006 was £158.5 million in Scotland and £2.4 billion across the UK. These figures include fraud and error that had been detected, as well as an estimate of future losses that have been prevented.

The report was also accompanied by an [interactive data tool](#) which provides users with the ability to interrogate the data in more detail.