1. Overview

1.1.   The National Fraud Initiative (NFI) is a counter-fraud exercise led by the Cabinet Office, which aims to prevent and detect fraud. The exercise operates across the UK public sector and includes 132 public bodies in Scotland. Audit Scotland lead the exercise in Scotland.

1.2.   As part of their 2021/22 Annual Audit, Audit Scotland commented on the delays and the lack of participation in the National Fraud Initiative matching exercise by the Council. A recommendation was made that "The Council should ensure the NFI process is complete on a timely basis and reported to those charged with governance to ensure that they get value from the exercise."

1.3.   The report, attached as Appendix 1 to this report, gives an overview of the NFI data matching process and the outcomes achieved.

2. Recommendations

2.1.   It is recommended that members of the Committee:

i.   Scrutinise the report, attached as Appendix 1 to this report, in order to obtain assurance that the Council is participating in the National Fraud Initiative process and identifying potential frauds and errors.

For Further Information please contact:
Andrew Paterson, Chief Internal Auditor, Extension 2107, email
andrew.paterson@orkney.gov.uk.

Implications of Report

1. **Financial:** None directly related to the recommendations in this report.
2. **Legal:** None directly related to the recommendations in this report.
3. **Corporate Governance:** None.
4. **Human Resources:** None directly related to the recommendations in this report.
5. **Equalities:** None directly related to the recommendations in this report.
6. **Island Communities Impact:** None directly related to the recommendations in this report.
7. **Links to Council Plan:** Not Applicable.
8. **Links to Local Outcomes Improvement Plan:** Not Applicable.
9. **Environmental and Climate Risk:** None directly related to the recommendations in this report.
10. **Risk:** None directly related to the recommendations in this report.
11. **Procurement:** None directly related to the recommendations in this report.
12. **Health and Safety:** None directly related to the recommendations in this report.
13. **Property and Assets:** None directly related to the recommendations in this report.
14. **Information Technology:** None directly related to the recommendations in this report.
15. **Cost of Living:** None directly related to the recommendations in this report.

List of Background Papers

None

Appendix

Appendix 1: NFI Data Matching Process Report

ORKNEY
ISLANDS COUNCIL

Internal Audit

National Fraud Initiative Data Matching Process	
Draft issue date: 1 May 2024	
Final issue date: 13 May 2024	
Distribution list:	**Corporate Director for Strategy, Performance and Business Solutions**
	Corporate Director for Enterprise and Sustainable Regeneration
	Corporate Director for Education, Leisure and Housing

Contents

Executive Summary

The National Fraud Initiative (NFI) is a counter-fraud exercise led by the Cabinet Office, which aims to prevent and detect fraud. The exercise operates across the UK public sector and includes 132 public bodies in Scotland. Audit Scotland lead the exercise in Scotland.

The NFI enables public bodies to use computer data matching techniques to detect fraud and error. It involves comparing computer records held within and between bodies to see how far they match. These matches represent potentially fraudulent claims or payments and are reviewed and investigated by participating bodies. If the bodies identify fraud, overpayments or errors, they record them as outcomes of the exercise.

As part of their 2021/22 annual Audit, Audit Scotland commented on the delays and the lack of participation in the National Fraud Initiative matching exercise by the Council. A recommendation was made that "The Council should ensure the NFI process is complete on a timely basis and reported to those charged with governance to ensure that they get value from the exercise."

During the 2021/22 exercise, due to limited resource, the Council prioritised high risk matches which accounted for around 25% of the total matches.
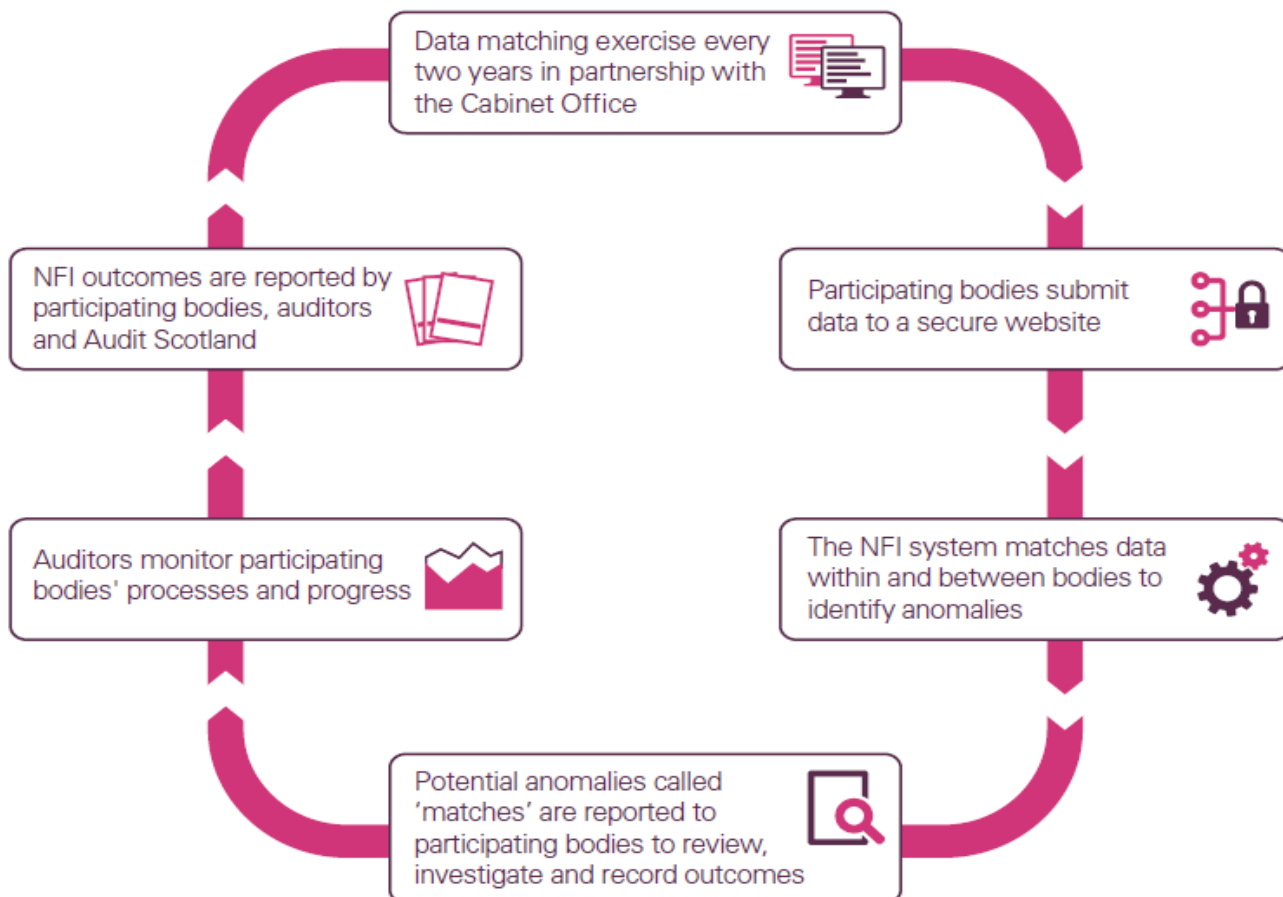
The 2022/23 NFI exercise started in late summer 2022 and the last matches were uploaded in November 2023. The matching exercise finished at the end of March 2024 and results of the national exercise will be published by Audit Scotland later this year. The number of matches processed has increased to 86.5% for the most recent exercise.

The timetable for the next exercise for 2024/25 should be available this summer and the process will start again; monitoring will continue to encourage participation going forward.

Process

The process involves uploading data packages to the NFI system which are then matched to the data from different bodies to identify any anomalies. These are then investigated by the relevant bodies to identify if any fraud or error exists.

The matching exercise covers housing benefits, pensions, payroll, council tax and council tax reduction, creditors, blue badges, and housing waiting lists.

Data matching exercise every two years in partnership with the Cabinet Office

Participating bodies submit data to a secure website

The NFI system matches data within and between bodies to identify anomalies

Potential anomalies called 'matches' are reported to participating bodies to review, investigate and record outcomes

Auditors monitor participating bodies' processes and progress

NFI outcomes are reported by participating bodies, auditors and Audit Scotland

Outcomes

There has been significant improvement since the 2021/22 exercise, again there has been a focus on the high-risk matches, but in the most recent exercise 1395 out of 1613 matches (86.5%) have been processed within the timeframe compared to 25% in the previous exercise.

The outcome of this work is that there were eleven errors discovered in total, ten of these were in the blue badge scheme and the other one was on the creditors system where VAT had been overpaid. Action has been taken to address these errors.

One suspected fraud has been referred to the Department for Work and Pensions for further investigation.