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Council Building
2 High Street
Perth
PH1 5PH

20 September 2018

A Meeting of the **Audit Committee** will be held in **the Council Chamber, 2 High Street, Perth, PH1 5PH** on **Wednesday, 26 September 2018** at **14:00**.

If you have any queries please contact Committee Services on (01738) 475000 or email Committee@pkc.gov.uk.

KAREN REID
Chief Executive

Those attending the meeting are requested to ensure that all electronic equipment is in silent mode.

Please note that the meeting will be recorded and will be publicly available on the Council's website following the meeting.

Members:

Councillor Eric Drysdale (Convener)
Councillor Bob Band (Vice-Convener)
Councillor Audrey Coates
Councillor Stewart Donaldson
Councillor David Illingworth
Councillor Xander McDade
Councillor Willie Wilson

Audit Committee

Wednesday, 26 September 2018

AGENDA

MEMBERS ARE REMINDED OF THEIR OBLIGATION TO DECLARE ANY FINANCIAL OR NON-FINANCIAL INTEREST WHICH THEY MAY HAVE IN ANY ITEM ON THIS AGENDA IN ACCORDANCE WITH THE COUNCILLORS' CODE OF CONDUCT.

- 1 WELCOME AND APOLOGIES**
- 2 DECLARATIONS OF INTEREST**
- 3 MINUTE OF THE MEETING OF THE AUDIT COMMITTEE OF 27 JUNE 2018 FOR APPROVAL AND SIGNATURE** **5 - 10**
(copy herewith)
- 4 DRAFT AUDITED ANNUAL ACCOUNTS 2017/18 AND DRAFT ANNUAL REPORT TO THE MEMBERS OF PERTH AND KINROSS COUNCIL AND THE CONTROLLER OF AUDIT FOR THE YEAR ENDED 31 MARCH 2018**
Appendix A - Audit Scotland Report

Appendix B - Self-Appraisal Checklist

(copy to follow)
- 5 INTERNAL AUDIT FOLLOW UP** **11 - 24**
Report by the Chief Internal Auditor (copy herewith 18/291)
- 6 INTERNAL AUDIT UPDATE** **25 - 34**
Report by the Chief Internal Auditor (copy herewith 18/292)
- 7 THE NATIONAL FRAUD INITIATIVE 2016/17 AND 2018/19** **35 - 78**
Report by the Internal Chief Auditor (copy herewith 18/293)

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PERTH AND KINROSS COUNCIL
AUDIT COMMITTEE
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AUDIT COMMITTEE

Minute of meeting of the Audit Committee held in the Council Chamber, 2 High Street, Perth on Wednesday 27 June 2018 at 10.00am.

Present: Councillors E Drysdale, B Band, A Coates, S Donaldson, D Illingworth and X McDade.

In Attendance: J Clark, C Flynn, C Irons, S Mackenzie, M Morrison, A O'Brien and S Walker (all Corporate and Democratic Services); J Cockburn (Education and Children's Services); J Dixon, F Low, J McColl and A Taylor (Housing and Environment)

Also in Attendance: C Windeatt, KPMG

Apologies: Councillor W Wilson

Councillor Drysdale, Convener, Presiding.

. WELCOME AND APOLOGIES/SUBSTITUTIONS

The Convener welcomed everyone to the meeting. It was noted that Councillor W Wilson had replaced Councillor K Baird on the Committee.

. DECLARATIONS OF INTEREST

There were no Declarations of Interest made in terms of the Councillors' Code of Conduct.

. MINUTE

The minute of meeting of the Audit Committee of 23 May 2018 (Arts.296 - 303) was submitted and approved as a correct record and authorised for signature.

It was noted that there had been no recording of the Committee on 23 May due to a technical difficulty but today's meeting was being recorded.

. INTERNAL AUDIT FOLLOW UP

There was submitted a report by the Chief Internal Auditor (18/218) presenting a current summary of Internal Audit's follow up work.

In response to a question from Councillor X McDade, J Clark advised she would circulate information to the Committee on the three outstanding high level actions: two for Education and Children's Services and one for Housing and Environment, referred to in table 1.

Resolved:

- (i) The current position in respect of the agreed actions arising from internal and external work, be noted.

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- (ii) The action plans be progressed, taking into account the recorded audit opinions.

INTERNAL AUDIT UPDATE

There was submitted a report by the Chief Internal Auditor (18/219) presenting a summary of Internal Audit's work against the 2017/18 Annual Plan.

The Chief Internal Auditor of South Ayrshire Council who undertook an external validation of the self-assessment of Internal Audit's compliance with the Public Sector Internal Audit Standards will attend a future Committee.

Resolved:

- (i) The completion of work against the audit plan for 2017/18, be noted.
- (ii) The progress of work against the 2018/19 Audit Plan, be noted.

The Committee considered the following final reports:-

(i) Corporate and Democratic Services

(a) Update on the Implementation of Agreed Actions Arising from the internal report on Financial Assessment and Charging

There was submitted a report by the Chief Internal Auditor (18/220) (1) presenting a summary of Corporate and Democratic Services response to the outcomes of Internal Audit's report on Financial Assessment and Charging and (2) providing an update on the implementation of the agreed action plan.

J Clark provided a summary of the actions taken since a complaint was received in 2015 and referred to a Charging Governance Board which had been established to provide scrutiny and assurance to enable the Council to achieve its outcomes.

A Taylor and F Low advised members of progress made and responded to members' queries.

Resolved:

- (i) Progress made in implementing and sustaining the actions agreed in the 16-07 Financial Assessment and Charging report, be noted.
- (ii) It be noted that the Service appears to be committed to delivering the changes required to improve service provision and internal control.
- (iii) A further update report be submitted to this Committee on the sustainability of agreed actions following the completion of the work agreed within the Internal Audit Plan for 2018/19.

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(ii) **Housing and Environment**

(a) **17-27 – Housing Repairs and Improvement Service - Financial Control**

There was submitted a report by the Chief Internal Auditor (18/222) on an audit to confirm that (1) appropriate regulations, policies and procedures were in place for the requisition, purchase, receipt and payment of goods and services and (2) adequate system controls were in place to ensure the integrity of the system.

J Clark and J McColl provided background information to the audit and the Housing Repairs and Improvement Service.

Councillor S Donaldson expressed concern that of the twenty-one invoices tested, nine were incorrectly authorised and he asked if this area would be examined by KPMG. S Mackenzie advised that as this matter was an internal control it would be addressed by officers.

Councillor X McDade requested that the levels of risk referred to in reports be classified for better understanding by members and the public.

Resolved:

Internal Audit's findings, as detailed in Report 18/222, be noted.

INTERNAL AUDIT STRATEGY AND PLAN, 2018/19

There was submitted a report by the Chief Internal Auditor (18/221) presenting the strategy for the delivery of Internal Audit and the proposed Internal Audit Plan for July 2018 to March 2019.

J Clark advised that the Council was required by the Public Sector Internal Audit Standards to prepare a risk-based Internal Audit Plan taking account of the Council's objectives, risk and performance management arrangements. The Plan compiled was based on the assumption that a new member of staff would be appointed to the Internal Audit Team in September 2018.

Councillor X McDade asked if the School Estate Strategy audit was to be undertaken in quarter 2 to coincide with a full School Estate review. J Clark advised this audit was in quarter 2 as it had a high priority rating but would discuss the timing with the Service and provide an update to a future committee.

Councillor X McDade asked if the LEADER audit was to be undertaken in quarter 3 to coincide with the end of the funding, however, J Clark advised that it was not as an additional year's funding was to be provided but that an annual audit was required.

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Councillor S Donaldson referred to only twenty days being allowed for the Local Action Partnership audit and whether that allowed sufficient time to review all six Partnerships. J Clark advised that the detail and scope of the audit still had to be agreed with the service and all six Partnerships may not be included.

Resolved:

The Internal Audit Plan for the period July 2018 to March 2019, be approved.

UNAUDITED ANNUAL ACCOUNTS 2017/18

There was submitted a report by the Head of Finance (18/223) on the Council's Unaudited Annual Accounts for the financial year 2017/18 in accordance with the Local Authority Accounts (Scotland) Regulations 2014.

S Mackenzie advised members that the annual accounts had been prepared in accordance with the regulations. The requirement to carry out an annual review of the effectiveness of a local authority's system of internal control by elected members had been met with the approval of the Annual Governance Statement by the Scrutiny Committee on 13 June 2018. The unaudited annual accounts were being submitted to this Audit Committee prior to their submission to the external auditor, KPMG, and being made available for public inspection. The audited accounts would be submitted to the Audit Committee on 26 September prior to consideration by the Council on 3 October 2018.

Councillor S Donaldson thanked S Mackenzie and his team for compiling the accounts and asked why there was a decline in the pension liability. S Mackenzie advised that the figures had been altered following an assessment by an independent firm of actuaries giving a reduction in life expectancy. Councillor S Donaldson referred to the impact on other aspects of the Council of a reduction in life expectancy but S Mackenzie advised it would be unlikely to have much impact as highlighted in the sensitivity analysis referred to in Report 18/223.

Councillor S Donaldson queried the implications on Council funding with the improvement in markets and the rise in interest rates. S Mackenzie advised that there would be no immediate uplift to the fund but reminded members that there was a different pension scheme for teachers which were more than half of the overall staff numbers.

Councillor E Drysdale highlighted the increased provision for doubtful debt for Council Tax payments from 2016/17 to 2017/18 and questioned why it was not the same for rent payments.

S Walker advised that there was a high collection level for Council Tax but an increase in gross charges due to bandings and there were still amounts to be collected and it was anticipated that universal credit may have an impact on rent payments and he would provide the relevant figures to the Convener.

Councillor E Drysdale referred to the reduced staffing levels across the Council and the cost of non-compulsory departures of members of staff over the last

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2 years and questioned the overall financial impact and the challenges of these departures.

S Mackenzie acknowledged Councillors had concerns over the capacity of staff, however, provision had been made for Voluntary Severance Schemes in this Authority as well as other Authorities as staff costs remained the most significant element of the Council budget.

S Mackenzie confirmed the Council was in a relatively strong financial position but the budget was not without challenges, particularly in the revenue budget but budget flexibility allowed continued investment in infrastructure. Councillor E Drysdale thanked S Mackenzie and his team.

Resolved:

- (i) The Head of Finance be authorised to sign the Unaudited Annual Accounts.
- (ii) That the unsigned Audited Annual Accounts be submitted to this Committee on 26 September 2018 for approval, be noted.

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# PERTH AND KINROSS COUNCIL

## Audit Committee

26 September 2018

### INTERNAL AUDIT FOLLOW UP

Report by Chief Internal Auditor (Report No. 18/291)

#### PURPOSE OF REPORT

This report presents a current summary of Internal Audit's 'follow up' work.

#### 1. BACKGROUND AND MAIN ISSUES

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require the Chief Internal Auditor to establish a follow-up process to monitor and ensure that management actions have been effectively implemented. To assist the Audit Committee, the appendices to this report provide information on those actions that have not been implemented in accordance with the original agreed timetable, or where there is insufficient information on the current situation. Some dates have been revised and agreed with Services in recognition of the need for more time to complete the actions.
- 1.2 Appendix A presents a summary of the number of actions arising from internal and external audit reports.
  - Table 1 shows the total number of agreed actions which Internal Audit will be following up even where the originally agreed completion dates have not yet been reached; the total number of actions is 34.
  - Table 2 shows the number of agreed actions that have been reported as incomplete as at their original agreed completion date. These total 27, of which 8 had a completion date of May to July 2018 and are therefore detailed in the following Appendices B to D.
  - A further 19 actions not completed by their original date have been allocated revised dates for completion after 31 July 2018 and progress will be reported on these at a future Committee.
  - The number of agreed actions which have yet to be followed up as the date for completion is after 31 July 2018 is 7.
- 1.3 In both tables, the actions are grouped by Service and reported by 'importance' of the agreed actions. The importance of each action is documented in the original Internal Audit reports considered by the Audit Committee. Reported importance ratings range from 'critical', where there are significant financial, reputation, legal, performance, or safety issues, to 'low', where the risks are lower but there may be opportunities for improving processes and procedures. Reports produced by external audit do not

explicitly state the importance of each individual action and are therefore included in the tables as 'not rated'.

- 1.4 Appendices B to D present detailed follow-up information in respect of actions agreed for completion in the period of May to July 2018. There are no actions outstanding for this period for the Health & Social Care Partnership. Internal Audit's opinion on the implementation of the actions is that, whilst the actions have not been undertaken within the originally agreed timeframe, satisfactory progress is being made.
- 1.5 The Audit Committee has requested information regarding any action with a 'critical' or 'high' risk rating which has not been completed on its originally agreed date. Table two highlights two such instances of 'high' risk actions. One of these actions relates to the audit on Personalisation in respect of monitoring risk and the other relates to the audit of LEADER and the update of the Business Plan.

## **2. PROPOSALS**

- 2.1 It is recommended that the Committee seeks assurance that there are clear and achievable action plans for completing the agreed actions noted above.

## **3 CONCLUSION AND RECOMMENDATIONS**

- 3.1 The Audit Committee is asked to consider the most appropriate action to be taken to progress the agreed Action Plans.
- 3.2 It is recommended that the Audit Committee:
- (i) Note the current position in respect of the agreed actions arising from internal and external work; and
  - (ii) Consider the most appropriate action to be taken to progress the agreed action plans, taking into account the recorded audit opinions.

### **Author**

| <b>Name</b>  | <b>Designation</b>     | <b>Contact Details</b>                                                 |
|--------------|------------------------|------------------------------------------------------------------------|
| Jackie Clark | Chief Internal Auditor | <a href="mailto:InternalAudit@pkc.gov.uk">InternalAudit@pkc.gov.uk</a> |

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Council Text Phone Number 01738 442573

## ANNEX

### 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

| <b>Strategic Implications</b>                       | <b>Yes / None</b> |
|-----------------------------------------------------|-------------------|
| Community Plan / Single Outcome Agreement           | None              |
| Corporate Plan                                      | Yes               |
| <b>Resource Implications</b>                        |                   |
| Financial                                           | None              |
| Workforce                                           | None              |
| Asset Management (land, property, IST)              | None              |
| <b>Assessments</b>                                  |                   |
| Equality Impact Assessment                          | Yes               |
| Strategic Environmental Assessment                  | None              |
| Sustainability (community, economic, environmental) | None              |
| Legal and Governance                                | None              |
| Risk                                                | Yes               |
| <b>Consultation</b>                                 |                   |
| Internal                                            | Yes               |
| External                                            | None              |
| <b>Communication</b>                                |                   |
| Communications Plan                                 | None              |

#### 1. Strategic Implications

##### 1.1 Corporate Plan

1.1.1 The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

1.1.2 This report relates to all of these objectives.

#### 2. Assessments

##### 2.1 Equality Impact Assessment

2.1.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

- 2.1.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

## 2.2 Risk

- 2.2.1 There is a risk to the strength of the control environment if the agreed action plans are not carried out in a timely manner.

## 3. **Consultation**

### 3.1 Internal

- 3.1.1 The Chief Executive and the Executive Directors have been consulted in the preparation of this report.

## 2. **BACKGROUND PAPERS**

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

## 3. **APPENDICES**

Appendix A – Summary of Agreed Actions

Appendix B – Audit Follow-Up Corporate & Democratic Services

Appendix C – Audit Follow-Up Education & Children's Services

Appendix D – Audit Follow-Up Housing & Environment

## Appendix A: Summary of Agreed Actions

Table 1: All Agreed Actions for Follow-Up as at 31 July 2018. This table includes actions not yet due for completion.

| Service                          | Importance   |              |                |                |                |
|----------------------------------|--------------|--------------|----------------|----------------|----------------|
|                                  | Critical     | High         | Medium         | Low            | Total          |
| Corporate & Democratic Services  | 0 (0)        | 0 (0)        | 6 (12)         | 4 (9)          | 10 (21)        |
| Education & Children's Services  | 0 (0)        | 2 (2)        | 1 (1)          | 0 (2)          | 3 (5)          |
| Housing & Environment            | 0 (0)        | 1 (1)        | 8 (11)         | 9 (11)         | 18 (23)        |
| Health & Social Care Partnership | 0 (0)        | 0 (0)        | 3 (3)          | 0 (1)          | 3 (4)          |
| <b>All Services</b>              | <b>0 (0)</b> | <b>3 (3)</b> | <b>18 (27)</b> | <b>13 (23)</b> | <b>34 (53)</b> |

Table 2: All Actions Reported as Incomplete on their Original Agreed Date

| Service                                                                                                                      | Importance   |              |                |                |                |
|------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|----------------|----------------|----------------|
|                                                                                                                              | Critical     | High         | Medium         | Low            | Total          |
| Corporate & Democratic Services                                                                                              | 0 (0)        | 0 (0)        | 4 (1)          | 2 (4)          | 6 (5)          |
| Education & Children's Services                                                                                              | 0 (0)        | 1 (1)        | 0 (0)          | 0 (0)          | 1 (1)          |
| Housing & Environment                                                                                                        | 0 (0)        | 1 (1)        | 8 (7)          | 9 (7)          | 18 (15)        |
| Health & Social Care Partnership                                                                                             | 0 (0)        | 0 (0)        | 2 (2)          | 0 (1)          | 2 (3)          |
| <b>All Services</b>                                                                                                          | <b>0 (0)</b> | <b>2 (2)</b> | <b>14 (10)</b> | <b>11 (12)</b> | <b>27 (24)</b> |
| Actions with a completion date of May to July 2018 which have not been completed and therefore included on Appendices B to D |              |              |                |                | 8              |
| Those actions where the revised date for completion is after July 2018 and have been previously reported to Audit Committee. |              |              |                |                | 19             |





**Appendix B - Internal Audit Follow-up**  
**Corporate & Democratic Services**  
**(Reporting for All dates on or before: July 2018)**

| Action Plan                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Dates                                   | Status/Explanation                                                                                                                                                                                                                                                                                                    |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><a href="#">17-21 - IR35</a><br/>           Action Point : 2 - Contractor Declaration<br/>           Importance: Medium</p> <p>Audit Committee Date: March 2018</p> <p>The Service will review the use of and layout of the Contractor Declaration form(s) after input from the relevant parties. The Assessing Employment Status procedures will be thereafter updated to include action if no contractor signature. The updated procedures will include a working hyperlink and state that these forms need be signed by each Service prior to submission to the Financial Systems Team.</p> <p>(C Robertson, Central Services Manager)</p> | <p>Jun 2018<br/>           Oct 2018</p> | <p>The Contractor Declaration form(s) have been updated.</p> <p>As part of an employment taxes health check a consultant is reviewing the IR35 processes. The service will therefore finalise procedures once the outcomes from this review are known.</p> <p>Internal Audit Opinion:<br/>           Satisfactory</p> |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                               |                                                                                                                                                                                                                                                                                                                                                                |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><a href="#">17-21 - IR35</a><br/> Action Point : 4 - Short Term Resourcing Toolkit<br/> Importance: Medium</p> <p>Audit Committee Date: March 2018</p> <p>The short term resourcing toolkit pages on Eric will be updated to include reference to the Assessing Employment Status procedures by the Senior Human Resources Officer in liaison with Senior Financial Systems Development Officer, Financial Services. The “Guidance for Self Employed Status” routines will be updated on Eric and the How to Resource with an Agency Worker link from the “Agency Worker” category on the Short Term Resourcing page will be updated to also refer to the IR35 requirements.</p> <p>(P Nicoll, Senior Human Resources Officer)</p> | <p>Jun 2018<br/> Sep 2018</p> | <p>The Service states that draft guidance has been issued for consultation in relation to agency workers and self employed people. This includes updating the Short Term Resourcing toolkit and reflecting the requirements of IR35.</p> <p>All guidance on ERIC will be updated by the end of September.</p> <p>Internal Audit Opinion:<br/> Satisfactory</p> |
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|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><a href="#">17-21 - IR35</a><br/> Action Point : 6 - Assessing Employment Status Procedures<br/> Importance: Medium</p> <p>Audit Committee Date: March 2018</p> <p>The Assessing Employment Status Procedures will be updated for approval by the Central Services Manager and renamed to include the title self-employed / IR 35 and updated to reflect working practice, for example the use of agency workers, consultants and detail the categories of workers deemed to fall outside the IR35. The changes will be actioned via an announcement on the Finance Information Zone and a Financial Controllers update to cascade to their service.</p> <p>(C Robertson, Central Services Manager)</p> | <p>Jun 2018<br/> Oct 2018</p> | <p>As detailed in Action Point 2 above, the Contractor Declaration form(s) have been updated</p> <p>As part of an employment taxes health check a consultant is reviewing the IR35 processes. The service will therefore finalise procedures once the outcomes from this review are known.</p> <p>Internal Audit Opinion:<br/> Satisfactory</p> |
| <p><a href="#">17-21 - IR35</a><br/> Action Point : 7 - Assessing Employment Status Procedures<br/> Importance: Medium</p> <p>Audit Committee Date: March 2018</p> <p>The Guidance for Self Employed Status on the A-Z Eric pages will be updated to include the new IR35 process.</p> <p>(C Robertson, Central Services Manager)</p>                                                                                                                                                                                                                                                                                                                                                                      | <p>Jun 2018<br/> Oct 2018</p> | <p>As detailed in the above actions, as part of an employment taxes health check a consultant is reviewing the IR35 processes week commencing the 23 July. The service will therefore finalise procedures once the outcomes from this review are known.</p> <p>Internal Audit Opinion:<br/> Satisfactory</p>                                    |



**Appendix C - Internal Audit Follow-up**  
**Education & Children's Services**  
**(Reporting for All dates on or before: July 2018)**

| Action Plan                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Dates                                    | Status/Explanation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><a href="#">17-04 - Partnership Working - Community Justice Partnership</a><br/>           Action Point : 6 - Governance Arrangements<br/>           Importance: Low</p> <p>Audit Committee Date:<br/>           September 2017</p> <p>A future Community Justice report to the HCC will advise of the linkage of the Outcomes in the Improvement Plan to the National Strategy.</p> <p>(C Cranmer, Team Leader - Community Safety)</p>                  | <p>May 2018<br/>           Oct 2018</p>  | <p>The first Perth &amp; Kinross Community Partnership annual report was due for 31 March 2018. It was therefore planned that the Community Justice report would be prepared to align with the annual report. However Community Justice Scotland advised that the annual report will now be due by 30 September 2018. Therefore the service is now planning to prepare the next Community Justice paper to tie in with the production of the annual report and table it for the October Housing &amp; Communities Committee.</p> <p>Internal Audit Opinion:<br/>           Satisfactory</p> |
| <p><a href="#">17-04 - Partnership Working - Community Justice Partnership</a><br/>           Action Point : 7 - Governance Arrangements<br/>           Importance: Low</p> <p>Audit Committee Date:<br/>           September 2017</p> <p>The Community Planning Partnership Board will be advised that there will be no Community Justice local strategy as the National Strategy will be followed.</p> <p>(C Cranmer, Team Leader - Community Safety)</p> | <p>Jun 2018<br/>           Sept 2018</p> | <p>The next Community Planning Partnership Board meeting is on the 14 September. A briefing note in respect of the Criminal Justice strategy will be included within the agenda.</p> <p>Internal Audit Opinion:<br/>           Satisfactory</p>                                                                                                                                                                                                                                                                                                                                             |



**Appendix D - Internal Audit Follow-up  
Housing & Environment  
(Reporting for All dates on or before: July 2018)**

| Action Plan                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Dates                                         | Status/Explanation                                                                                                                                                                                                                                                       |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><a href="#">16-22 - Roads Maintenance Partnership</a><br/>Action Point : 7a - Road Maintenance Partnership Agreement (AP16 on database)<br/>Importance: Medium</p> <p>Audit Committee date: April 2017</p> <p>The Partnership continues to operate under the Memorandum Of Understanding in relation to Tayside Contracts operation and the authorised delegated powers of PKC officers within the Partnership. There is currently a Scottish Government drive towards collaborative working and this may change the way the Partnerships (PKC, Angus and Dundee City) move forward hence no further agreement has been put in place. When the output of the collaborative working group is reported to Committee the status of the Partnership will be clarified.</p> <p>(B Renton, Director)</p> | <p>Jan 2018<br/>Jun 2018<br/>October 2018</p> | <p>The short term Member Officer Working Group considering the current partnership arrangement is still ongoing, having met most recently on 6 June 2018. A recommendation from the Group is due to be put in place shortly.</p> <p>Internal Audit Opinion: Accepted</p> |

|                                                                                                                                                                                                                                                                                                                                                                                                               |                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><a href="#"><u>16-22 - Roads Maintenance Partnership</u></a></p> <p>Action Point : 3b - Monitoring of Files (AP11 on database)</p> <p>Importance: Low</p> <p>Audit Committee Date: April 2017</p> <p>A request will be submitted to the Road Management System working group regarding the system producing RMP management information.</p> <p>(S D'All, Deputy Roads Maintenance Partnership Manager)</p> | <p>May 2017<br/>Jul 2018<br/>May 2019</p> | <p>The Roads Maintenance Partnership is progressing this piece of work with the Purchase to Pay (P2P) Review Working Group in conjunction with Corporate Asset Management and IT.</p> <p>Due to other priority development work streams and the migrating of the software system from server based application to web-based, this has been deferred. The migration to the web is programmed for early 2019 after which the P2P group will be reconvened.</p> <p>Internal Audit Opinion: Accepted</p> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|



## PERTH AND KINROSS COUNCIL

### Audit Committee

26 September 2018

### INTERNAL AUDIT UPDATE

Report by the Chief Internal Auditor (Report No. 18/292)

#### PURPOSE OF REPORT

This report presents a summary of Internal Audit's work.

#### 1. BACKGROUND / MAIN ISSUES

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor reports periodically to the Audit Committee on internal audit activity and on performance relative to the approved plan.
- 1.2 Work has continued on assignments included within the Internal Audit Plan for 2018/19, as approved by Audit Committee in March 2018 (report 18/109) and June 2018 (report 18/221).
- 1.3 Since April 2018, Internal Audit has been contacted on 7 occasions to provide advice, assurance and / or assistance to services regarding specific issues. Internal Audit will follow up on these areas during the year, where necessary. This unplanned workload is contained within the resources allocated as part of the Internal Audit planning process. The Audit Committee will be informed if there is any change to this situation. Where control issues arise as a result of this work, Internal Audit will provide the Audit Committee with a report.
- 1.4 In addition, Internal Audit has continued to prepare for the 2018/19 National Fraud Initiative to ensure that Services are adequately prepared to meet the requirements of the exercise. A report on the national outcomes from the 2016/17 exercise is included on the agenda for this Committee.
- 1.5 The external validation of the self assessment of Internal Audit's compliance with the Public Sector Internal Audit Standards (EQA) has now been completed. The outcome from this will be reported to a future Audit Committee.
- 1.6 Internal Audit has undertaken a recruitment exercise and is awaiting the commencement of new Internal Auditors. This will ensure that the Internal Audit Plan, as approved by Audit Committee, can be completed.
- 1.7 Appendix A details those assignments where work has been completed since the last report to the Audit Committee. Where appropriate, Internal Audit Reports for these assignments will be presented to the Audit Committee.

- 1.8 Appendix B shows the areas of work being undertaken following the Audit Committee's consideration of the Internal Audit work plan for 2018/19.

## 2. CONCLUSION AND RECOMMENDATIONS

- 2.1 This report presents a summary of Internal Audit's work.
- 2.2 It is recommended that the Committee notes the progress with assignments from the Internal Audit Plan for 2018/19.

### Author(s)

| Name         | Designation            | Contact Details                                                          |
|--------------|------------------------|--------------------------------------------------------------------------|
| Jackie Clark | Chief Internal Auditor | <a href="mailto:Internal.Audit@pkc.gov.uk">Internal.Audit@pkc.gov.uk</a> |

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Council Text Phone Number 01738 442573

## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

| <b>Strategic Implications</b>                       | <b>Yes / None</b> |
|-----------------------------------------------------|-------------------|
| Community Plan / Single Outcome Agreement           | None              |
| Strategic Plan                                      | Yes               |
| <b>Resource Implications</b>                        |                   |
| Financial                                           | None              |
| Workforce                                           | None              |
| Asset Management (land, property, IST)              | None              |
| <b>Assessments</b>                                  |                   |
| Equality Impact Assessment                          | Yes               |
| Strategic Environmental Assessment                  | None              |
| Sustainability (community, economic, environmental) | None              |
| Legal and Governance                                | None              |
| Risk                                                | Yes               |
| <b>Consultation</b>                                 |                   |
| Internal                                            | Yes               |
| External                                            | None              |
| <b>Communication</b>                                |                   |
| Communications Plan                                 | None              |

### 1. Strategic Implications

#### 1.1 Corporate Plan

1.1.1 The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

1.1.2 This report relates to all of these objectives.

### 2. Assessments

#### 2.1 Equality Impact Assessment

2.1.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

- 2.1.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

## 2.2 Risk

- 2.2.1 The risks are associated with the level of assurance provided on the control environment in the event that Internal Audit's planned work is not completed on time.

## 3. **Consultation**

### 3.1 Internal

- 3.1.1 The Chief Executive and Head of Finance have been consulted in the preparation of this report.

## 2. **BACKGROUND PAPERS**

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

## 3. **APPENDICES**

Appendix A – Audit Activity Completed Since The Last Report To Audit Committee

Appendix B – Work Commenced from 2018/19 Internal Audit Work Plan

**Appendix A****INTERNAL AUDIT UPDATE****Internal Audit Activity Completed Since The Last Report To Audit Committee**

| <b>Audit No.</b> | <b>Audit Title</b>          | <b>Service</b>        |
|------------------|-----------------------------|-----------------------|
| 18-09            | Bus Service Operators Grant | Housing & Environment |



## Appendix B

### Work Commenced from 2018/19 Internal Audit Work Plan as at April 2018

| Audit No. | Audit Title                                                                                               | Original Anticipated Audit Committee | Assignment brief approved                                                                                                                                                                             | Factual accuracy confirmed | Draft Report issued                                      | Final Report issued | Audit Committee Date ^ |
|-----------|-----------------------------------------------------------------------------------------------------------|--------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|----------------------------------------------------------|---------------------|------------------------|
| 18-01     | Initial Review of Controls following a Significant Fraud                                                  | May 2018                             | April 2018                                                                                                                                                                                            | April 2018                 | Outcome provided to Audit Committee. No separate report. |                     | <b>May 2018</b>        |
| 18-02     | Detailed Review of Controls following a Significant Fraud                                                 | November 2018                        | April 2018                                                                                                                                                                                            |                            |                                                          |                     |                        |
| 18-03     | IDEA Implementation                                                                                       | March 2019                           | April 2018                                                                                                                                                                                            |                            |                                                          |                     |                        |
| 18-04     | Arms Length External Organisations                                                                        | January 2019                         |                                                                                                                                                                                                       |                            |                                                          |                     |                        |
| 18-05     | Transformation                                                                                            | March 2019                           | April 2018                                                                                                                                                                                            |                            |                                                          |                     |                        |
| 18-06     | Corporate Governance                                                                                      | March 2019                           |                                                                                                                                                                                                       |                            |                                                          |                     |                        |
| 18-07     | Commissioning Strategy                                                                                    | March 2019                           |                                                                                                                                                                                                       |                            |                                                          |                     |                        |
| 18-08     | (a) Financial Assessment & Charging Follow Up<br>(b) Further Follow Up of Financial Assessment & Charging | June 2018<br>March 2019              | April 2018                                                                                                                                                                                            | May 2018                   | May 2018                                                 | May 2018            | <b>June 2018</b>       |
| 18-09     | Bus Service Operators Grant                                                                               | September 2018                       | Completed and grant claim certified. No report required on this occasion.                                                                                                                             |                            |                                                          |                     |                        |
| 18-10     | Bus Service Operators Grant                                                                               | March 2019                           | It is not anticipated that reports will be required to be issued for the certification of grant claims. Reports will only be issued where weaknesses in controls are identified which require action. |                            |                                                          |                     |                        |

|       |                                              |                |           |             |             |  |  |
|-------|----------------------------------------------|----------------|-----------|-------------|-------------|--|--|
| 18-11 | School Estate Strategy                       | November 2018  |           |             |             |  |  |
| 18-12 | Management of Contracts                      | September 2018 | July 2018 | August 2018 | August 2018 |  |  |
| 18-13 | Workforce Planning                           | January 2019   |           |             |             |  |  |
| 18-14 | Welfare Reform                               | January 2019   |           |             |             |  |  |
| 18-15 | Payroll                                      | November 2018  |           |             |             |  |  |
| 18-16 | Sales Ledger                                 | November 2018  |           |             |             |  |  |
| 18-17 | Residential Services                         | January 2019   |           |             |             |  |  |
| 18-18 | Tay Cities Deal                              | March 2019     |           |             |             |  |  |
| 18-19 | LEADER                                       | November 2018  |           |             |             |  |  |
| 18-20 | Carbon Reduction Commitment & Climate Change | March 2019     |           |             |             |  |  |
| 18-21 | General Data Protection Regulations          | May 2019       |           |             |             |  |  |
| 18-22 | Carers Act                                   | May 2019       |           |             |             |  |  |
| 18-23 | Local Action Partnerships                    | May 2019       |           |             |             |  |  |
| 18-24 | IDEA Continuous Auditing                     | March 2019     |           |             |             |  |  |
| 18-25 | Community Empowerment                        | March 2019     |           |             |             |  |  |
| 18-26 | Commissioning Strategy                       | March 2019     |           |             |             |  |  |
| 18-27 | Inclusion Services                           | May 2019       |           |             |             |  |  |
| 18-28 | Corporate Risk Management                    | March 2019     |           |             |             |  |  |







# **PERTH AND KINROSS COUNCIL**

## **Audit Committee**

**26 September 2018**

### **THE NATIONAL FRAUD INITIATIVE 2016/17 and 2018/19**

#### **Report by the Chief Internal Auditor (Report No. 18/293)**

#### **PURPOSE OF REPORT**

This report presents the reported findings of the 2016/17 National Fraud Initiative exercise. It also outlines the preparations currently underway in respect of the 2018/19 exercise.

#### **1. BACKGROUND / MAIN ISSUES**

- 1.1 The National Fraud Initiative (NFI) constitutes a sophisticated data matching exercise matching electronic data within and between participating public bodies to assist in the prevention and detection of fraud. The Cabinet Office is responsible for the administration of the NFI in the UK. The NFI exercise in Scotland is Audit Scotland's data matching exercise that runs every two years in line with the published timetable. The Cabinet Office processes the data for the NFI in Scotland on behalf of Audit Scotland. This 2016/17 exercise represents the sixth NFI data matching to be undertaken in Scotland.
- 1.2 The overall aims of the NFI are to serve the public interest by safeguarding public money against losses from fraud or misappropriation and to contribute towards the fight against fraud. It improves the use made of public resources by identifying anomalies in the data held by different authorities and by ensuring that these are highlighted for further investigation. Whilst it is designed to detect fraud, it may also identify instances of administration error or inaccurate data.
- 1.3 The NFI exercise helps participating bodies (such as Local Authorities, Police Scotland, Scottish Fire and Rescue and the other public sector bodies) to identify possible cases of fraud and detect and correct any consequential under or overpayments. The NFI also helps Auditors in assessing the Council's arrangements for preventing, deterring and detecting fraud.
- 1.4 There are broadly three stages in the NFI process:
  1. the submission of the required datasets by public authorities and other organisations;
  2. the processing of the data (data matching) in order to identify anomalies; and

3 the investigation of the highlighted and reported anomalies.

- 1.5 The Council is responsible for stages 1 and 3; processing of the data (stage 2) is carried out under arrangements put in place by the Cabinet Office. Reports on the Council's involvement and responsibilities have previously been presented to the Audit Committee. More recently, a progress report was presented to Audit Committee in June 2018 (report 16/159 refers) which highlights the outcomes for Perth and Kinross for the 2016/17 exercise.

## **2. 2016/17 NATIONAL REPORT**

- 2.1 The "outcomes" arising directly from the 2016/17 investigations, as reported in Audit Scotland's National Fraud Initiative in Scotland Report of July 2018, are £18.6 million. This figure includes outcomes of £1.8m arising from late outcomes from the 2104/15 exercise. The Audit Scotland report is attached as Appendix A to this report.
- 2.2 Audit Scotland commented in its report that the main outcomes in 2016/2017 have been in matches involving pensions, council tax discounts, and blue badges, accounting for 72% in terms of financial outcomes.
- 2.3 The proportion of the outcomes attributable to Perth and Kinross Council is £33,475, as reported previously to Audit Committee ([report 16/159](#)). This comprised Benefits outcomes of £19,444 which includes £14,792 from a new dataset regarding the council tax reduction scheme creditors of £8, 909 and care home payments of £5,122. Action is taking place, where possible, to ensure that the Benefits outcomes are recovered or reported to the DWP for appropriate action. The other overpayments have been recovered.
- 2.4 The benefit of the exercise is that it provides assurance that the systems of internal control in operation within Perth & Kinross are predominantly effective in terms of deterring and detecting fraud and error.

## **3. 2018/19 PREPARATIONS**

- 3.1 Audit Scotland's report provides a self-appraisal checklist which has been completed for 2018/19 and actions identified in order to improve arrangements are being taken forward. Part A of this checklist is entitled "for those charged with governance" and is attached at Appendix B for approval by the Audit Committee.
- 3.2 Internal Audit is currently liaising with relevant contacts within Services concerning 2018/2019 requirements and will liaise with the Council's external auditors in due course.
- 3.3 The data to be submitted is either required for the exercise (mandatory) or optional (risk based). As previously agreed with external audit, the approach taken by Internal Audit is to encourage the submission of "risk based" data where the available information is of sufficient quality and/or where, after self-

assessment of the risk of fraud in these areas, there is perceived to be a potential cost benefit in submitting the data.

3.4 Key dates for the Council for the exercise are set out in the table below:

| Date                                         | Event                                                                                                                   |
|----------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|
| By 28 September 2018                         | Participants submit privacy notice compliance returns in the NFI web application                                        |
| Between 1 and 8 October 2018                 | Participants extract and submit 2018/19 NFI data to the NFI web application in accordance with the data specifications  |
| Between 3 December 2018 and 28 February 2019 | Participants extract electoral register and council tax data and upload via the flexible matching web application       |
| From 31 January 2019                         | The Cabinet Office NFI team makes the 2018/19 NFI exercise matches available for investigation by participating bodies. |
| June 2019                                    | Auditors will review NFI governance arrangements and initial progress in reviewing matches.                             |

3.5 It is anticipated for 2018/2019, as in previous exercises, that additional datasets will be requested mid cycle e.g. Council Tax and Electoral register data.

3.6 Data protection legislation requires that individuals whose personal information is to be provided for NFI purposes are informed. This is undertaken by the provision of privacy notices. Internal Audit will facilitate the processes whereby, where appropriate, data subjects are notified of the use of their personal data in the exercise for preventing and detecting fraud. In addition, Internal Audit will support Services to ensure that the relevant datasets are submitted in accordance with the NFI timetable.

3.7 The proposed Council dataset submissions for 2018/2019 are:

| <b>Dataset</b>                                              | <b>Mandatory/Risk Based</b> | <b>Privacy notice required?</b> |
|-------------------------------------------------------------|-----------------------------|---------------------------------|
| Payroll                                                     | Mandatory                   | Yes                             |
| Pensions                                                    | Mandatory                   | Yes                             |
| Housing                                                     | Mandatory                   | Yes                             |
| Housing Waiting Lists                                       |                             |                                 |
| Blue badges resident parking (transport passes and permits) | Mandatory                   | Yes                             |

| <b>Dataset</b>                        | <b>Mandatory/Risk Based</b> | <b>Privacy notice required?</b>                                          |
|---------------------------------------|-----------------------------|--------------------------------------------------------------------------|
| Private supported care home residents | Mandatory                   | No. (Matches are to dead persons – notices may cause alarm or confusion) |
| Licenses                              | Mandatory                   | Yes                                                                      |
| Trade creditors (payments history)    | Mandatory                   | N/A (not personal data)                                                  |
| Trade creditors (standing data)       | Mandatory                   | N/A (not personal data)                                                  |
| Council tax reduction scheme          | Mandatory                   | Yes                                                                      |
| Council Tax                           | Mandatory                   | Yes                                                                      |
| Personal Budgets (direct payments)    | Mandatory                   | Yes                                                                      |
| Social Care Payments                  | Optional                    | Yes                                                                      |

- 3.8 A further mandatory dataset is the Electoral Register, however the Committee has been informed previously that it is the opinion of the Head of Legal and Governance Services that the Council is not able to share this information for the purposes of NFI.
- 3.9 A further update report will be presented to the Audit Committee in due course.

#### **4. CONCLUSION AND RECOMMENDATION**

- 4.1 This report outlines the reported findings from the 2016/17 National Fraud Initiative exercise and the action being taken by Perth & Kinross Council in response to the requirements of the National Fraud Initiative for 2018/19.
- 4.2 It is recommended that, in order for Councillors to be fully informed of the activity of officers with regard to the National Fraud Initiative, the Audit Committee notes:
- (i) the outcomes as reported within the National Audit Scotland report of the National Fraud Initiative 2016/17; and
  - (ii) the work being undertaken in preparation for the 2018/19 exercise.
- 4.3 It is further recommended that the Audit Committee approves the section of Audit Scotland's self-appraisal checklist relating to those charged with governance at Appendix B.

**Author**

| <b>Name</b>  | <b>Designation</b>     | <b>Contact Details</b>                                                 |
|--------------|------------------------|------------------------------------------------------------------------|
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Council Text Phone Number 01738 442573

## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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|-----------------------------------------------------|-------------------|
| Community Plan / Single Outcome Agreement           | None              |
| Strategic Plan                                      | Yes               |
| <b>Resource Implications</b>                        |                   |
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| <b>Assessments</b>                                  |                   |
| Equality Impact Assessment                          | Yes               |
| Strategic Environmental Assessment                  | None              |
| Sustainability (community, economic, environmental) | None              |
| Legal and Governance                                | None              |
| Risk                                                | Yes               |
| <b>Consultation</b>                                 |                   |
| Internal                                            | Yes               |
| External                                            | None              |
| <b>Communication</b>                                |                   |
| Communications Plan                                 | None              |

### 1. Strategic Implications

#### 1.1 Corporate Plan

- 1.1.1 The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

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- 1.1.2 This report relates to all of these objectives.

## 2. Assessments

### 2.1 Equality Impact Assessment

- 2.1.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.



- 2.1.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

## 2.2 Risk

- 2.2.1 The risks are associated with the level of assurance provided on the control environment in the event that Internal Audit's planned work is not completed on time.

## 3. **Consultation**

### 3.1 Internal

- 3.1.1 The Chief Executive, Head of Legal Services and Head of Finance have been consulted in the preparation of this report.

## 2. **BACKGROUND PAPERS**

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

## 3. **APPENDICES**

Appendix A – Audit Scotland's Report: The National Fraud Initiative in Scotland

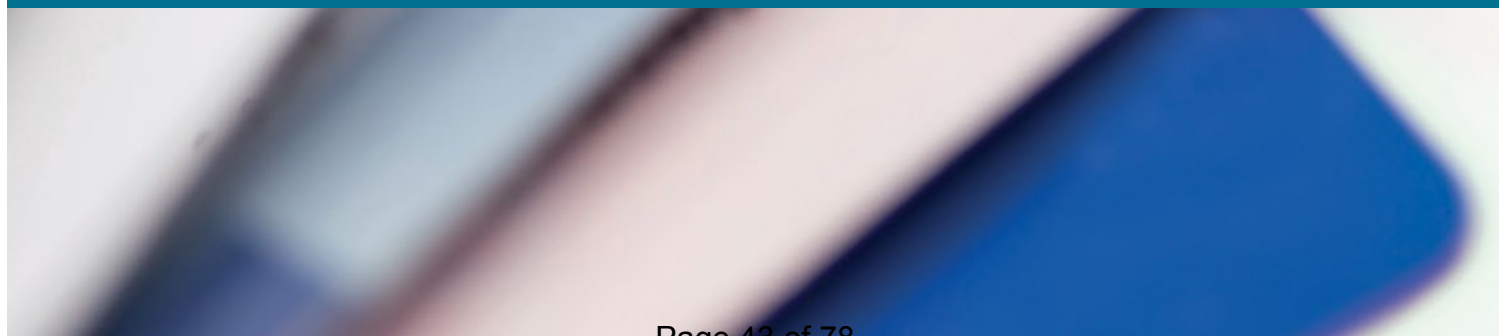
Appendix B – Extract from the Self Assessment Checklist Part A: for those charged with governance



# The National Fraud Initiative in Scotland



Prepared by Audit Scotland  
July 2018





# Contents



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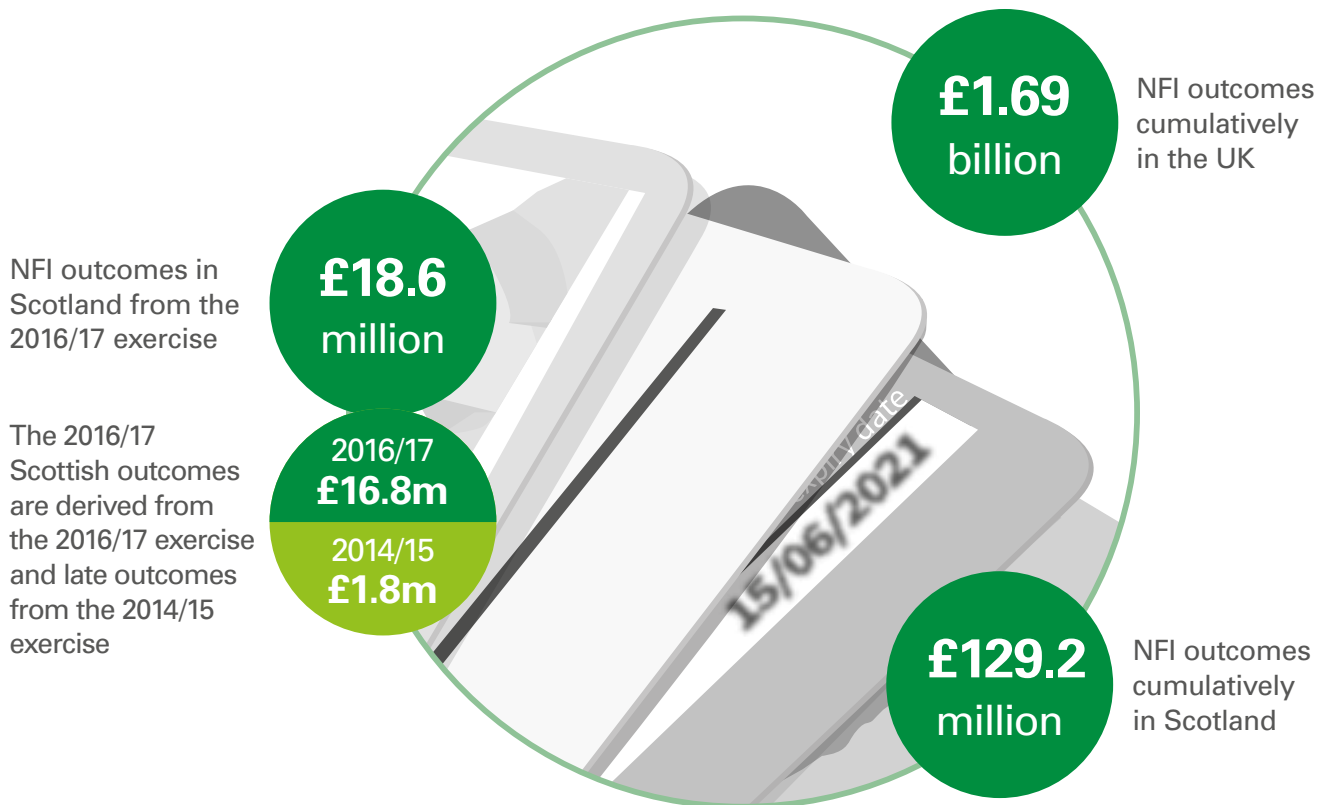
## Audit team

The core team consisted of: Anne Cairns, Parminder Singh, Mark Laird, Alison Turner and Paul Bonfanti, with support from other colleagues and under the direction of Angela Canning.

## Links

-  PDF download
-  Web link

# Key facts



Note: An NFI outcome describes the overall amounts for fraud, overpayments and error that are detected by the NFI exercise and an estimate of future losses that it prevents. Examples of NFI outcomes include housing benefits being stopped or reduced, council tax discounts being reduced or removed, and blue badges being stopped or flagged for future checks.

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# Summary

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## Key messages

- 1** Public bodies spend billions of pounds of taxpayers' money for the benefit of the Scottish population. Public spending systems are complex and mistakes can happen. Some people also seek to exploit the systems and fraudulently obtain services and benefits to which they are not entitled.
  - 2** Fraud does not recognise organisational or geographic boundaries. Sharing data allows organisations to match data held in different systems in their own organisation and held in other organisations. Audit Scotland, working closely with public bodies, auditors and the Cabinet Office, has completed another major data sharing and matching exercise. The National Fraud Initiative (NFI) exercises significantly contribute to the security and transparency of public sector finances. It helps confirm that services are provided to the correct people and reduces fraud and error.
  - 3** The outcomes from the NFI include amounts for fraud and error detected and an estimate for those future losses that have been prevented. Since we last reported on the NFI in Scotland in June 2016, outcomes valued at £18.6 million have been recorded. The cumulative outcomes from the NFI in Scotland since 2006/07 are now £129.2 million. These outcomes represent a significant return to the public sector at a time when Scotland's public finances continue to be under pressure. Across the UK, the cumulative total of NFI outcomes are now £1.69 billion.
  - 4** Data sharing enables matches to be made between bodies and across national borders. Data submitted by Scottish bodies for the 2016/17 NFI exercise helped other organisations to identify outcomes of £1.1 million.
  - 5** Most organisations take advantage of the opportunities provided by the NFI. But some could act more promptly and ensure that sufficient staff are in place to investigate matches, prevent frauds and correct errors.
- 

---


**NFI  
contributes  
to the  
security and  
transparency  
of public  
sector  
finances**

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## Recommendations

### All participants in the NFI exercise should:

- ensure that they maximise the benefits of their participation. They should consider:
  - using the NFI AppCheck point of application service, the flexible matching service and the Equifax Public Sector Gateway service as appropriate when planning their counter-fraud activities ([paragraph 51](#))
  - whether it is possible to work more efficiently on the NFI matches by reviewing the guidance section within the NFI secure web application ([paragraph 61](#))
- audit committees, or equivalent, and officers leading the NFI should review the [National Fraud Initiative: Self-appraisal checklist](#) . This will ensure they are fully informed of their organisation's planning and progress in the 2018/19 NFI exercise ([paragraph 58](#))
- where local auditors have identified specific areas where improvements could be made, the public bodies should act on these as soon as possible ([paragraph 63](#)).

### Local authorities should:

- investigate the council tax single person discount (SPD) matches, in conjunction with other data-matching suppliers as they determine appropriate, to ensure that their awarded discounts are valid ([paragraph 28](#)).
-



# Part 1

## Background



### Key messages

- 1** The NFI is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud.
- 2** Data matching is an effective and efficient way to identify areas for further investigation by connecting discrepancies between different data sets.
- 3** The success of the NFI comes primarily from the public servants who investigate the data matches and the external auditors who review their arrangements.

### The NFI aims to detect and prevent fraud and error

- 1.** The NFI is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The Cabinet Office oversees it and Audit Scotland leads the exercise in Scotland, working with a range of Scottish public bodies and external auditors. The NFI takes place every second year. The last one was for 2014/15, and we reported on the findings from that exercise in June 2016.<sup>1</sup>
- 2.** The NFI in Scotland is now well established, with the 2016/17 exercise being the sixth exercise since 2006/07. The NFI enables public bodies to use computer data matching techniques to detect fraud and error. [Exhibit 1 \(page 8\)](#) shows the NFI's key features and [Exhibit 2 \(page 9\)](#) illustrates how the NFI exercise works.
- 3.** Public bodies that take part in the NFI in Scotland include the Scottish Government and other central government bodies, all councils, NHS bodies, pension administering bodies, the Scottish Fire and Rescue Service, Police Scotland and colleges.
- 4.** We carry out the NFI process under powers in The Criminal Justice and Licensing (Scotland) Act 2010. It is important for all parties involved that this exercise is properly controlled and data handled in accordance with the law. [Appendix 1 \(page 31\)](#) summarises the key legislation and controls governing the NFI data matching exercise.

the NFI is a counter-fraud exercise across the UK public sector

## Exhibit 1

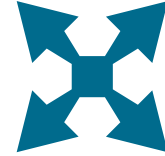
### Key features of the National Fraud Initiative



Acts as a deterrent to potential fraudsters



Identifies errors and fraud enabling appropriate action to be taken



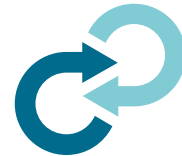
Operates across boundaries and public bodies in different sectors and countries



Can provide assurances that systems are operating well



Can identify where system improvements are required



Represents value for money through centralised data processing and identifying targeted high-priority matches

Source: Audit Scotland

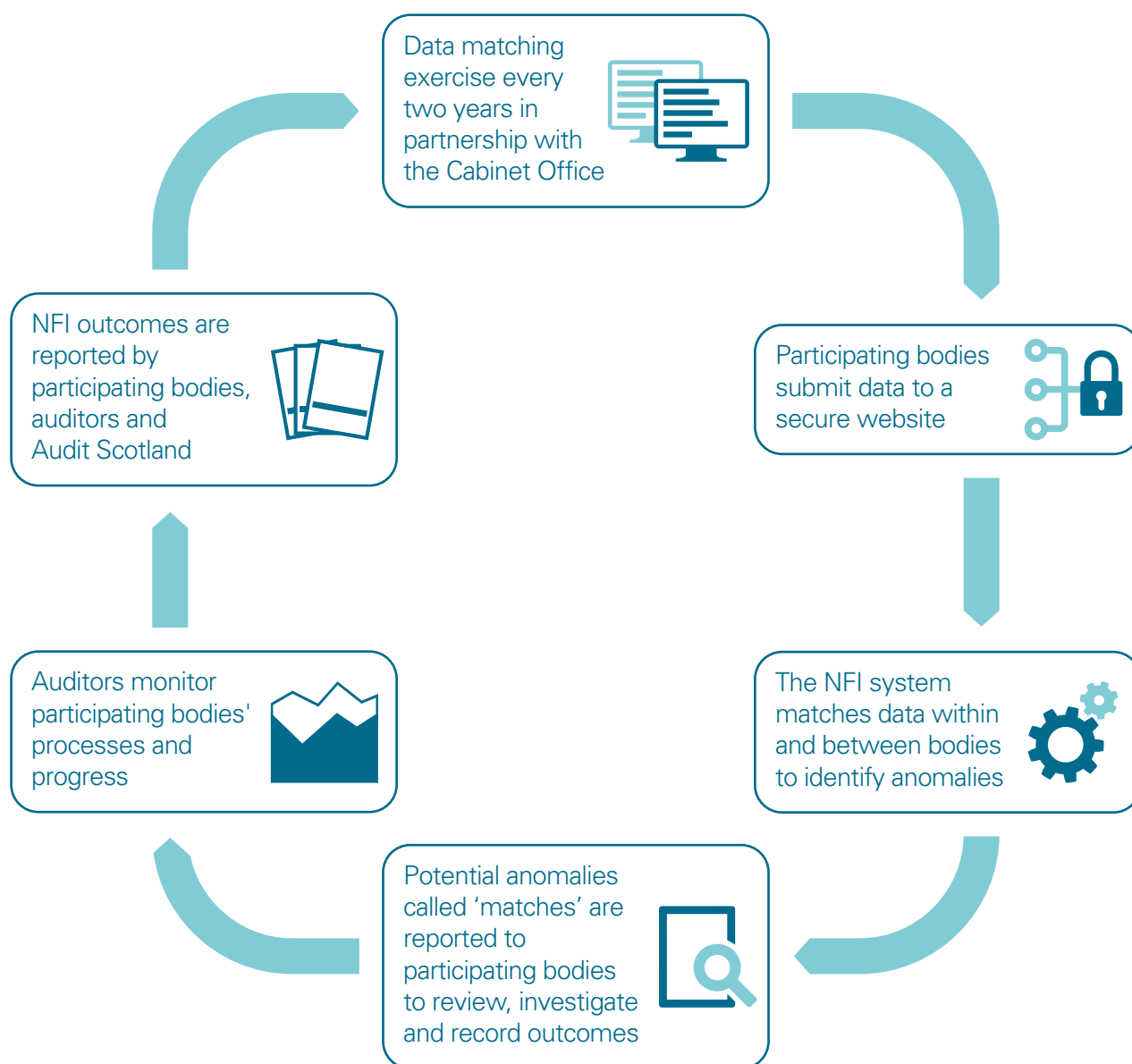
**5.** Fraud does not recognise organisational or geographic boundaries. Data sharing enables the NFI to use technology to compare information about individuals held by different public bodies, and on different financial systems, that might suggest fraud or error exists. This means public bodies can take action if any fraud or error has taken place, and allows auditors to assess the fraud prevention arrangements that those bodies have.

**6.** The NFI exercises significantly contribute to the security and transparency of public sector finances by:

- ensuring that services are only delivered and benefits are only paid to the correct people
- preventing, identifying and reducing fraud and error
- allowing overpayments to be recovered
- enabling penalties to be imposed.

## Exhibit 2

### How the biennial NFI exercise works



Source: Audit Scotland

**7.** The NFI uses data matching to identify potential inconsistencies. Data matching involves comparing sets of data against other records held by the same or another body. This enables us to identify potential inconsistencies, called matches, which may indicate fraud or error and need to be investigated. Public bodies taking part in the NFI exercise investigate matches and record the outcomes based on their investigations. It is up to individual bodies to decide which, and how many, matches to investigate.

**8.** The NFI matches data in many areas. Examples include the following:

- Council tax records to the latest electoral register, to identify any unreported changes that would affect a resident's council tax discount.
- Housing benefit claimants to various data sets, to check whether a claimant has incorrectly declared their income.
- Public sector pensions to payroll and deceased persons' records. This checks if the death of a pensioner has not been reported. It also identifies where a pensioner has gone back into employment but not reported changes which should have resulted in their pension payment being reduced.
- Blue parking badges to deceased persons' records, to check that the badge is cancelled when a permit holder dies.

**9.** The NFI outcome figures referred to in this report include amounts for fraud and error detected as well as an estimate for those future losses that have been prevented. Estimates are included where it is reasonable to assume that fraud, overpayments and error would have continued undetected without the NFI data matching.

**10.** While the cost of fraud and error prevention measures may be estimated, the NFI also has an important deterrent effect that cannot be measured. Regular data sharing and matching exercises such as the NFI may deter people who are considering committing fraud.

**11.** The NFI's success comes primarily from the public servants who investigate the data matches. External auditors also have an important role. They review and conclude on how effective the local NFI arrangements are. They also provide assurance on the progress being made on the NFI investigations.

**12.** The public also have a duty to report any change in circumstances that could affect their entitlement to public services such as pensions, benefits or council tax discounts. If they do not, the consequences can be serious and lead to action against them to recover overpayments and possibly being prosecuted for fraud.

# Part 2

## Results of the 2016/17 NFI exercise



### Key messages

- 1** Across the UK, £301 million of outcomes have been identified by the 2016/17 NFI exercise.
- 2** In Scotland, £18.6 million of fraud and error outcomes were identified from the 2016/17 NFI investigations.
- 3** Cumulative NFI outcomes are £1.69 billion for the UK, and £129.2 million for Scotland.
- 4** As at 31 March 2018, there was £4.8 million of recovery action being taken in Scotland on overpayments identified by the 2016/17 NFI exercise.

### The NFI has identified £18.6 million of fraud and error

**13.** Overall, the 2016/17 NFI exercise has identified outcomes valued at £301 million across the UK, with a cumulative total of £1.69 billion since the first NFI exercise in 2006/7.

**14.** NFI outcomes in Scotland have increased from £16.8 million in the 2014/15 exercise, to £18.6 million in the 2016/17 exercise. Cumulative outcomes from the NFI in Scotland are now at £129.2 million and represent a significant return to the public finances of Scotland.

**15.** The 2016/17 outcomes for Scotland are split:

- £16.8 million of outcomes from the 2016/17 NFI matches.
- £1.8 million from late outcomes from the 2014/15 NFI.

**16.** In total, 113 Scottish public sector bodies participated in the 2016/17 NFI exercise, with 656,955 matches being identified for these Scottish bodies to consider. In the 2014/15 NFI exercise, 104 Scottish bodies took part and received 347,715 matches. It is up to individual bodies to decide which, and how many, matches to investigate.

**17.** The evidence from previous exercises is that between reports, outcomes continue to be delivered. The 2014/15 and 2012/13 NFI reports showed that 12 per cent and 20 per cent of the outcomes arose after March 2016 and March 2014 respectively. If this pattern is continued we could expect to see further outcomes in the region of £2 million from the 2016/17 NFI.

**£18.6 million  
of fraud  
and error  
identified in  
the Scottish  
public sector**

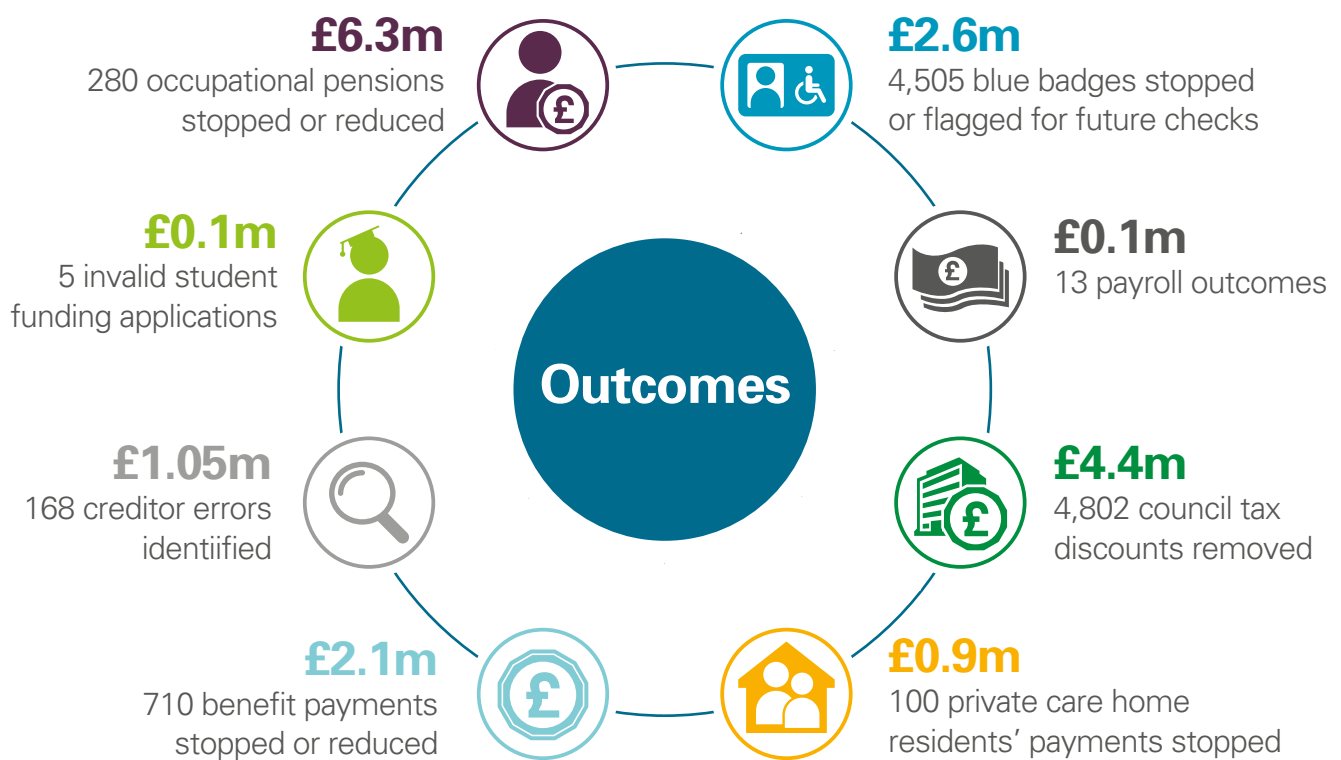
**18.** Importantly, once overpayments have been identified, public bodies can take appropriate action to recover the money. As at 31 March 2018, public bodies were taking action to recover £4.8 million (£4.6 million was being recovered at the end of the 2014/15 NFI in March 2016).

**19.** The areas which generated the most outcomes from the current exercise were [\(Exhibit 3\)](#):

- pensions – 34 per cent (£6.3 million)
- council tax discounts – 24 per cent (£4.4 million)
- blue badges – 14 per cent (£2.6 million).

### Exhibit 3

Eight areas generated about 95 per cent of the NFI outcomes in Scotland



Source: The Cabinet Office NFI secure web application

**20.** The NFI outcome figures include amounts for fraud and error detected as well as an estimate for those future losses that have been prevented. High levels of outcomes could be due to increased fraud and error in the system, better detection of fraud and error or poor internal controls.

**21.** Equally important is the assurance the NFI gives to the public bodies with few matches that, in the areas covered by the exercise, there do not appear to be significant problems. These bodies also benefit from the deterrent effect the NFI creates.

## NFI outcomes from specific matches

### Pensions

**22.** The NFI provides councils that administer pensions and the Scottish Public Pensions Agency (SPPA) with an efficient and effective way of checking that they are only paying people who are alive. The 2016/17 NFI helped these bodies identify 225 pensioners whose deaths had not been reported to them (195 in NFI 2014/15).

**23.** The number of outcomes for pensioners who have gone back into employment that should have resulted in their pension being reduced has increased from 22 to 55 since the 2014/15 NFI. This may indicate that people are more inclined to work after pensionable age.

**24.** In total, pensions' outcomes for the 2016/17 NFI are £6.3 million compared with £4.6 million for 2014/15 ([Exhibit 3, page 12](#)). This equates to an average outcome of £22,500 for each case.

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## Case study 1

### SPPA – NHS superannuation scheme re-employment controls



As a result of the NFI matches identifying pensioners who have entered re-employment, controls have been strengthened in the re-employment data set within the payroll administration system to include earnings limits. This should help identify pension overpayments in the future.

Source: SPPA

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### Council tax

**25.** 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 annual council tax bill. The Scottish Government estimates that two-fifths of chargeable dwellings were entitled to the discount in 2017. Based on the average band 'D' council tax charge for Scotland in 2017, this equates to an annual discount cost of £285 million.<sup>2</sup> This demonstrates that the SPD is of considerable value.

**26.** The 2016/17 NFI exercise found that the total council tax discount incorrectly awarded across Scottish councils totalled £4.4 million (£5.6 million in 2014/15) ([Exhibit 3](#)). This is an average outcome of £916 for each case.

**27.** It is not for Audit Scotland to decide which data matching service a council should use and when. The NFI is one of the proven ways councils can address fraud and error in this area. Councils can also use credit reference agencies to match single-person details against a wider range of data sets such as credit and utility records. Angus and Perth and Kinross councils decided not to upload data for this particular data match as they use alternative data matching sources. A number of councils, which did submit data to the NFI, also use alternative data matching. For example, several councils used credit reference agencies. In addition, North Ayrshire Council carried out payroll to council tax matching.

**28.** We recommend that councils investigate the SPD matches, in conjunction with other data matching suppliers as they determine appropriate, to ensure that their awarded discounts are valid.

**29.** Council tax reduction replaced council tax benefit in 2013. It helps those on low incomes to pay their council tax bills. The NFI provides councils with the opportunity to identify a wide range of council tax reduction fraud and errors. The 2016/17 NFI is the first time council tax reduction data sets have been included within the NFI. Outcomes of £0.5 million were identified.

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## Case study 2



### Midlothian Council – council tax SPD

An NFI match identified that another adult was resident in a property where a customer was receiving a council tax SPD of about £330 a year. An investigation established that the tenant's brother had been the only person in the property and the tenant had been privately renting another property. The tenant had also submitted several applications to buy the council property under the 'right to buy' scheme. Evidence was obtained that the tenant was married and was living with her new husband.

The 'right to buy' application was cancelled, resulting in the tenant not receiving her £15,000 discount and the tenant signed over her council tenancy back to the council. Council records have been updated and the tenant's brother is now liable for council tax from 2014. The council has issued council tax bills totalling £1,743.67.

Source: Midlothian Council and the Cabinet Office NFI secure web application

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### Blue badges

**30.** The blue badge parking scheme allows individuals with mobility problems to park for free at on-street parking meters, in 'pay and display' bays, in designated blue badge spaces, and on single or double yellow lines in certain circumstances. Badges are sometimes used or renewed improperly by people after the badge holder has died. It is an offence for an unauthorised person to use a blue badge and, importantly, the space is denied to people with actual mobility issues.

**31.** Councils do not always attempt to recover a badge relating to a deceased person to avoid causing distress to bereaved families. But by flagging the relevant records, they can at least ensure that badges are not incorrectly renewed in the future.



**32.** Scottish councils have reported correcting 4,505 blue badge records (3,073 in the 2014/15 NFI) where the NFI helped them to identify that the holder had died ([Exhibit 3, page 12](#)). North Lanarkshire Council has recorded the highest level of outcomes, correcting 751 blue badge records.

## Case study 3



### The Moray Council's 'tell us once' approach

The council operates a process called 'tell us once'. This means that when a death is registered, the registrar informs the relevant council and government departments. This includes advising the blue badge department to allow cancellation of blue badges on the council database. This process has reduced the risk of blue badges continuing to be used fraudulently or improperly. It also reduces the stress and burdens placed upon relatives of the deceased.

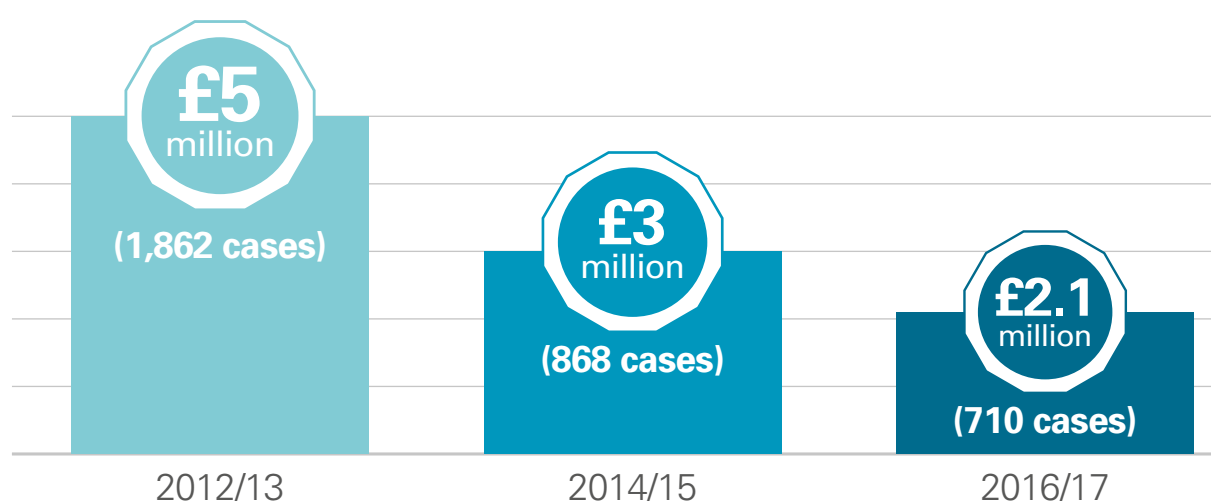
Source: The Moray Council

## Benefits

**33.** The NFI provides councils and the Department for Work and Pensions (DWP) with the opportunity to identify a wide range of benefit frauds and errors. The most common are caused by undeclared occupational pensions and undeclared earnings from public sector employment. [Exhibit 4](#) summarises the benefit outcomes from the last three NFI exercises.

## Exhibit 4

### Housing and other benefit outcomes



Source: The Cabinet Office NFI secure web application

**34.** This indicates that there has been a further decline in benefit outcomes since the last exercise. The possible reasons are as follows:

- The transfer of responsibility for investigating benefit fraud from councils to the DWP's Single Fraud and Investigation Service from 2015/16. This means that local authority investigators are now concentrating on other areas.
- The DWP is now using real-time information (RTI) payroll and pension information, to help prevent benefit overpayments occurring.
- The DWP only investigates potential frauds of a significant value.
- Efforts by public bodies to continuously improve housing benefit systems. Councils are also participating in DWP schemes such as the Right Benefit Initiative from April 2017, which aims to identify and reduce housing benefit fraud and error.

**35.** The number of housing benefit cases recorded with overpayments has fallen from 868 in the 2014/15 NFI to 710 in the 2016/17 NFI ([Exhibit 3, page 12](#)). Although the individual value of overpayments has also fallen from £3,515 to £2,923, it still indicates that councils are effectively targeting high-value and high-risk matches first.

**36.** In terms of value, Glasgow City Council and Aberdeen City Council have so far achieved the highest levels of outcomes from their 2016/17 NFI benefits investigations, with £306,645 and £224,666 respectively.

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## Case study 4

### East Dunbartonshire Council – housing benefit and council tax reduction



A housing benefit and council tax reduction scheme match identified that a claimant was no longer residing in the local area. This resulted in £4,200 of overpaid housing benefit and council tax reduction being identified. It was also established that the landlord had returned to live in the property and had evaded his £7,200 council tax liability by not informing the council of the change of occupancy. The landlord is currently repaying his council tax debt.

Source: East Dunbartonshire Council and the Cabinet Office NFI secure web application

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## Creditors

**37.** The NFI provides an efficient way to check for duplicate payments and that payments are made only to appropriate creditors. The 2016/17 NFI detected 168 creditor overpayments of £1.05 million compared to 139 overpayments worth £0.71 million in 2014/15 ([Exhibit 3](#)). Recovery action is taking place for £1.03 million (154) of these overpayments. In other cases, overpayments have already been returned or credit notes provided. These outcomes are all as a result of duplicate payments made in error.

**38.** Those bodies delivering the highest value of error from 2016/17 investigations are the Scottish Government (£278,981) and the Scottish Fire and Rescue Service (£134,892).

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## Case study 5



### NHS Lanarkshire – creditors

Previous NFI exercises identified a few duplicate payments which had not been picked up through the health board's normal creditor controls. Based on this, the finance department put in place a new monthly IT report to identify duplicate payments. This additional control has resulted in a reduction in duplicate payments and where NFI now picks up duplicate payments these have already been resolved by the finance department.

Source: NHS Lanarkshire

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### Payments to private care homes

**39.** Councils have identified 100 cases of overpayments to care home providers for people who have died. These were worth £865,173 ([Exhibit 3, page 12](#)). Eight cases totalling £103,111 were identified in the 2014/15 NFI exercise. All of these overpayments are being recovered.

**40.** Owing to the significant increase in identifying overpayments to care providers, East Dunbartonshire Council has undertaken a pilot looking at matching all social care costs for clients to deceased records ([Case study 10, page 29](#)).

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## Case study 6



### Aberdeen City Council – residential care homes

Following the death of a resident, the care home is responsible for notifying the council. The 2014/15 NFI identified an issue involving payments to care homes. In some cases, care homes were not notifying the council quickly when residents died resulting in payments continuing when they should have stopped.

Processes were introduced to use information from the council's 'tell us once' initiative. This data is checked daily, resulting in payments to care homes being stopped much earlier.

Source: Aberdeen City Council

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## Payroll

**41.** This match includes all participating bodies' employee payroll data as well as those of MSPs and councillors. The NFI can identify cases of potential payroll fraud. Investigations may lead, for example, to the discovery that employees are in breach of conditions of service or EU working time limits. Excessive working hours may also pose public safety risks.

**42.** The NFI also matches payroll data to Home Office immigration data. It is unlawful to seek employment if you are not entitled to live or work in the UK. The NFI allows public bodies to supplement their recruitment checks.

**43.** Thirteen payroll outcomes valued at £128,963 have been reported for the 2016/17 NFI exercise ([Exhibit 3, page 12](#)). The matches also resulted in the following:

- One public sector employee being dismissed. The employee was dismissed after he did not return from annual leave, could not be contacted and it was confirmed that he did not have permission to live or work in the UK.
- An employee resigning after being challenged about residency status.
- Two public sector employees being removed from the NHS bank staffing lists after it was confirmed that they did not have permission to live or work in the UK. One was in the process of being removed from the list after the NHS board became aware that they were no longer permitted to work in the UK. The other employee was removed from the bank list after the Home Office informed the NHS board that the employee no longer had the right to work in the UK.

## Student immigration checks

**44.** The NFI provides the Student Awards Agency Scotland (SAAS) with matches identifying cases where students may not hold valid permissions to live or study in the UK.

**45.** The NFI exercise identified five cases where students were found not to be entitled to receive support. These students had received student support amounting to £0.1 million ([Exhibit 3](#)). The 2014/15 NFI identified overpayments of £0.2 million in ten cases where students were not entitled to support.

## New matches were introduced in 2016/17

### Housing waiting lists

**46.** Housing waiting list data was a new data set required for the 2016/17 NFI exercise. The aim is to identify possible cases of waiting list fraud. This happens when an individual has registered on the waiting list but there are possible undisclosed changes in circumstances or false information has been provided.

**47.** Councils identified 90 cases where applicants were removed from waiting lists. East Dunbartonshire Council identified 71 (79 per cent) of these cases.

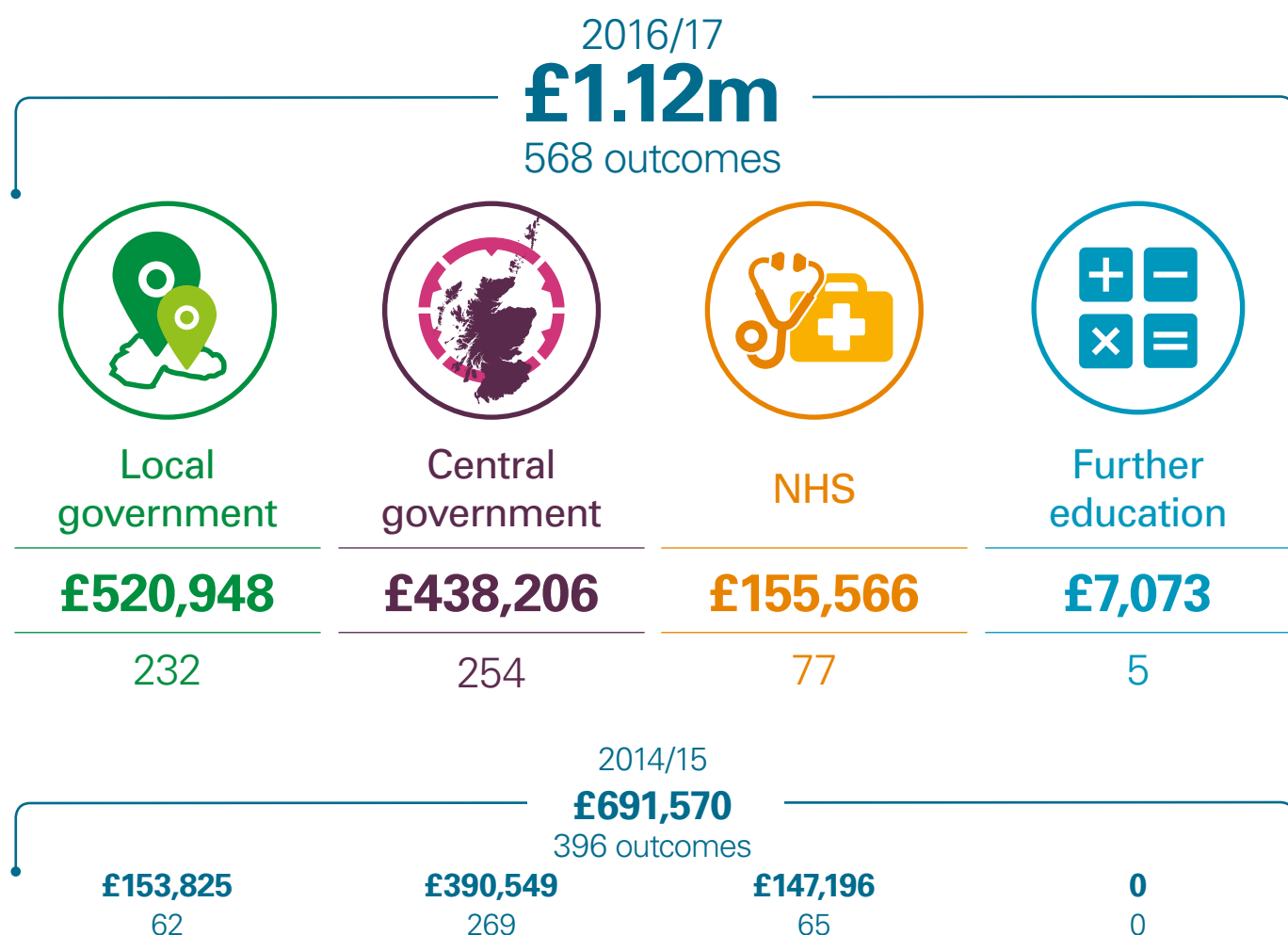
## Matches benefiting other public bodies

**48.** One key benefit of a UK-wide data matching exercise is that it enables matches to be made between bodies and across national borders. Scottish data for the 2016/17 NFI exercise benefited wider public bodies, both within and outwith Scotland to take action on 568 outcomes worth £1.12 million ([Exhibit 5](#)). There were 396 outcomes totalling £0.7 million in the 2014/15 NFI. Most of these outcomes are from cross-body housing benefits, council tax reductions and housing waiting list matches.

**49.** For those public bodies taking part in the NFI which may not always identify significant outcomes from their own matches, it is important to appreciate that other bodies and sectors may do so.

### Exhibit 5

Matches benefiting other bodies both within and outwith Scotland



Source: The Cabinet Office NFI secure web application

### Other NFI services to prevent and detect fraud

**50.** As well as the main data matching exercise which takes place every two years, the NFI exercise provides other services to help identify and prevent fraud and error:

- The NFI AppCheck helps bodies check applications at the start of the process. New applications for jobs, a service or benefits bring risks. The person applying may not be who they say they are, or they may fail to declare relevant information. This preventative service provides access to information allowing organisations to stop fraudulent applications from being successful. For example, it allows users to verify an applicant's immigration status, validate details provided on application forms and verify the applicant's welfare entitlement.
- The flexible data matching service allows participating bodies to re-check any of the existing NFI data matches when it is convenient for them. This service matches data from the most recent NFI exercise with regularly refreshed data.
- With the Equifax Public Sector Gateway, NFI participants can complete additional checks on the NFI matches. This function allows NFI users to check current residency data, records of deceased persons and data about other individuals who may be living at an address.

**51.** Several Scottish organisations have used these additional NFI services. We recommend that bodies consider using the NFI AppCheck, flexible matching service and the Equifax Public Sector Gateway service when planning their counter-fraud activities.

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## Case study 7

### East Dunbartonshire Council – use of AppCheck



An individual applied to East Dunbartonshire Council for a taxi licence. The council used AppCheck and discovered that the applicant has a Glasgow address and also a tenancy in Milton Keynes. The investigation led to Milton Keynes Council recovering their property.

Source: East Dunbartonshire Council

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### Costs and benefits of participating in the NFI

**52.** The estimated value of the NFI to the public purse since we last reported in June 2016 is £18.6 million in outcomes. Some of this represents overpayments that will never be recovered and estimated values that have been attached, for example to cancelling a blue badge. These amounts may not translate into cash savings, but they are still valuable outcomes.

**53.** We previously consulted public bodies and established from those that responded that the NFI overpayments are usually subject to the same recovery processes that apply to other debt. Most bodies do not keep separate records of

the NFI recoveries. Indeed, we would prefer that bodies devoted their resources to investigating, rather than separately recording the NFI overpayments that are often recovered by frequent small payments over long periods of time.

**54.** Based on the current NFI exercise, public bodies have indicated that the NFI overpayments being recovered are £4.8 million (88 per cent of overpayments identified, excluding estimates). The estimated forward savings are £13.1 million from areas such as benefits and pensions. This is public money that has been prevented from being paid out in fraud or error following investigations. We estimate that at least 70 per cent of the total outcomes of £18.6 million are actual cash savings or money being recovered for the public purse.

# Part 3

## How public bodies work with the NFI



### Key messages

- 1** 83 per cent of participating public bodies managed their roles in the 2016/17 NFI exercise satisfactorily. This is an improvement since the NFI 2016 report, when it was 80 per cent.
- 2** All bodies have taken appropriate action in cases where fraud is alleged.
- 3** The effectiveness of the NFI arrangements has improved across the central government and NHS sectors. The picture for councils is mixed.
- 4** NFI arrangements in colleges are generally sound but could be further developed.
- 5** 62 per cent of audit committees reviewed our last NFI report and carried out the self-assessment checklist contained within it. This is an improvement since the 2014/15 NFI report when only 31 per cent of audit committees reviewed the self-assessment checklist.
- 6** About a third of bodies could follow up their matches more promptly. This is a slight improvement since the 2016 NFI report, when the figure was 41 per cent.

most public  
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their role  
in the NFI  
satisfactorily

### Overall findings

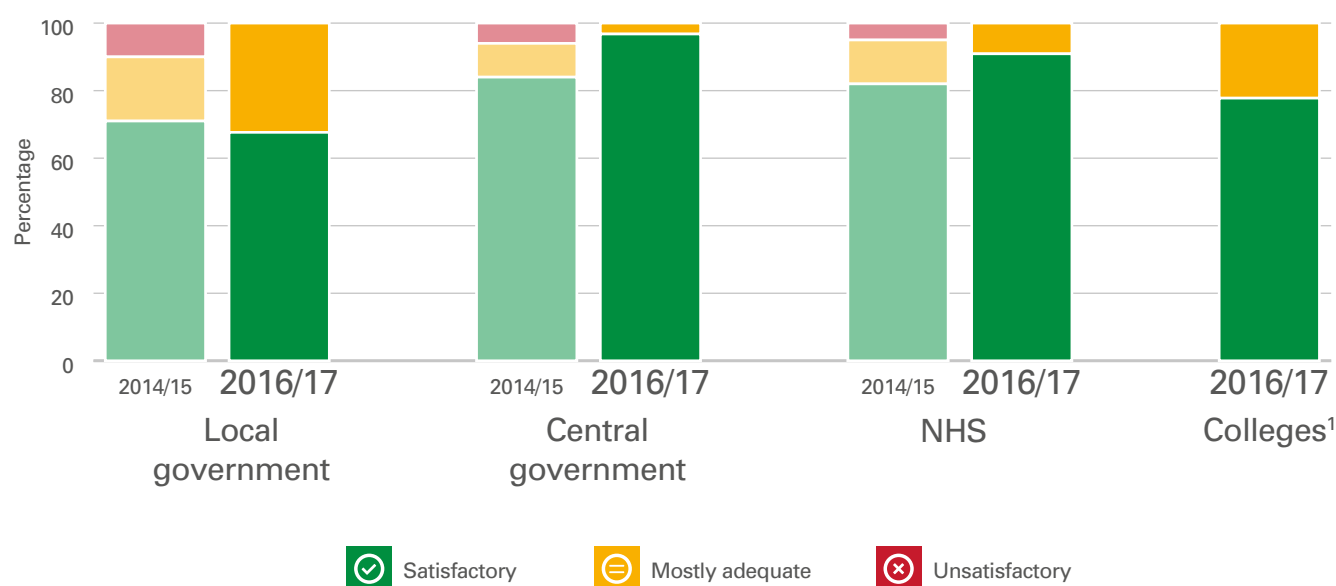
**55.** Auditors concluded that 83 per cent of participating bodies had managed their role in the 2016/17 NFI exercise satisfactorily (80 per cent in the NFI 2016 report). No participating bodies were assessed as requiring to improve urgently. These conclusions continue to indicate a high degree of commitment to the NFI and that most participating bodies are taking the NFI seriously by putting adequate arrangements in place.

**56.** Audit work indicates that central government bodies have better arrangements compared with the NHS, local government and college sectors ([Exhibit 6, page 23](#)). This may be because many central government bodies have less direct interaction with the public. This, in turn, means that most central government bodies have fewer types of data matches to process for the NFI exercise.



## Exhibit 6


### External auditor review of NFI arrangements



Note: 1. Only two colleges took part in the 2014/15 NFI.

Source: External auditors

**57.** We held an NFI workshop in March 2017 for participating bodies. The workshop was well attended with over 50 participants from NHS, councils and central government bodies. The aim was to work through recommended approaches to the NFI with both experienced users of the NFI system and other new users for the 2016/17 exercise. The NFI team facilitated the sharing of good practice on the day. We plan to hold more events in autumn 2018 to help improve public bodies' outcomes from the next NFI exercise.

**58.** We recommend that all bodies use our [National Fraud Initiative: Self-appraisal checklist](#)  to self-appraise their involvement in the NFI before and during the 2018/19 NFI exercise.<sup>3</sup> Part A of the checklist is designed to help audit committee members when they are reviewing, seeking assurance over or challenging how effectively their public body participates in the NFI. Part B of the checklist is for staff involved in planning and managing the NFI exercise.

### Areas for further improvement

**59.** Auditors reviewed each body's planning and progress five months after the release of matches to participants and provided recommendations for improvement where appropriate. Overall, auditors' conclusions demonstrate that there is a high level of involvement by participating bodies with the NFI. There are still areas where they could improve further ([Exhibit 7, page 24](#)). In particular, auditors assessed 17 per cent of participating bodies overall as being 'mostly adequate'. This means that although these bodies' NFI arrangements are generally sound, there are some specific areas where they must improve further.

## Exhibit 7

### Conclusions from audit work on NFI participating bodies



Source: Audit Scotland based on audit work in Scottish public sector bodies

**60.** It is worth noting from audit work that:

- auditors reported concerns in seven per cent for not following up matches promptly. This figure has improved considerably from the 2014/15 NFI exercise when auditors reported concerns in 41 per cent
- most of the staff directly involved in preparing for the NFI and following up matches demonstrate commitment. Auditors identified that there were issues in four per cent of bodies because of limited NFI skills, insufficient authority and/or not enough time available to coordinate the exercise. This is an improvement from the 2014/15 NFI exercise (16 per cent)
- auditors reported that in 15 per cent either the audit committee (or equivalent) or the key contact did not review the self-appraisal checklist to monitor the body's planning and progress with the 2016/17 NFI exercise. This compares favourably with the 2014/15 NFI exercise (69 per cent).

**61.** We recommend that bodies review the guidance section within the NFI secure web application to identify possible ways of working more efficiently on the NFI matches.

**62.** Overall, auditors found an improved picture of involvement by all bodies compared with the 2014/15 exercise.

**63.** We recommend that where local auditors have identified specific areas where improvements could be made, the public bodies should act on these as soon as possible.

## **Actions to improve the NFI**

### **Scottish Parliament post-legislative scrutiny review of the NFI**

**64.** The Scottish Parliament's Public Audit and Post-legislative Scrutiny Committee published a report in September 2017 following its post-legislative scrutiny review of the NFI.<sup>4</sup> The committee concluded that the NFI was a success story in Scotland. It had improved the transparency of public finances and clawed back millions of pounds that would otherwise have been lost to fraud or error. The committee outlined several recommendations for ways in which the NFI could be strengthened.

**65.** We welcome the committee's report and recommendations on the NFI. We have been considering the report's implications and are working alongside the Scottish Government and partner bodies to enhance the impact of the NFI in the following ways:

- Raising awareness of the NFI by promoting the publication of this report on our website and social media. We also gave presentations earlier this year on the NFI at national events on tackling fraud and error in Scotland.
- Holding events with NFI participants, the Cabinet Office and the NFI data processing contractor to identify new and emerging key fraud risks within public sector bodies. The outcomes from these events will be used to enhance the existing NFI processes and data sets where possible.
- Working with the Cabinet Office and other UK audit agencies to identify additional data sets to include in the NFI.

- Working to identify additional public bodies which may benefit from being included in the NFI. For example, the Scottish Government is considering the feasibility of an NFI pilot for housing associations. All new public bodies created in Scotland will be considered for inclusion in the NFI, such as the new social security agency.

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## Case study 8

### NHS Scotland Counter Fraud Service – use of social media



In February 2018, the NHS Scotland Counter Fraud Service launched a new social media page on Twitter. This page provides details of its work protecting the NHS and public sector from financial crime and provides updates and advice from counter-fraud services.

Source: NHS Scotland Counter Fraud Service

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## Case study 9

### NHS Scotland Counter Fraud Service – *Accurate and Honest Declarations Guide*



The NHS Scotland Counter Fraud Service is working on patient applications for exemptions by supporting its partner organisations as they design systems and processes that reduce fraud. The service has published an *Accurate and Honest Declarations Guide* to designing application forms and declarations. It provides an explanation of the principles that should be adopted by those designing application processes, both internal and external. It also includes the latest insights from behavioural economics and a section on digital signatures.

Source: NHS Scotland Counter Fraud Service

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## Costs of NFI







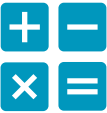

**66.** Audit Scotland funds the cost of the NFI system and the biennial data matching for Scottish public sector bodies (£189,650 for the 2016/17 exercise). Participating bodies incur costs following up matches and investigating. Participating bodies also incur costs for additional services such as the AppCheck pre-application screening, which currently costs £1,850 a year.

**67.** 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 ([Exhibit 8, page 27](#)). This compares favourably with the average outcome for each public body in Scotland of £165,000 for the 2016/17 NFI.

**68.** Overall, the £18.6 million of outcomes from the 2016/17 NFI outweigh the costs.

## Exhibit 8

### Cost of NFI

| Sector                                                                                                      | Details                                        | Cost                                                                                                                                                               |
|-------------------------------------------------------------------------------------------------------------|------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  <b>Local authority</b>    | <b>7</b> councils estimated the financial cost | Costs range from £9,000 to £40,000<br>                                           |
|  <b>Central government</b> | <b>7</b> bodies estimated the financial cost   | Costs range from £255 for a small body to £20,000 for larger bodies<br>          |
|  <b>Health</b>             | <b>7</b> boards estimated the financial cost   | Costs range from £600 for a special board to £20,000 for a territorial board<br> |
|  <b>Colleges</b>          | <b>1</b> body estimated the financial cost     | £2,000<br>                                                                      |

Source: NFI local auditor questionnaire

# Part 4

## Future developments



### Key messages

- 1** The 2018/19 NFI is due to start in autumn 2018 and we will review which bodies should be asked to submit data.
- 2** The NFI is now developing new ways to prevent and detect fraud.

### Participating bodies and data sets

**69.** The 2018/19 NFI exercise is due to start in autumn 2018. We will continue to look at which bodies should be asked to submit data and which data sets should be included in the NFI. It is unlikely that the number of bodies will increase significantly.

**70.** We continue to work with NFI participants to find new ways to prevent and detect fraud and error. This includes identifying any emerging fraud risks.

**71.** Providing social care is one of the largest expenditure areas for councils. This is a complex area where client care requirements often change. Council social work services need to ensure that payments are accurate and reflect the level of care being provided. East Dunbartonshire Council has reviewed its social work systems to investigate, through an NFI pilot exercise, if it can use data matching to ensure that social care payments are cancelled when a customer dies ([Case study 10, page 29](#)). As a result of the pilot, an optional additional data match will be available to all councils for the 2018/19 NFI exercise.

**72.** The Cabinet Office and the Wales Audit Office are considering if they can use HMRC data along with credit reference data to identify any fraud and error in student awards. The aim of this pilot exercise is to identify economically active residents in the same household as students who have not been declared on student funding applications. This pilot work is being taken forward in Scotland through the Student Awards Agency for Scotland.

**73.** We are also investigating the possibility of working with the NHS Scotland Counter Fraud Service to identify potential areas for further data matching using NFI data sets in preventing and detecting patient exemption fraud.

**74.** We continue to work with the Scottish Government in promoting and enhancing participation in the NFI.

**we continue to work with public bodies to find new ways to prevent and detect fraud and error**

## Case study 10



### East Dunbartonshire Council – NFI pilot in social care

A pilot was undertaken to investigate if data matching could be used to ensure that social care payments were cancelled when a client died. Currently the NFI only matches the following:

- Private residential care home residents to deceased person records.
- Personal budget direct payments to housing benefits, pensions, Amberhill<sup>1</sup> and other councils' personal budget data.

The council matched data for all clients on the social work system against deceased person data and identified 15 errors. This consisted of nine clients who received care from external providers and payments continued after the client's death, and six additional clients who received care from the council. The overpayments identified for the nine clients of the external providers totalled £40,266. The council has now recovered the full amount from the care providers. In the cases of the six clients who received care from the council, it was confirmed that the care had stopped when the client had died.

The council has now introduced additional controls to strengthen its systems.

Note: 1. Amberhill is a system used by the Metropolitan Police to authenticate documents presented for identity verification.

Source: East Dunbartonshire Council and the Cabinet Office NFI secure web application

## The Code of Data Matching Practice

**75.** Audit Scotland's Code of Data Matching Practice has been updated for the 2018/19 NFI exercise. It was issued for a six-week consultation in May 2018. The revised Code reflects important data protection changes introduced by the General Data Protection Regulation (GDPR) (Regulation (EU) 2016/679) and the subsequent Data Protection Act 2018. Once finalised, we will conduct data matching exercises under the requirements of the new Code.

### The 2018/19 NFI exercise

**76.** The 2018/19 NFI will be continuing with successful batch data matches. We will also continue to promote the flexible and real-time data matching options aimed at fraud prevention through the application checker module (AppCheck) and the flexible matching service.

**77.** The data sets included within the NFI are being reviewed with a view to adding more. The Cabinet Office and other UK audit agencies are seeking to raise awareness of, and get more bodies involved in, the NFI.



**78.** We look forward to the next NFI exercise and continuing to work with the Cabinet Office, other UK audit agencies, and participating bodies in progressing NFI improvements. This will include promoting NFI wherever possible. This should strengthen arrangements to help safeguard public money against losses from fraud and error.

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# Endnotes

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- 1 [\*The National Fraud Initiative in Scotland 2014/15\*](#) , Audit Scotland, June 2016.
- 2 *Scottish Local Government Financial Statistics 2016/17*, Scottish Government, February 2018.
- 3 [\*National Fraud Initiative: self-appraisal checklist\*](#) , Audit Scotland, March 2018.
- 4 *Post-legislative Scrutiny: The National Fraud Initiative*, The Scottish Parliament Public Audit and Post-legislative Scrutiny Committee, September 2017.



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# Appendix 1

## NFI governance arrangements

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### Background

This appendix summarises the key legislation and controls governing the NFI data matching exercise.

### Legislation

The 2016/17 NFI exercise was carried out under powers given to Audit Scotland for data matching included in The Criminal Justice and Licensing (Scotland) Act 2010.

The Criminal Justice and Licensing (Scotland) Act 2010 includes important data protection safeguards. These include a requirement for us to prepare a Code of Data Matching Practice, and to consult with the UK Information Commissioner and others before publication. Our code that was in place for the 2016/17 NFI exercise, The Code of Data Matching Practice 2010, ensures that the NFI exercises continue to comply with:

- data protection requirements
- best practice in notifying individuals about using their information for the NFI.

We have updated the Code of Data Matching Practice for the 2018/19 NFI exercise. We did this to reflect important data protection changes introduced by the General Data Protection Regulation (GDPR) (Regulation (EU) 2016/679) and the subsequent Data Protection Act 2018.

### The NFI web application

Bodies access the application online using passwords and encryption controls similar to internet banking. The secure website is the safest method of providing the data matches to bodies. The Cabinet Office regularly reviews the application and implements changes to improve its functionality, ease of use, and security.

Interactive training is available to participating bodies and auditors through the web application to support the Cabinet Office and Audit Scotland Guidance.

### Security review and accreditation

The NFI system has gone through the Cabinet Office's information assurance and risk management process. This means the system is HM Government-accredited annually to store and process data.

Any firm processing data for the Cabinet Office will do so under a contract in writing. This imposes requirements covering technical and organisational security standards. Under the contract the firm may only act on instructions from the Cabinet Office. The Cabinet Office, assisted by Audit Scotland and the other UK public sector audit agencies, reserves the right to review the firm's compliance with these standards at any time. The Cabinet Office also requires annual security testing, supplemented by additional tests as appropriate.

This accreditation involves demonstrating that the NFI is suitably secured and that information risks are managed to government standards.

All of these measures provide current and future NFI participants with assurances that data is processed according to rigorous government security standards.

# Appendix 2

## Estimation bases



The figures used in this report for detecting fraud, overpayments and errors include outcomes already delivered (actual amounts participants have recorded) and estimates. Estimates are included where it is reasonable to assume that incidents of fraud, overpayments and errors would have continued undetected without NFI data matching.

Details of estimate calculations used in the report are shown below.

| Data match                                | Basis of calculation of estimated outcomes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|-------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Pensions</b>                           | Annual pension multiplied by the number of years until the pensioner would have reached the age of 85.                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Council tax single person discount</b> | Annual value of the discount cancelled multiplied by two years.                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Council tax reduction scheme</b>       | Weekly change in council tax discount multiplied by 21 weeks.                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Housing benefit</b>                    | Weekly benefit reduction multiplied by 21 weeks.                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Blue badges</b>                        | Number of badge holders confirmed as having died multiplied by £575 to reflect lost parking and congestion charge revenue.                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Payroll</b>                            | <p>£5,000 for each employee who is dismissed or resigns as a result of NFI matching, or £10,000 for each resignation or dismissal for employees who have no right to work in the UK. Estimates based on the past value of fraud (for example incorrect payment of sick leave), the costs associated with removing fraudulent employees from their posts, and the preventative forward savings for avoidance of a Home Office penalty for employing illegal workers.</p> <p>£50,000 for employees removed from the UK.</p> |
| <b>Social housing waiting lists</b>       | £3,240 for each case based on the annual estimated cost of temporary accommodation and the likelihood that future losses would occur owing to waiting list fraud, multiplied by two years.                                                                                                                                                                                                                                                                                                                                |
| <b>Private care homes</b>                 | £7,000 for each case based on average weekly cost of residential care multiplied by 13 weeks.                                                                                                                                                                                                                                                                                                                                                                                                                             |

Source: Cabinet Office NFI team

# The National Fraud Initiative in Scotland

This report is available in PDF and RTF formats, along with a podcast summary at:

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## APPENDIX B

## Self-appraisal checklist

| <b>Part A: for those charges with governance<br/>Leadership, commitment and communication</b>                                                                                                                                                             | <b>Yes/No/Partly</b>  | <b>Is action required</b> | <b>By whom and when?</b>                                                                                   |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|---------------------------|------------------------------------------------------------------------------------------------------------|
| Are we committed to NFI? Has the council/board, audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff?                                                                                | Yes                   | No                        |                                                                                                            |
| Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error?                                                                                                                                        | Yes                   | No                        |                                                                                                            |
| Have we considered using the real-time matching (Flexible Matching Service) facility and the point of application data-matching service offered by the NFI team to enhance assurances over internal controls and improve our approach to risk management? | Currently considering | Yes                       | The Chief Internal Auditor will review the benefits of utilising this service by March 2019.               |
| Are the NFI progress and outcomes reported regularly to senior management and elected/board members (e.g. the audit committee or equivalent)?                                                                                                             | Yes                   | No                        |                                                                                                            |
| Where we have not submitted data or used the matches returned to us, e.g. council tax single person discounts, are we satisfied that alternative fraud detection arrangements are in place and that we know how successful they are?                      | Partly                | Yes                       | Internal Audit will review actions taken with regard to Council Tax Single Person Discounts by March 2019. |
| Does internal audit, or equivalent, monitor our approach to NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?                                                                                                      | Yes                   | No                        |                                                                                                            |

|                                                                                                                                      |     |    |  |
|--------------------------------------------------------------------------------------------------------------------------------------|-----|----|--|
| Do we review how frauds and errors arose and use this information to improve our internal controls?                                  | Yes | No |  |
| Do we publish, as a deterrent, internally and externally the achievements of our fraud investigators (e.g. successful prosecutions)? | Yes | No |  |