

# **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:

Dataset	Mandatory/Risk Based	Privacy notice required?
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**

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## 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, 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