

Cunninghame House,  
Irvine.

18 August 2016

### **Audit Committee**

You are requested to attend a Meeting of the above mentioned Committee of North Ayrshire Council to be held in the Council Chambers, Cunninghame House, Irvine on **MONDAY 22 AUGUST 2016** at **10.00 a.m.** to consider the undernoted business.

Yours faithfully

Elma Murray

Chief Executive

**1. Declarations of Interest**

Members are requested to give notice of any declarations of interest in respect of items of business on the Agenda.

**2. Minutes (Page 5)**

The accuracy of the Minutes of the meeting of the Committee held on 23 May 2016 will be confirmed and the Minutes signed in accordance with Paragraph 7 (1) of Schedule 7 of the Local Government (Scotland) Act 1973 (copy enclosed).

**3. Internal Audit and Corporate Fraud Action Plans: Quarter 4 update**

Receive a verbal update from Head of Service (Schools) on the progress in allocating time for teachers to attend the Corporate Acceptable Computer Use training.

- 4. National Fraud Initiative in Scotland 2014/15 (Page 13)**  
Submit report by the Executive Director (Finance and Corporate Support) on the outcome of the recently completed National Fraud Initiative (NFI) exercise and receive a presentation on the work of the Corporate Fraud Team (copy enclosed).
- 5. Internal Audit and Corporate Fraud Action Plans: Quarter 1 update (Page 65)**  
Submit report by the Executive Director (Finance and Corporate Support) on the progress made by Council services in implementing the agreed actions from Internal Audit and Corporate Fraud reports as at 30 June 2016 (copy enclosed).
- 6. Internal Audit Reports issued (Page 73)**  
Submit report by the Executive Director (Finance and Corporate Support) on the Internal Audit work completed between 1 May and 31 July 2016 (copy enclosed).
- 7. Corporate Fraud Reports issued (Page 93)**  
Submit report by the Executive Director (Finance and Corporate Support) on the Corporate Fraud investigations completed between 1 May and 31 July 2016 (copy enclosed).
- 8. Urgent Items**  
Any other items which the Chair considers to be urgent.

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## Audit Committee

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Sederunt:

Peter McNamara (Chair)  
John Ferguson  
Tom Marshall  
Catherine McMillan  
David O'Neill  
Robert Steel  
Joan Sturgeon

Chair:

Attending:

Apologies:

Meeting Ended:



Audit Committee  
23 May 2016

**Irvine, 23 May 2016** - At a Meeting of the Audit Committee of North Ayrshire Council.

**Present**

Peter McNamara, John Ferguson, Tom Marshall, Catherine McMillan and Robert Steel.

**In Attendance**

L. Friel, Executive Director, M. Hogg, Head of Finance, P. Doak, Senior Manager (Internal Audit, Risk and Performance); A. Lyndon, Team Manager (Corporate Procurement); S. Humphries, Chief Revenue and Benefits Officer and K. O'Hara, Team Leader (Corporate Fraud) (Finance and Corporate Support); S. Quinn, Head of Service (Schools) (Education and Youth Employment); D. Rowlands, Head of Service (Health and Community Care) (North Ayrshire Health and Social Care Partnership); R. McCutcheon, Head of Service (Commercial Services) (Place) and A. Little, Committee Services Officer (Chief Executive's).

**Also In Attendance**

P. Craig, Audit Scotland.

**Chair**

Councillor McNamara in the Chair.

**Apologies for Absence**

David O'Neill and Joan Sturgeon.

**1. Declarations of Interest**

There were no declarations of interest by Members in terms of Standing Order 10 and Section 5 of the Code of Conduct for Councillors.

**2. Minutes**

The Minutes of the meeting of the Committee held on 15 February 2016 were confirmed and the Minutes signed in accordance with Paragraph 7 (1) of Schedule 7 of the Local Government (Scotland) Act 1973.

**3. School Funds**

Submitted report by the Executive Director (Education & Youth Employment) on the actions following the recent School Fund Internal Audit investigation where Internal Audit highlighted four areas for action.

The report outlined the processes and procedures that had been put in place to address the areas for action. In addition, Education Business Officers will undertake spot checks during routine visits to establishments.

Members asked questions and were provided with further information in relation to:-

- a variety of methods that are used across schools to manage schools funds and work that will be done to examine the benefits of an electronic package to manage schools funds; and
- training that is available for staff who handle monies and checks that will be made to ensure all new staff have access to the training

The Committee agreed (a) that the Executive Director (Education and Youth Employment) in conjunction with the Executive Director (Finance and Corporate Support) provide a progress report to the next meeting of the Committee; and (b) to otherwise note the report.

#### **4. Internal Audit Reports issued**

Submitted report by the Executive Director (Finance and Corporate Support) on the findings of Internal Audit work completed between 1 February and 30 April 2016. Appendix 1 to the report provided information on the seven reviews completed.

Members asked questions and were provided with further information in relation to:-

##### Payroll transaction testing

- information on authorised signatories that is maintained on the Payroll system; and
- updates that are required from departments to the authorised signatory list.

##### Commercial Refuse

- significant income that is generated from commercial refuse.

Noted.

#### **5. Internal Audit and Corporate Fraud Action Plans: Quarter 4 update**

Submitted report by the Executive Director (Finance and Corporate Support) on progress made by Council services in implementing the agreed actions from Internal Audit and Corporate Fraud reports as at 31 March 2016. Appendix 1 to the report provided details of the 11 actions that were not complete within the agreed timescales.

Members asked questions and were provided with further information in relation to:-

##### Corporate Acceptable Computer Use Policy

- signature of the Acceptable Computer Use Policy Form by teaching and non-teaching staff;

- issues that prevent teaching staff attending the half day Corporate Acceptable Computer Use training, such as insufficient cover to release existing teachers to attend the course and a high turnover of supply teachers and short time contract staff;
- In-service days that are set and allocated one year in advance;
- an examination of the in-service days schedule to ascertain whether the half day Corporate Acceptable Computer Use training could be incorporated into one of the in-service days; and
- the date for actions to be completed on set by the service.

#### Performance Indicators

- delays in the provision of software that has prevented the multi contracts module being tested.

#### Transportation

- an Agency Agreement by the Corporate Transport Hub and SPT in respect of school transport that requires to be complete.

The Committee agreed (a) that the Head of Schools provide an update to the next meeting on progress in allocating time for teachers to attend the Corporate Acceptable Computer Use training; and (b) to otherwise note the report.

### **6. Annual Governance Statement 2015/16**

Submitted report by the Executive Director (Finance and Corporate Support) on the Council's Annual Governance Statement for 2015/16 (Appendix 1) which outlined the governance framework in place and changes made to strengthen the framework during 2015/16.

The Committee agreed to approve the Annual Governance Statement 2015/16.

### **7. Accounting Policies 2015/16**

Submitted report by the Executive Director (Finance and Corporate Support) on (a) the unaudited financial statements that are due to be completed and submitted to Audit Scotland by 30 June 2016; (b) the Accounting Policies (Appendix 2) which have been updated to reflect the adoption of International Financial Reporting Standards (IFRS) 13 Fair Value Measurement and to provide a more comprehensive statement in relation to Investment Properties; and (c) the main changes to the Accounting Policies which were outlined in Appendix 1 to the report.

The Committee agreed to approve the accounting policies as detailed in Appendix 2 to the report.

## **8. Review of Housing Benefit subsidy certification 2014/15**

Submitted report by the Executive Director (Finance and Corporate Support) on the findings of the Audit Scotland review of Housing Benefit subsidy certification 2014/15 as set out at Appendix 1 to the report, which highlighted that no errors were found in North Ayrshire Council's claim.

Members asked questions and were provided with further information in relation to:-

- information in respect of the replacement of the current subsidy arrangements for temporary accommodation with a new grant system that will be presented to the Cabinet;
- the Local Housing Allowance level that sets the local housing allowance rate for each Council area;
- information on the Local Housing Allowance levels that will be circulated to Members; and
- efforts that are made to recover overpayments in housing benefit.

Noted.

## **9. Audit Scotland report: Procurement in councils - Impact report**

Submitted report by the Executive Director (Finance and Corporate Support) which provided information on (a) the impact of the 2014 report 'Procurement in Councils'; (b) the key messages and recommendations from the 2016 report 'Procurement in Councils'; and (c) North Ayrshire's progress against the 2014 recommendations.

Members asked questions and were provided with further information in relation to:-

- appropriately qualified procurement staff and staff who are working towards the relevant qualification;
- corporate procurement which excludes procurement on behalf of the Health and Social Care Partnership; and
- efforts that are made to ensure staff use contracted suppliers.

Noted.

## **10. Audit Scotland report: Why the Accounts Matter**

Submitted report by the Executive Director (Finance and Corporate Support) which set out the findings of the recent Audit Scotland report entitled 'Financial Reporting and Scrutiny: Why the Accounts Matter', including areas for improvement and a checklist for Elected Members that can be used to help scrutinise the accounts for 2015/16 (Appendix 1).

Members asked questions and were provided with further information in relation to a training event that will be arranged for Elected Members to help scrutinise the accounts for 2015/16.



The Committee agreed to note (a) the findings of the Audit Scotland report 'Financial Reporting and Scrutiny; Why the Accounts Matter'; and (b) the Elected Members questionnaire to scrutinise the Council's financial arrangements.

#### **11. Audit Scotland: Major Capital Investment in Councils - Follow Up**

Submitted report by the Executive Director (Finance and Corporate Support) which set out (a) the main issues from the recent Audit Scotland follow up report on capital investment by local authorities, as detailed in Appendix 1 to the report; and (b) further work that is required by North Ayrshire Council in relation to post project evaluations and a more consistent use of business cases in evaluating projects (Appendix 2).

Members asked questions and were provided with further information in relation to:-

- training that will be arranged for Elected Members on major capital investment and will be tied into training to help scrutinise the accounts; and
- the use of external experts as necessary to identify any potential problems

The Committee noted (a) the findings of the recent Audit Scotland report; (b) the current position in North Ayrshire Council; and (c) further actions being taken to implement best practice in North Ayrshire.

#### **12. Audit Scotland report: Health and Social Care Integration**

Submitted report by the Director (Health & Social Care Partnership) on the recent national report by Audit Scotland on the integration of Health and Social Care services.

The Audit Scotland report was attached as Appendix 1 to the report and highlighted current progress, current issues and recommendations. Appendix 2 to the report detailed a range of recommendations to help organisations address potential risks to the success of health and social care integration, together with details of the relevant actions both taken and planned locally.

Noted.

#### **13. External Audit Plan 2015/16**

Submitted report by the Executive Director (Finance and Corporate Support) on the External Audit plan for 2015/16, attached at Appendix 1, which summarised Audit Scotland's assessment of the key risks and challenges facing the Council and the audit work proposed in the 2015/16 financial year.

Noted.

#### **14. External Audit overview of Internal Audit**

Submitted report by the Executive Director (Finance and Corporate Support) on the outcome of the annual assessment of the Internal Audit function by the external auditor, attached at Appendix 1, that concluded that Internal Audit is operating in line with their expectations.

Noted.

#### **15. Local Scrutiny Plan and National Scrutiny Plan 2016/17**

Submitted report by the Executive Director (Finance and Corporate Support) on (a) the Local Scrutiny Plan (LSP) for 2016/17, as attached at Appendix 1, prepared by the Local Area Network of external scrutiny bodies and the National Scrutiny Plan, as attached at Appendices 2 and 3, which brings together all LSPs and is prepared by the Strategic Scrutiny Group.

Noted.

#### **16. Internal Audit Annual Report 2015/16**

Submitted report by the Executive Director (Finance and Corporate Support) on the Internal Audit Annual Report 2015/16 (Appendix 1) that outlined the performance and main findings of Internal Audit during 2015/16 and the governance, risk management and internal control environment of the Council.

Noted

#### **17. Corporate Fraud Annual Report 2015/16**

Submitted report by the Executive Director (Finance and Corporate Support) on the annual overview of the work of the Corporate Fraud team during 2015/16 that has undertaken eight separate investigations, seven of which have been reported to the Committee and one which is ongoing and will be subject to a future report once concluded.

Noted.

#### **18. External Audit Action Plans: Quarter 4 progress update**

Submitted report by the Executive Director (Finance and Corporate Support) which provided (a) information on the progress made in implementing the agreed action plans arising from the external audit of the Council's 2014/15 accounts; and (b) an update from the 2014/15 Review of Main Financial Systems action plan (Appendix 1).

Noted.

## **19. Strategic Risk Register 2016/17**

Submitted report by the Executive Director (Finance and Corporate Support) which provided details of (a) a review of the Council's Strategic Risk Register undertaken for 2016/17 that recommended some changes to the register; and (b) approval by Cabinet on 29 March 2016 of the Strategic Risk Register (Appendix 1).

Noted.

## **20. Internal Controls update**

Submitted report by the Executive Director (Finance and Corporate Support) which provided information on Audit Scotland's Annual Review of Systems of Internal Control and concluded that the authority's main financial systems were operating satisfactorily and that there were no areas of significant risk.

Noted.

## **22. Exclusion of the Public and Press**

The Committee resolved in terms of Section 50(A)4 of the Local Government (Scotland) Act 1973, to exclude from the Meeting the press and the public for the following items of business on the grounds indicated in terms of Paragraph 9 of Part 1 of Schedule 7A of the Act.

### **22.1 Corporate Fraud Reports issued**

Submitted report by the Executive Director (Finance and Corporate Support) on the findings of Corporate Fraud investigations completed between 1 February and 30 April 2016.

Noted.

## **23. Circulation of Reports**

The Committee considered there was insufficient time for Members to prepare for the Committee meeting, due to the volume of reports on the agenda and the timescale between the delivery of the agenda and the date of the meeting. It was noted that five of the reports were from Audit Scotland and had previously been published on their website.

The Committee agreed that in future Audit Scotland reports would be (i) circulated to Members on their publication; and (ii) on the agenda of the next meeting of the Committee and take the form of an officers report summarising and analysing the Audit Scotland report.

The meeting ended at 12.45 p.m.



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## **NORTH AYRSHIRE COUNCIL**

### **Agenda Item 4**

**22 August 2016**

#### **Audit Committee**

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**Title:** **National Fraud Initiative in Scotland 2014/15**

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**Purpose:** To advise the Audit Committee of the outcome of the recently completed National Fraud Initiative (NFI) exercise.

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**Recommendation:** That the Committee notes the outcome.

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#### **1. Executive Summary**

- 1.1 Audit Scotland has recently published its review of the latest biennial National Fraud Initiative (NFI).
- 1.2 Participation in the NFI by North Ayrshire Council is co-ordinated by the Corporate Fraud Team.
- 1.3 There have been no direct outcomes for North Ayrshire from the latest NFI exercise.

#### **2. Background**

- 2.1 The NFI is a major counter-fraud exercise carried out across the UK every 2 years. Participating bodies provide certain sets of data which are compared and anomalies highlighted for further investigation. The exercise is co-ordinated across the UK by the Cabinet Office and in Scotland by Audit Scotland.
- 2.2 The NFI in Scotland is well-established with this being the fifth biennial exercise. It remains the largest national fraud detection and prevention scheme that can provide data matches within and between public bodies. The key features are that it:
  - acts as a deterrent to potential fraudsters
  - identifies fraud and error
  - can provide assurances that systems are operating well
  - operates across boundaries
  - represents value for money in terms of the efficiencies deliverable

- 2.3 Potential inconsistencies or 'data matches' are identified by comparing data sets. This does not automatically mean there is fraud or error but further investigation is required to enable the correct conclusion to be drawn. Participating bodies then record the outcomes on a secure web application.
- 2.4 104 bodies participated in the 2014/15 NFI exercise and 585 data sets were submitted for matching. These returned almost 66,000 recommended matches for further investigation.
- 2.5 Some of the most important matches that are undertaken include:
- Council Tax records to electoral register
  - Housing Benefit claimants to employees and public sector pensions
  - Employees to employees
  - Blue Badges to deceased persons' records
  - Employees to immigration records

### **Impact and Outcomes**

- 2.6 The value of fraud and error identified as a result of the 2014/15 NFI exercise in Scotland is £14.7m; the total since the NFI started is now £110.6m in Scotland and £1.39bn across the UK.
- 2.7 North Ayrshire has not recorded any outcomes from the latest NFI. This is not unexpected as almost all outcomes from previous exercises have related to Housing Benefit matches; as the Council is no longer responsible for investigating Housing Benefit fraud, these matches were passed to DWP to investigate.

### **Making a Difference**

- 2.8 Audit Scotland has concluded that 80% of participating bodies (including North Ayrshire Council) managed their role in the 2014/15 NFI exercise satisfactorily. This indicates a high degree of commitment to the exercise and that most organisations are putting adequate arrangements in place.
- 2.9 The report notes that many organisations have either partially or completely lost the expertise to investigate matches, due to the transfer of experienced staff to DWP when the Single Fraud Investigation Service was established.

- 2.10 However, as the Committee is aware, North Ayrshire retained its fraud investigators and established the Corporate Fraud team, whose remit includes the co-ordination of the Council's response to the NFI. A good practice case study on page 34 of the Audit Scotland report highlights the key strengths and early successes of the team in North Ayrshire.

### **Future of the NFI**

- 2.11 The next biennial NFI exercise will start in Autumn 2016 with the submission of data sets. The potential matches will be released for investigation early in 2017.
- 2.12 The NFI is also increasing its opportunities for flexible and real time data matching options through the introduction of its application checker module ("AppCheck") and a flexible matching service. AppCheck allows users to prevent fraudulent or erroneous payments being made in the first place, while the flexible matching service allows organisations to carry out any of the existing NFI data matching exercises at a time convenient to them. The Corporate Fraud Team will pilot the use of AppCheck during 2016/17.

## **3. Proposals**

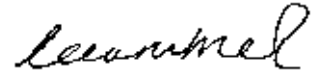
- 3.1 It is proposed that the Audit Committee notes the content of the Audit Scotland report on the 2014/15 NFI exercise.

## **4. Implications**

|  |  |
|--|--|
| <b>Financial:</b>                          | None.  |
| <b>Human Resources:</b>                    | None.  |
| <b>Legal:</b>                              | None.  |
| <b>Equality:</b>                           | None.  |
| <b>Environmental &amp; Sustainability:</b> | None.  |
| <b>Key Priorities:</b>                     | The work of the Corporate Fraud team, including participating in the National Fraud Initiative, helps to support the efficient delivery of the strategic priorities within the Council Plan 2015-2020. |
| <b>Community Benefits:</b>                 | None.  |

## **5. Consultation**

5.1 No consultation has been required in the preparation of this report.



LAURA FRIEL  
Executive Director (Finance and Corporate Support)

### **Reference :**

For further information please contact Paul Doak, Senior Manager (Internal Audit, Risk and Fraud) on 01294-324561.

### **Background Papers**

None.



# The National Fraud Initiative in Scotland



Prepared by Audit Scotland  
June 2016

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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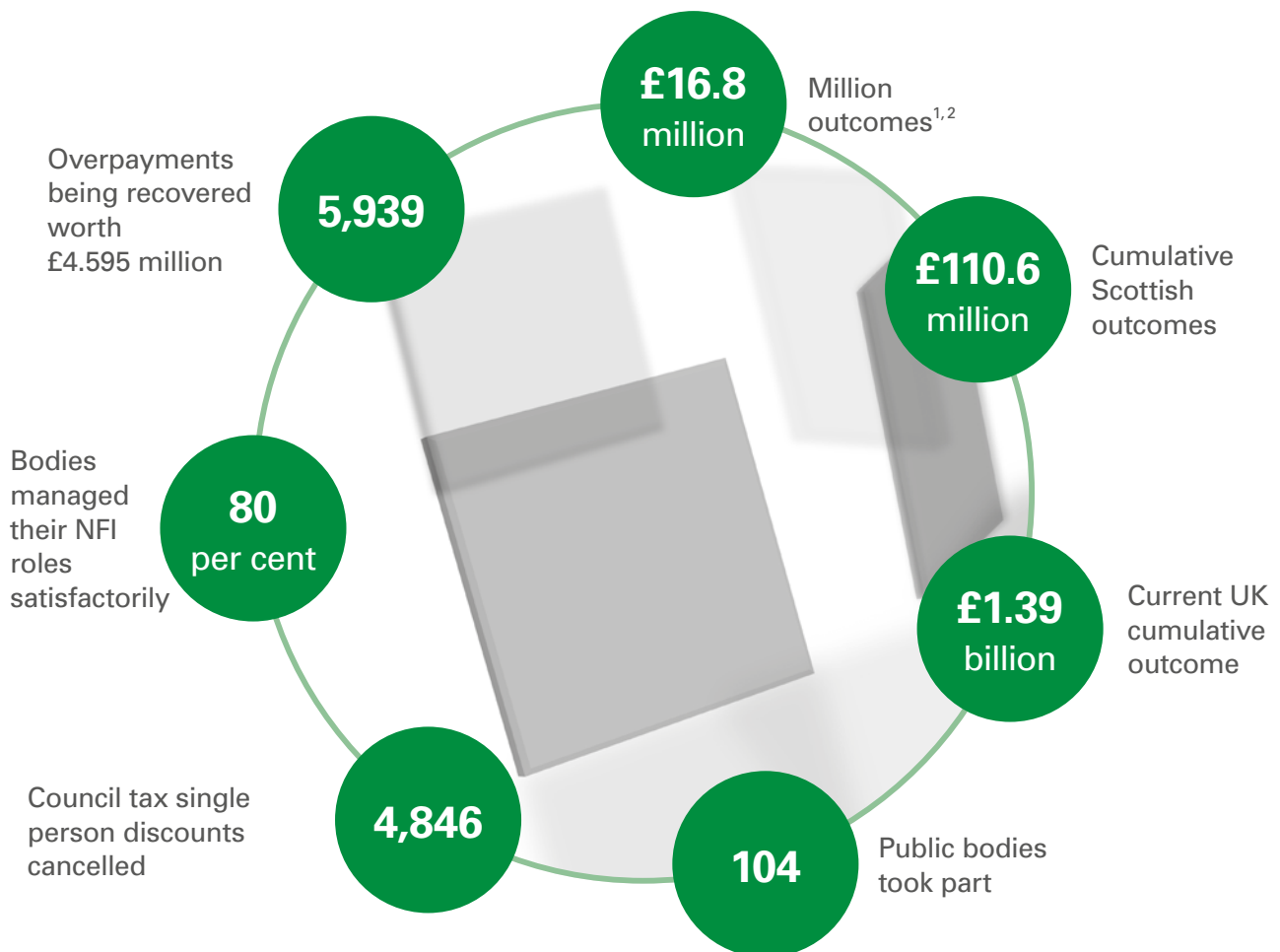
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## Links

-  PDF download
  -  Web link
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# Key facts




## Notes:

1. For national reporting purposes, outcomes are collated as at 31 March 2016. Outcomes recorded by participants after this date are included in subsequent reports.
2. The outcome figures referred to in this report include amounts for fraud and error detected and also 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.

# Summary



## Key messages

- 1 Public bodies spend billions of pounds of taxpayers' money for the benefit of the Scottish population, providing services and financial assistance to all citizens including those that need them the most. Systems underpinning public spending can be complex and errors can happen. Unfortunately, there are also some individuals who 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. Data sharing enables bodies to match data internally and externally. Technology provides an efficient way to connect discrete data sets and can therefore limit the gaps available for fraudsters to manipulate and can help identify those that have. It also supports bodies to identify and implement process and control improvements that should reduce future errors and the costs of correcting these errors.
- 3 Audit Scotland, working closely with public bodies, external auditors and the Cabinet Office, has completed another major data sharing and matching exercise. The National Fraud Initiative (NFI) exercises make a significant contribution to the security and transparency of public sector finances by confirming that services are provided to the correct people and by reducing fraud and error.
- 4 Since we last reported on [The National Fraud Initiative in Scotland](#)  in June 2014, outcomes valued £16.8 million have been recorded and the cumulative outcomes from the NFI in Scotland are now at £110.6 million. These outcomes represent a significant return to the public finances of Scotland at a time when public finances continue to be under pressure. Across the UK the cumulative total is now £1.39 billion.
- 5 What cannot be measured, but is also important, is the deterrent effects that undertaking regular data sharing and matching exercises, such as the NFI, has on persons who may be considering committing fraudulent acts.
- 6 The NFI 2014/15 involved 104 Scottish bodies across three sectors. Scottish bodies submitted 585 data sets which generated 347,715 data matches for further investigation.
- 7 There are 2,522 investigations still in progress and action is being taken to recover £4.2 million of overpayments.

- 8** The benefits of data sharing and matching enabled bodies external to those who submitted the data to identify outcomes of £0.7 million.
- 9** Most organisations take advantage of the opportunities provided by the NFI but some could act more promptly and ensure that appropriate officers are in place who have sufficient time available to investigate matches, stop frauds and correct errors.
- 10** The introduction of the Department for Work and Pensions' Fraud and Error Services (DWP FES) has had some resourcing implications for progressing housing benefit matches.

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## Recommendations

### All participants:

- Audit Committees, or equivalent, should review the self-appraisal checklist at [Appendix 2, Part A \(page 41\)](#) to ensure that they are fully informed of the planning and the progress being made by their officers investigating the NFI 2016/17 exercise.
- All public bodies participating in the NFI should ensure that they maximise the benefits of their participation in the NFI. In particular, they should consider:
  - whether it is possible to work more efficiently on the NFI matches: reviewing the suggestions at [Appendix 3 \(page 45\)](#) should help
  - using the NFI matches in conjunction with alternative matching services either internally or from other providers where appropriate
  - where appropriate using the NFI flexible data matching service and point of application data matching service.

### Local authorities:

- Local authorities should ensure they have sufficient capability to investigate non housing benefit fraud or corporate fraud, including relevant NFI matches.
  - Local authorities that administer pension schemes should consider regular matching to deceased records where they do not already do so.
  - Local authorities should ensure that they embed the regular use of data matching as part of their overall control arrangements to identify council tax discount fraud and error in order to maximise council tax income.
-

# Part 1



## Background



### Key messages

- 1** The NFI is linked to the statutory audit of participating bodies and the results are reported every two years by Audit Scotland.
- 2** Data matching is an effective and efficient method to identify areas for further investigation by connecting discrepancies between different data sets.
- 3** The powers to undertake data matching given to Audit Scotland enable it to look across entity boundaries and national borders.
- 4** The success of the NFI comes primarily from the public servants who investigate the data matches and the external auditors who review their arrangements.

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**1.** [Public audit in Scotland](#)  sets out the shape, principles and common themes of public audit and the priorities identified by the Auditor General and the Accounts Commission. It also drives Audit Scotland's [Corporate plan 2016/17 update](#)  which sets out our vision to be a world-class audit organisation that improves the use of public money and that maximises the difference that public audit makes to public services, the people that they serve and the outcomes that those people experience.

**2.** Audit Scotland has coordinated another major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Cabinet Office to identify fraud and error. These exercises help support participating bodies demonstrate to the public that public money has been spent properly, known as the National Fraud Initiative in Scotland (the NFI), are undertaken every two years and are linked to the statutory audits of the participating bodies. The latest exercise (NFI 2014/15) started in October 2014 and is now nearing completion.

**3.** The success of the NFI comes primarily from the public servants who:

- investigate the NFI data matches
- identify and stop frauds and errors
- recover overpayments
- hold fraudsters accountable
- improve their systems to help prevent fraud and error.

**4.** Auditors in the public sector undertake a wider scope audit including reviewing audited bodies' governance and financial management arrangements incorporating action to prevent and detect fraud. Active participation in the NFI is one way in which bodies can demonstrate good governance and sound financial management.

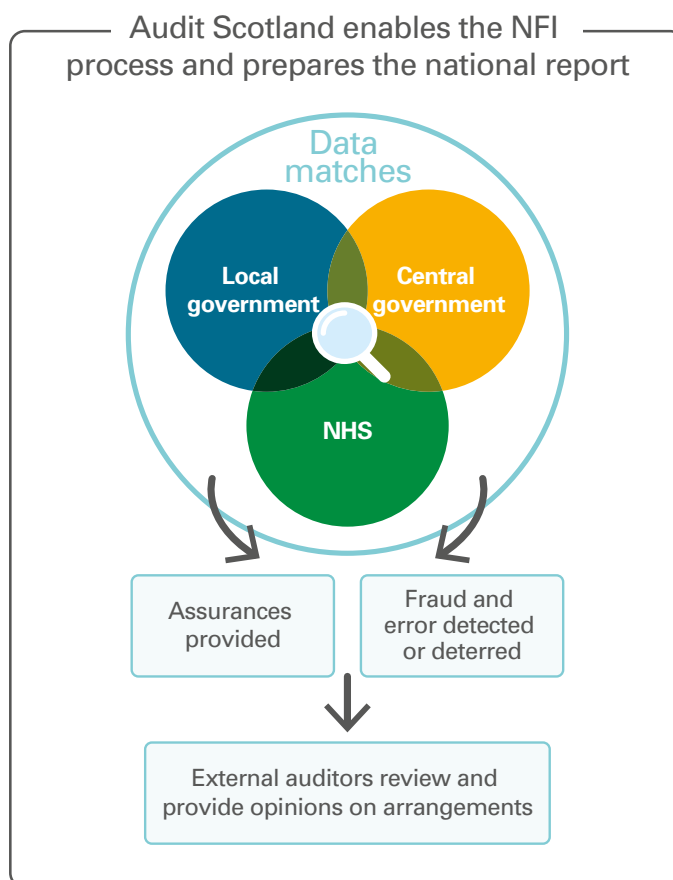
**5.** The role of external auditors in the NFI is also important. They review and conclude on the effectiveness of the local NFI arrangements. They also provide assurance on the progress being made on the NFI investigations. Auditor conclusions provide the evidence for the [Part 3. Making a difference \(page 28\)](#) section of this report.

**6.** The public also have a duty to report any change in circumstances that could affect their entitlement to many public services such as pensions, benefits or council tax discounts that they receive. Failure to do so can be serious and lead to overpayment recovery and possibly to fraud prosecution.

**7. Exhibit 1** summarises the relationships and responsibilities within the NFI in Scotland.

## Exhibit 1

### Relationships and responsibilities within the NFI in Scotland



Source: Audit Scotland



**8.** The NFI in Scotland is now well established with this being the fifth biennial exercise since 2006/07. The NFI enables public bodies to take advantage of computer data matching techniques to detect fraud and error. The NFI remains the largest national fraud detection and prevention scheme that can provide data matches within and between public bodies. Its key features are that it:

- acts as a deterrent to potential fraudsters
- identifies errors and fraud thus enabling appropriate action to recover money and/or press criminal charges
- can provide assurances, similar to a regular health check, that systems are operating well and can also identify where improvements are required
- operates across boundaries between public bodies in different sectors and countries
- represents value for money in terms of the efficiencies deliverable through centralised data processing and identifying targeted high priority matches.

**9.** The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. A match does not automatically mean that there is a fraud or error and investigations are required to enable the correct conclusion to be drawn for each match. Bodies investigate these and record on a secure web application appropriate outcomes based on their investigations.

**10.** The outcomes figures used throughout this report capture detected fraud, error, overpayments and recoveries and also, where appropriate, a value for estimated future losses that have been prevented. These estimates are included where it is reasonable to assume that fraud, overpayments and error would have continued undetected without the NFI data matching. A more detailed explanation is included in [Appendix 4 \(page 46\)](#).

**11.** In total, 104 bodies participated in the 2014/15 NFI exercise. This is a reduction from 2012/13 mainly owing to the local government police and fire authorities being merged into national bodies. Two further education colleges were invited but didn't submit any data.

**12.** Audit Scotland included data about its own employees in NFI exercises and those of audit firms carrying out external audit work for the Auditor General for Scotland and the Accounts Commission.

**13.** In total, 585 data sets were submitted for data matching. These returned 347,715 matches and of these 65,778 were identified as recommended matches, being matches with a higher risk of fraud or error. It is up to individual bodies to determine which and how many matches to investigate.







**14.** Although there has been a reduction in data sets and matches from NFI 2012/13, when Scottish bodies submitted 599 data sets which generated 382,137 data matches, overall outcomes have risen from £16 million to £16.8 million.

**15. Exhibit 2** provides some examples of the types of data set matches undertaken.

**16.** In addition to the main matching exercise, a separate exercise has been undertaken to match electoral registers against those households where council tax single person discounts are being claimed.

## Exhibit 2

### Examples of the types of data set matches undertaken

| Type of data match   | Potential fraud or error   |
|--|--|
|  Council tax records to the latest electoral register                           | A council tax payer gets council tax single person discount but the person is living with other countable adults, and so does not qualify for a discount.      |
|  Housing benefit claimants to employees and public sector occupational pensions | Employees or occupational pensioners may claim benefit without declaring their income or by under-declaring the amounts.                                       |
|  Employees to employees  | An employee may be on long-term sick leave while working at another body.  |
|  Public sector pensions to deceased persons' records                          | A pensioner's death may not have been reported to the pension authority. The pension continues to be paid to a bank account or may be collected by a relative. |
|  Blue badges to deceased persons' records                                     | The permit holder's death may not have been reported to the council. The permit may continue to be used fraudulently or be sold for improper use.              |
|  Employees to immigration records <sup>1</sup>                                | It is unlawful for someone to obtain employment if they are not entitled to reside or work in the UK.  |

Note: 1. This includes data about refused and expired visas, and visas where there is no right to work and failed asylum applications.

Source: Audit Scotland

**17.** The data uploads took place in October 2013 and the results were provided to councils in January 2014 to investigate. Two councils, Angus and Perth & Kinross Councils, decided not to upload data for this particular data match. The NFI is one of the proven ways by which councils can address fraud and error in this area. A number of councils also employ credit reference agencies to match single-person details against a wider range of data sets such as credit and utility records. Both of these councils are now doing alternative data matching using these data sets.

**18.** As this is the area where most outcomes originated for the NFI 2014/15, it is recommended that councils should embed regular data matching in this area as part of their overall control systems to identify and reduce council tax discount fraud and error and maximise council tax income.

**19.** Audit Scotland carries 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. The governance arrangements for the NFI are summarised at [Appendix 1 \(page 39\)](#).

**20.** The NFI is important in the context of the economic climate and fiscal projections for future public sector expenditure. The NFI exercises make a significant contribution to the security and transparency of public sector finances by:

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

# Part 2

## Impact and outcomes



### Key messages

- 1** Outcomes from the NFI 2014/15 are £16.8 million.
- 2** £14.7 million have been identified directly from the NFI 2014/15 investigations.
- 3** £2.1 million are further savings from the NFI 2012/13.
- 4** 5,939 overpayments are being recovered worth £4.595 million.
- 5** Cumulative NFI outcomes in Scotland are now £110.6 million.
- 6** Across the UK £1.39 billion of NFI outcomes have now been recorded.

### Outcomes

**21.** Since we last reported on the [The National Fraud Initiative in Scotland](#) in June 2014 outcomes valued at £16.8 million have been recorded. Cumulative outcomes from the NFI in Scotland are now at £110.6 million and represent a significant return to the public finances of Scotland.

**22.** The 2014/15 outcomes are split:

- £14.7 million of outcomes from the NFI 2014/15 matches.
- £2.1 million of outcomes from further follow-up work on the NFI 2012/13 matches.

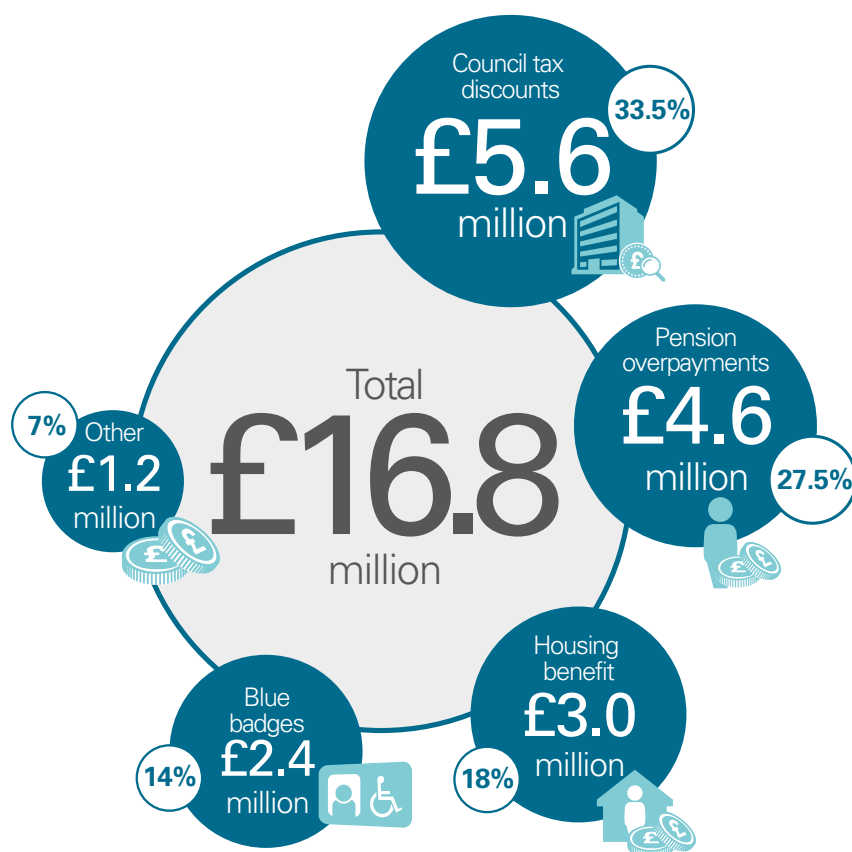
[Exhibit 3 \(page 13\)](#) provides more detail of key outcome areas recorded by bodies as at 31 March 2016.

**23.** Investigations from NFI 2014/15 are on-going. As at 31 March 2016, there were 2,522 investigations for this exercise still in progress. The evidence from previous exercises is that between reports, significant outcomes continue to be delivered. The last two NFI reports showed that:

- 20 per cent of 2012/13 outcomes arose after March 2014
- 39 per cent of 2010/11 outcomes arose after March 2012
- 43 per cent of 2008/09 outcomes arose after March 2010.

**Exhibit 3**

Analysis of NFI outcome from April 2014 to March 2016



Source: The Cabinet Office NFI secure web application

**24.** If this pattern is continued we could expect to see further outcomes in the region of £2.9 million to £6.3 million from the NFI 2014/15.

**25.** Importantly once overpayments have been identified appropriate recovery action can be taken. As at 31 March 2016, there was £4.6 million of recovery action being taken in 5,939 cases. This is a slight increase in value from the £4.5 million that was being recovered at the end of NFI 2012/13 in March 2014. There are more overpayments being identified from the NFI 2014 but these are at a lower value than those identified in the 2012/13 NFI exercise.

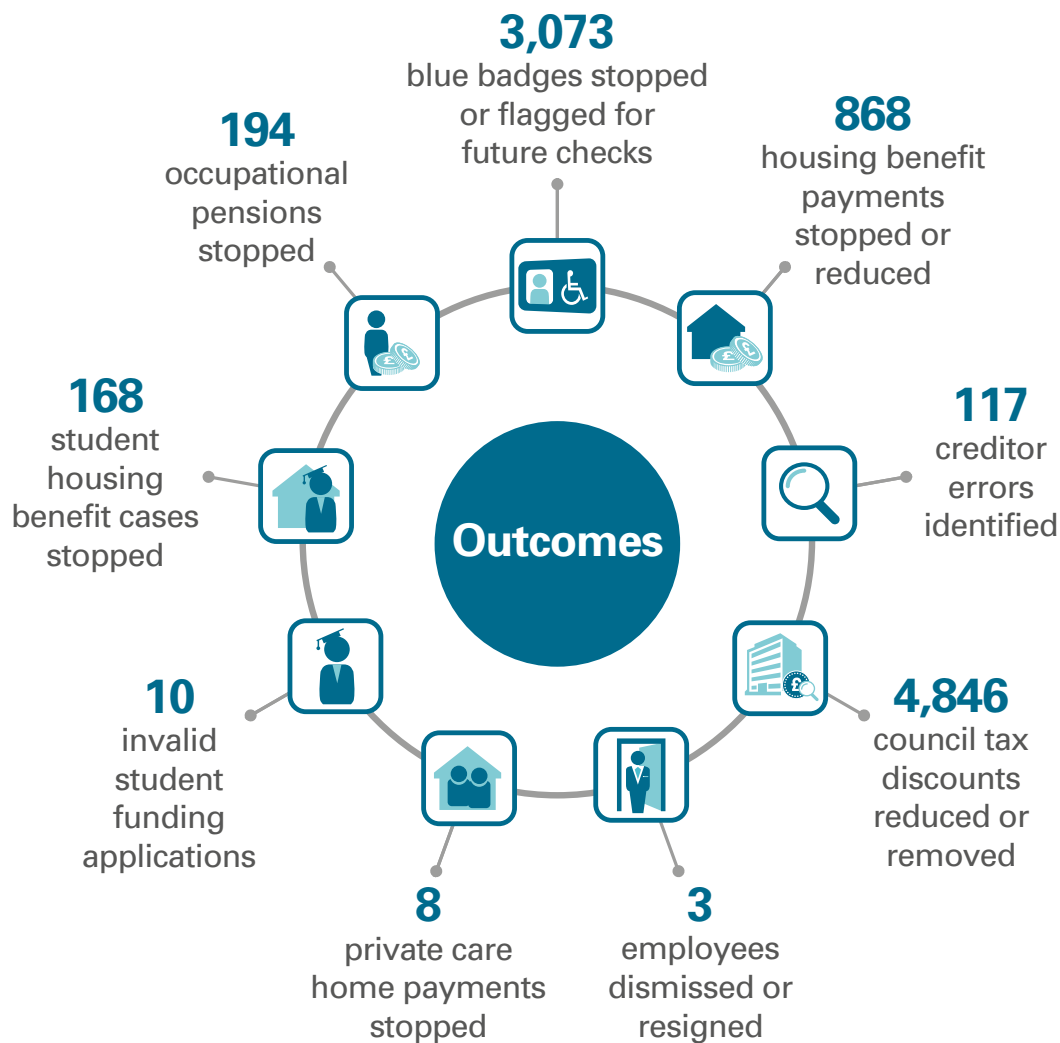
**26.** What cannot be measured directly is the value of the deterrent effect that the planned biennial NFI data matching has on potential fraudsters. Its significance should not be overlooked and is a key benefit to the Scottish public and taxpayers.

**27.** Overall outcomes are up on the last NFI exercise by five per cent in Scotland while outcomes have fallen by 2.5 per cent across the UK. Late savings in Scotland are significantly down between exercises at £2 million for 2014/15 compared with £5.5 million for 2012/13. However, no obvious national trend can be assumed from the results of the last five NFI exercises because of changes in the scope of the NFI exercises, the number and variety of bodies participating and in the approach taken by bodies to tackling fraud and error.

**28.** The NFI is more than the financial value of the financial outcomes recorded  
**Exhibit 4** sets out the main results from the 2014/15 matches:

## Exhibit 4

Main results from the 2014/15 matches



Source: The Cabinet Office NFI secure web application

**29.** The matches which generated the most outcomes from the current exercise, excluding late savings, in terms of financial outcomes accounting for 92 per cent (£13.6 million) of the total (£14.7 million), are:

- council tax discounts – 38 per cent
- pensions – 31 per cent
- blue badges – 12 per cent
- housing benefits – 11 per cent.

**30.** When comparing outcomes originating from NFI 2014/15 to those originating from NFI 2012/13, excluding late savings from previous NFI data matching exercises, outcomes are up with council tax reduction outcomes having increased significantly. Blue badge and pension matches have also generated increased levels of outcomes. The largest drop is in the area of housing benefit outcomes which is discussed later.





### Council tax single person discounts

**31.** People living on their own or with no countable adults in the household are eligible for a 25 per cent Single Person Discount (SPD) off their annual council tax bill. Local authorities are responsible for the award of these discounts as part of their administration of council tax and should ensure that they have sufficient evidence to apply these discounts to a person's council tax bill. People's circumstances change and it is important that household details and eligible discounts are kept up to date by councils, while recognising that it is the taxpayer's legal responsibility to notify the council of any changes in their circumstances that would affect this discount.

**32.** The Scottish Government estimates that two-fifths of chargeable dwellings were entitled to the discount in 2015.<sup>1</sup> [Exhibit 5](#) provides an indicator of the scale of the discount value across Scotland when applied to average council tax band D charge.

## Exhibit 5

### Council tax SPD estimate

|   |  |                     |
|---|--|---------------------|
|   |  |                     |
|  | Number of single person households       | 955,505             |
|  | Scottish band D average charge (2014/15) | £1,149              |
|  | 25% discount                             | £287.25             |
|  | <b>Annual discount value</b>             | <b>£274,468,811</b> |

Source: Scottish Local Government Financial Statistics 2014-15

**33.** This demonstrates that the single person discount is of considerable value. Failure to award discounts correctly and to regularly check household compositions can reduce the council tax income available to spend on council services.

**34.** This NFI match is a very simple one in that it matches council tax records to the electoral register. A match is returned where a single person discount has been awarded but the electoral register indicates that another countable adult is living there.<sup>2</sup> A letter can then be issued by council staff seeking clarification of household composition and initiate further investigations if required. Where a second countable person is confirmed or no response provided then the single person discount can be cancelled and recovery sought.

**35.** There were 75,604 matches returned to the 30 Scottish councils that submitted data. Of these, 16 councils have processed 9,067 matches and recorded £5.6 million outcomes with 430 still being investigated as at 31 March 2016. There are 14 councils who have not recorded any outcomes for this match. The two councils recording the highest outcomes for this match were:

- Renfrewshire Council – 874 discounts cancelled with £1.4 million outcomes
- Aberdeen City Council – 993 discounts cancelled with £1.3 million outcomes.

**36.** The average return of the 9,067 matches processed is £618 per match which is significantly higher than the £158 per match reported for NFI 2012/13.

**37.** It is not for Audit Scotland to determine which data matching service a council should use and when. Some councils use additional data matching options to undertake this review and do not record results on the NFI system. The City of Edinburgh Council used alternative data matching arrangements to perform their own separate council tax single person discount match and utilised a variety of alternative data sets including mobile phone accounts, number of bins ordered, credit cards and pay day loans. These arrangements have gained an extra £940,000 of revenue for the council.

**38.** However, as part of this exercise Audit Scotland checked with all councils to establish that where they were not investigating the NFI matches that they had alternative arrangements in place. All confirmed that they did or that they had arrangements in place to undertake this in the future.

**39.** Lack of resources and expertise have been cited as reasons by councils to call in data matching companies to complete work on this match rather than investigating the NFI matches internally. These companies are remunerated on either a fixed fee or on a percentage of discount value cancelled. The NFI web application now has built-in mail merge facilities that can deliver similar services as these companies and will generate a letter asking council tax payers to confirm that they are a still single household where a match is returned. If there is no response in say four weeks then the discount can be cancelled.

**40.** Audit Scotland would recommend that they investigate the NFI matches, in conjunction with other data matching suppliers as they determine appropriate, to ensure that their awarded discounts are kept up to date and that they demonstrate value for money.

## **Pension outcomes**

**41.** The NFI provides pensions administering councils and the Scottish Public Pensions Agency (SPPA) with an efficient and effective means of checking that payments are only being made to living persons. The NFI 2014/15 helped these

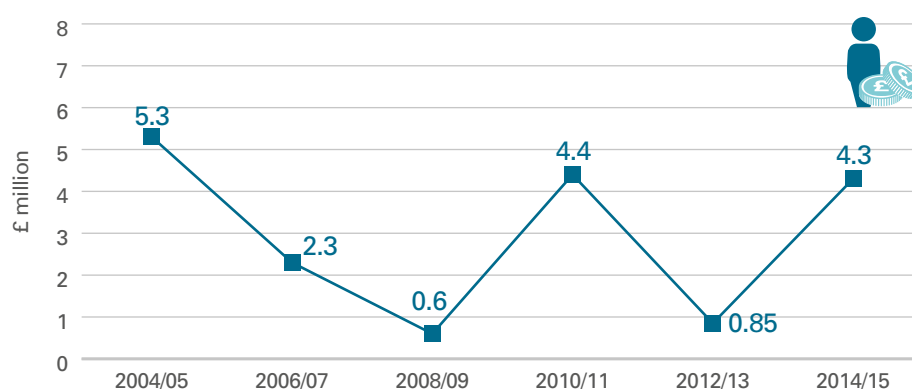


bodies identify 194 pensioners whose deaths had not been reported to them. Including other pension-related outcomes (for example, cases where early retirees have returned to work but not reported circumstances that require their pension to be reduced) and forward savings, the amounts for the NFI 2014/15 total £4.6 million (£3.8 million for the NFI 2012/13).

## Scottish Public Pensions Agency

**42.** The NFI recorded outcomes of £4.3 million from its 2014/15 matches against SPPA data. This includes a forward saving estimate for pension outcomes that assumes that the annual pension that would have been paid from date of death until age 85. SPPA matched 172 cases and in 168 of these cases recovery is in progress. This is an increase from the £0.85 million identified from 23 outcomes from NFI 2012/13 matches. [Exhibit 6](#) summarises SPPA pension outcomes since the NFI started.

### Exhibit 6 SPPA pension outcomes



Source: The Cabinet Office NFI secure web application

**43.** The numbers of recommended matches for investigation of the re-employment matches, ie identification of pensioners who may have gone back into employment that should have resulted in an abatement of their pension (generally abatements apply in instances where the pay from the new employment plus the pension exceeds the level of pay at the time of retirement) have increased since NFI 2012/13 from 2,213 to 3,118. This is as a result of the continuation of the work that saw historic teachers re-employment cases being included in SPPA's data for the first time in the previous NFI exercise.

**44.** For SPPA obtaining up-to-date information on pensioners returning to work and on deceased data from over 50 countries around the world where pensioners live is a constant challenge.

**45.** However, the SPPA has been undertaking more regular data matching opportunities that have helped lead to an increase in overpayments identified. The SPPA has found the additional mortality screening available from the NFI outside the two-yearly cycles useful in identifying further matches for investigation.

Investment in other regular data matching can significantly help reduce the value of overpayments that may build up.

**46.** The NFI 2014 report recommended that local authorities that administer pension schemes and are not already using more regular data matching to deceased records should consider doing so. This recommendation remains as these overpayments are often large and recovery difficult and the sooner these are identified the lower the value of overpayments that will be generated and any recovery should be easier.

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## Case study 1

### The City of Edinburgh Council



A NFI pension match identified a fraud in excess of £15,000 which had taken place for almost 13 years.

The match was not a perfect match as a middle initial had been omitted in one of the individual's records. It had previously been picked up by NFI on two separate occasions. Each time the pension officer sent out a Life Certificate for completion and both times the forms were returned duly completed, signed and witnessed.

The third time the match was identified through NFI, a more senior pension officer checked it and noticed that the witness signatures on the previous two Life Certificates were by the same person. As a cautionary measure, a stop was put on the pension and photographic evidence requested. No evidence was received. More investigations were undertaken and a death date of 2003 was identified. The case is now the subject of a police investigation.

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## Local government

**47.** While SPPA outcomes are up there has been a significant reduction in local government-run pension scheme outcomes from £2.9 million of outcomes across 73 cases in NFI 2012/13 to £275,756 pension outcomes across 43 cases for the current exercise.

**48.** There are 11 local government administered pension bodies in Scotland. All investigated their NFI pension matches and four returned outcomes. As in previous NFI exercises, the majority of the outcomes from local government are in the:

- Strathclyde Pension Fund (SPF) administered by Glasgow City Council which has a membership of over 210,000 and which recorded outcomes of £199,130. These outcomes were from 29 cases which are being recovered (£2.2 million of outcomes across 52 cases in NFI 2012/13)
- Lothian Pension Fund administered by The City of Edinburgh Council with over 72,000 members and which achieved an outcome of £30,137 from one case which has been referred to Police Scotland (£0.3 million across three cases in NFI 2012/13).

## Blue badges

**49.** The Disabled Persons' Parking Places (Scotland) Act 2009 was passed by the Scottish Parliament on 26 February 2009 and came into force on 1 October 2009. The Act places a duty on all local authorities to promote the proper use of disabled parking places, and aims to make all disabled persons' parking bays enforceable.

**50.** The blue badge scheme allows individuals with mobility problems, and who may have difficulty using public transport, to park free at on-street parking meters and pay-and-display machines. Holders are also allowed to park in designated blue badge spaces and may also be permitted to park on single or double yellow lines in certain circumstances.

**51.** Badges are sometimes used or renewed improperly by people after the death of the badge holder. The use of a blue badge by an unauthorised person is an offence. Importantly by using a blue badge to park without need, the space is denied to people with actual mobility issues. This is the true social cost of this type of fraud.

**52.** Councils do not always attempt to recover a badge relating to a deceased person to avoid causing distress but, by 'flagging' the relevant records, they can at least ensure that badges are not incorrectly renewed in the future. By sharing information with other departments councils can also recover valuable equipment and aids if they have not been informed of a person's death.

**53.** Scottish councils have reported correcting 3,073 (2,876 in 2012/13) blue badge records where the NFI helped them to identify that the holder was deceased. North Lanarkshire Council has corrected 838 blue badge records.

**54.** The Audit Commission first identified the problem of blue badge fraud in a report published in September 2009 and also in their subsequent annual *Protecting the Public Purse* reports. They identified how criminals falsify blue badges or steal genuine ones from cars, and how a blue badge can be sold on the black market. An estimate of £575 has been applied to any cancelled blue badges but they can be sold for more than this.

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## Case study 2

### Glasgow City Council



NFI blue badge matches identified one individual who had two blue badge parking permits registered to them; one in Scotland and one in England. The Scottish permit was subsequently cancelled.

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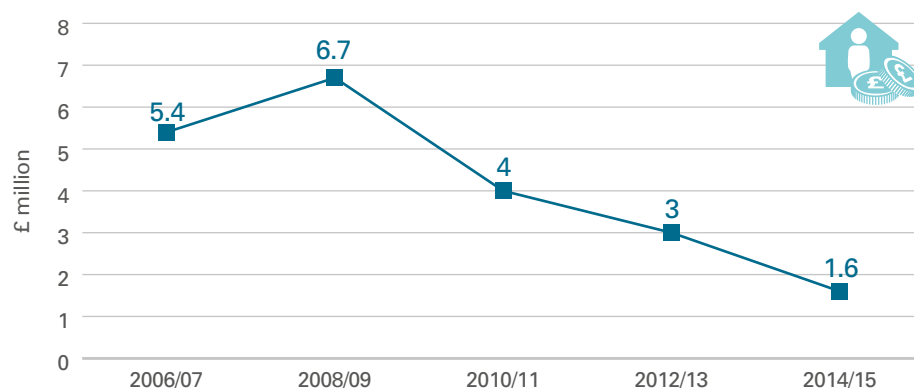
## Benefit outcomes

**55.** The NFI provides councils and the 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.

**56. Exhibit 7** summarises the benefit outcomes from all the NFI exercises to date, excluding late savings.

## Exhibit 7

### Housing and other benefits outcomes



Source: The Cabinet Office NFI secure web application

**57.** This would indicate that there has been a significant decline in benefit outcomes in the last exercise. The possible reasons are:

- previous NFI exercises have detected the most significant and longest running frauds and errors
- the trend may demonstrate the NFI exercise's impact and local measures in deterring fraud
- the efforts of bodies to continuously improve housing benefit systems and participating in the DWP's Fraud and Error Reduction Incentive Scheme aimed at identifying and reducing housing benefit fraud and error
- due to potential frauds having to now be referred to FES by councils and with some delays arising from this new procedure as it beds in.

**58.** £1.4 million of NFI 2012/13 outcomes were recorded after the last NFI report in June 2014. If this trend is repeated then we would expect to see benefit outcomes increase but be still significantly lower than the last exercise.

**59.** Although the number of cases recorded with overpayments at 868 is significantly down on the previous exercise of 1,862, the individual value of overpayments has increased from £2,694 to £3,515. This would indicate that resources are still being applied and councils are effectively targeting high-value and high-risk matches first.

**60.** In terms of value, Glasgow City Council and Renfrewshire Council have so far achieved the highest levels of outcomes from their NFI 2014/15 benefits investigations (£419,095 and £202,278 respectively). This may be due to Glasgow City Council having been involved as a DWP FES pilot from 2013 and therefore processes would be expected to be more mature than for councils

transferring during 2015/16. Renfrewshire Council did not transfer housing benefit fraud investigations to DWP FES until March 2016 and therefore their internal investigations team continued to action matches during 2015/16. Five councils recorded benefits outcomes in excess of £100,000. Aberdeenshire Council, East Lothian Council, Moray Council, North Ayrshire Council, the Scottish Borders Council and Shetland Islands Councils have recorded no benefit outcomes as at 31 March 2016. This is because there were no outcomes following investigations (Moray Council and Shetland Islands Council) or because the investigations are still in progress.

## Student funding to housing benefit claims

**61.** One of the most successful matches in terms of numbers and coverage is student funding to housing benefits. With a few exceptions, mainly lone parents and disabled students, students are not eligible for housing benefits. This match takes council data and matches it against the Student Awards Agency for Scotland (SAAS) student funding data.

**62.** The match enabled councils to stop 168 housing benefits payments worth £0.3 million to ineligible students. This is a reduction from the 302 payments worth £0.7 million that were stopped as a result of NFI 2012/13.

## Housing benefit claims by public sector workers and pensioners

**63.** It is critical that the public has trust in its public servants. This match identifies errors and frauds that have taken place between public sector payrolls and pensions. By the end of March 2016, councils had identified benefit overpayments from their NFI 2014/15 matches relating to (2012/13 figures are in brackets):

- 441 (1,089) public sector pensioners
- 122 (290) local government employees
- 48 (131) persons working in the NHS in Scotland
- 3 (8) central government employees

Again outcomes are significantly lower than NFI 2012/13.

**64.** While no overpayments are desirable, [Exhibit 8 \(page 22\)](#) puts some of these figures in the context of the populations involved and it does provide some overall assurance that these areas do not have high levels of fraud and error.

## Payroll

**65.** This match includes all participating bodies' employee payroll data as well as those of MSPs and councillors. This level of transparency is important to demonstrate to the public that they can rely on the honesty of the employees providing their services and their elected representatives.

**66.** The NFI matches data to identify cases of potential payroll fraud. But investigations can also lead, for example, to the discovery that employees are in breach of conditions of service or EU working time limits. Apart from other consequences, excessive working hours may pose public safety risks.

## Exhibit 8

### The NFI benefits outcomes compared to source populations

| Sector                     | Number  | Overpayments identified | Percentage of overpayments identified in population | Overpayment value |
|----------------------------|---------|-------------------------|---|-------------------|
| Public sector pensioners   | 356,000 | 441                     | 0.12%   | £185,556          |
| Local government employees | 244,800 | 122                     | 0.05%   | £306,556          |
| NHS employees              | 161,400 | 48                      | 0.03%   | £38,009           |
| Civil servants             | 42,300  | 3                       | 0.01%   | £16,408           |

Source: The Cabinet Office NFI secure web application; *Public Sector Employment in Scotland: Statistics for 4th Quarter 2015*; and the Scottish Public Pensions Agency

## Case study 3

### Renfrewshire Council



A NFI housing benefit to payroll match identified a case which has been proven as a 'living together' and 'non-commercial tenancy' fraud resulting in £120,000 of housing benefit and council tax benefit having been improperly claimed.

The data match showed a female housing benefit claimant to be living and claiming from the same address as a male council employee. The claimant had been claiming housing benefit and council tax benefit at this address since 2010.

Investigations identified that the council employee had purchased the property in 2010 and that the claimant and employee appeared to be living as a couple.

Previous addresses for the claimant were subsequently examined and it was found that a previous address had been shared with her mother. Further checks into the mother's circumstances showed that the mother and the landlord of this previous address appeared to have been living there as husband and wife. This meant that the claimant's claim for this secondary property for the period 2002 to 2007 was incorrect.

The case against the claimant and the employee has also been reported to the Procurator Fiscal for consideration of proceedings; the second case against the mother and her landlord has been passed to DWP's FES and is on-going.

**67.** The NFI also matches payroll data to Home Office immigration data. It is unlawful to seek employment if you are not entitled to reside or work in the UK and the NFI provides bodies with a means of supplementing their recruitment checks.

**68.** As a result of the 2014/15 matches, three public sector employees in Scotland have so far been dismissed after it was confirmed that they did not have permission to reside or work in the UK.

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## Case study 4

### NHS Greater Glasgow and Clyde



A payroll match identified an NHS employee had not renewed his visa and had earned £27,697 while working with the expired visa. The employee was suspended without pay pending investigation. The employee was subsequently dismissed when he did not turn up at a disciplinary hearing.

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## Student immigration checks

**69.** Since the NFI 2006/07 the Student Awards Agency for Scotland (SAAS) has been provided with its own matches, identifying cases where students may not hold valid permissions to reside or study in the UK.

**70.** SAAS has recorded ten cases of students that were found, after investigating the NFI matches with the Home Office, not to be entitled to receive support. This was because either these individuals were not entitled to be in the UK, produced false documents, or they had lied about their personal circumstances. These students had received student support amounting to around £213,316. NFI 2012/13 also resulted in ten cases where students were not entitled to support although lower outcomes of £163,451 were recorded.

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## Case study 5

### Student Awards Agency for Scotland



A student award NFI match highlighted that a student nurse had only limited leave to remain in the United Kingdom and as such was not entitled to receive support. Funding of £14,056 has been overpaid which is not being recovered due to it originating from an error however further future support of £40,344 has now been retracted.

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## Case study 6

### Student Awards Agency for Scotland



An immigration NFI match identified that a non EU foreign national was given an entry clearance visa to enter the United Kingdom as a visitor. The person was not entitled to work and had no recourse to public funds. The individual applied for student funding as a British National and lied on the application about the right to be in the UK. As a result the person fraudulently gained £11,204 in funding. The individual pled guilty at trial and was sentenced to 200 hours community pay back. Recovery action is being taken.

### Creditor outcomes

**71.** The NFI provides an efficient means of checking payments are made only to appropriate creditors. NFI 2014/15 has resulted in 139 creditor outcomes of £0.71 million compared to 105 outcomes worth £1.1 million in 2012/13. Recovery action is taking place for 117 of these overpayments. In other cases overpayments have already been returned or credit notes provided.

## Case study 7

### Scottish Fire & Rescue Service



NFI creditor matches identified a duplicate payment. An invoice had been paid twice in error owing to two slightly different invoice references being recorded. The amount overpaid was £15,478. The overpayment is being recovered and monthly duplicate payment checks are being implemented to prevent this issue from occurring again.

### Payments to private residential care homes

**72.** The NFI matches information about private residential care home payments to data about deceased persons. This can identify where payments may be continuing for people who have died.

**73.** The NFI 2014/15 helped councils identify eight cases resulting in overpayments worth £103,111 (£22,150 in NFI 2012/13). All of these overpayments are being recovered.



## Case study 8

### East Dunbartonshire Council



Five private residential care home resident matches identified that the residents were deceased. Overpayments totalling £89,000, (£45,000 in respect of one resident) were identified and are being recovered. The council has since revised their working practices. Previously the council accepted verbal notifications of the death of care home residents. As a result of the NFI exercise only written notification is now accepted.

### Matches benefiting other bodies

**74.** One of the key benefits in undertaking a UK-wide data matching exercise is that it enables matches to be made between bodies and across national borders.

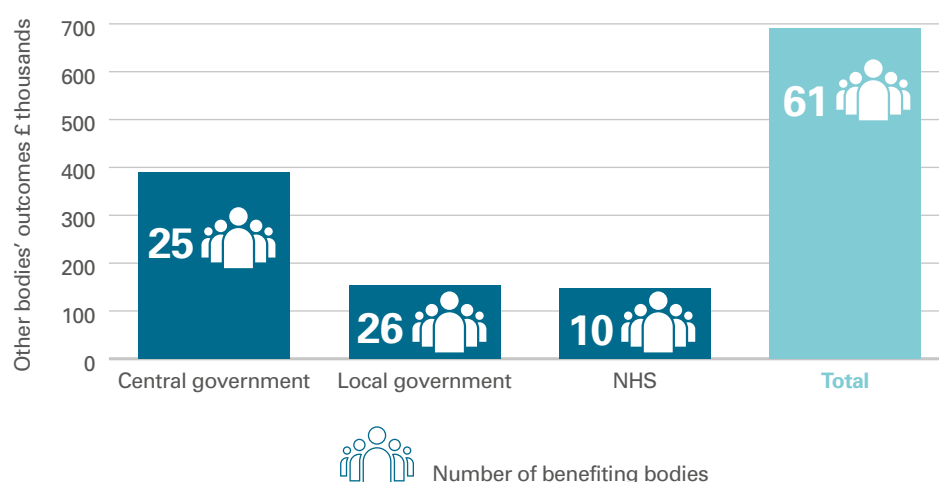
**'In Scotland we recognise the importance of working together across organisational boundaries to protect our precious public resources from the risk of fraud, bribery and corruption.'**

John Swinney, Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy and Michael Matheson, Cabinet Secretary for Justice

**75.** [Exhibit 9](#) summarises these for the NFI 2014/15 exercise for Scottish data submitted.

## Exhibit 9

### Matches benefiting other bodies



Source: The Cabinet Office NFI secure web application

**76.** The cross-sector scope of the NFI enabled 53 bodies to identify and take action on 396 outcomes worth £691,570. The majority are from cross-body housing benefits to other data sources such as student funding, payroll or pensions. This is a significant reduction in matches benefiting other bodies from NFI 2012/13 when 46 bodies were able to take action on 717 outcomes worth £1.5 million. This again is a reflection of the drop in housing benefit outcomes.

**77.** In the main these matches related to other Scottish bodies but 15 English councils, the Northern Ireland Housing Executive, Civil Service Pensions and the Northern Ireland Department of Finance and Personnel were also able to identify outcomes from Scottish data.

**78.** For those participating bodies or sectors taking part in the NFI who may not always identify significant outcomes from their own matches, it is important to appreciate that other bodies and sectors may. If we look at the data submitted by central government and the NHS we see:

- central government bodies recorded direct outcomes of £4.8 million but also enabled £390,549 of outcomes to be identified at other bodies
- the NHS has recorded direct outcomes of £75,331 but also enabled £147,196 of outcomes to be identified at other bodies.

**'Fraud does not respect boundaries. Fraudsters use the same tactics and deceptions, and cause the same harm throughout the UK.'**

*'Fraud in Scotland', Fraud Advisory Panel, 2014*

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## **What bodies actually save or recover because of the NFI**

**79.** The estimated value of the NFI to the public purse since we last reported in June 2014 is £16.8 million. However, 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 valuable outcomes nonetheless.

**80.** Audit Scotland previously canvassed 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, Audit Scotland would prefer that bodies devoted their resources to investigation work, rather than require them to record the NFI amounts that are often recovered by frequent small payments over long periods of time.

**81.** Based on the current NFI exercise the recovery rate is 81 per cent, excluding estimates. If we add the estimated forward savings from areas such as benefits and pensions, being public money which has been prevented from being paid out in fraud or error following investigations, we can reasonably estimate that the actual cash savings or recoveries for the public purse are at least half of the total outcomes of £16.8 million.

**82.** These cash savings and recoveries are an identified cash return to public bodies and taxpayers where fraud and errors have taken place. There are also other costs that are incurred where frauds and errors are identified. These include:

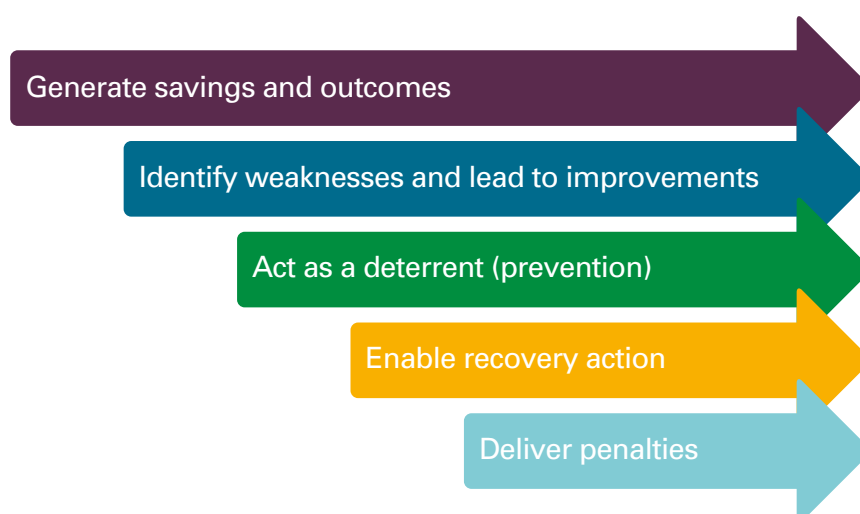
- the cost of investigating, correcting and recovering frauds and errors
- the opportunity cost of investigating, correcting and recovering frauds and errors instead of providing services
- the social cost of awarding incorrect benefits or providing ineligible services
- the reputational cost of failing to prevent frauds or in making errors.

### What does the level of outcomes tell us?

**83.** The NFI impacts on a number of levels and across a number of bodies. These levels can be summarised in [Exhibit 10](#).

## Exhibit 10

The NFI impacts on a number of levels and across a number of bodies



Source: Audit Scotland

**84.** A key benefit of the NFI is the fact that by identifying fraud and error the opportunity is provided to bodies to establish why they occurred and then improve their systems. This can be done by:

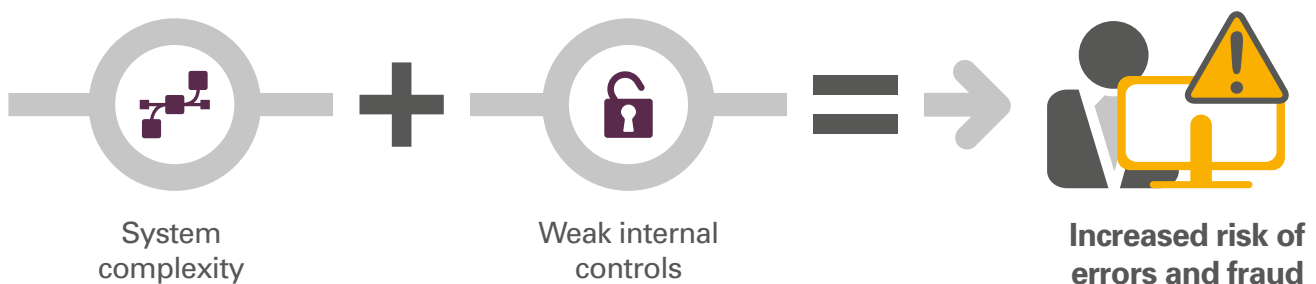
- simplifying system processes
- reviewing and strengthening the internal controls that failed to stop or capture errors or fraud.

**85.** As a result of this NFI exercise 36 bodies have recorded that they made improvements in order to address control weaknesses. This includes data cleansing and revisions to processes.

**86.** While it would be difficult to eliminate all errors and prevent all frauds, the NFI can provide the focus for such reviews to take place. [Exhibit 11](#) summarises the circumstances where fraud and error are most likely to be found.

## Exhibit 11

### Circumstances that increase the risk of error and fraud



Source: Audit Scotland

**87.** System complexity can result in errors made by either the individual wishing to obtain a service or by the public servant processing the data. Where an individual knowingly exploits systems and controls by providing incorrect information, this is fraud.

**88.** The most effective approach to reduce the overall cost of fraud and error is to prevent it occurring in the first place. Both fraud and error can be reduced by public bodies establishing and maintaining sound systems of internal controls.

**'We will disable fraud, bribery and corruption through improving our systems and controls to support our operations.'**

*Protecting Public Resources in Scotland, Scottish Government, 2015*

**89.** Audit Scotland does not take a view on whether high levels of the NFI outcomes are a good result or not. High levels of outcomes could be due to increased fraud and error in the system or to poor internal controls in operation.

**90.** Equally important is the assurance given to these bodies with few matches that in the areas covered by the NFI there do not appear to be significant problems and the deterrent effect, created by the NFI exercise taking place and being communicated to those whose data is included, is working.

# Part 3

## Making a difference



### Key messages

- 1** 80 per cent of participating bodies managed their roles in the 2014/15 NFI exercise satisfactorily.
- 2** The effectiveness of the NFI arrangements have improved in the central government sector but declined slightly in the local government and the NHS sectors.
- 3** Almost half (41 per cent) of bodies need to follow up their matches more promptly.
- 4** Only 31 per cent of audit committees reviewed the NFI 2014 report and carried out the self-assessment checklist contained within it.
- 5** 23 per cent key contacts had not reviewed the NFI 2014 report and carried out the self-assessment checklist contained within it.
- 6** The transfer of investigative staff to the DWP's FES has had major implications for resourcing the NFI in some councils.

### Overall findings

**91.** Local auditors concluded that 80 per cent of participating bodies had managed their role in the NFI 2014/15 exercise satisfactorily (81 per cent in the NFI 2014 report). However, a few showed scope for significant improvement.

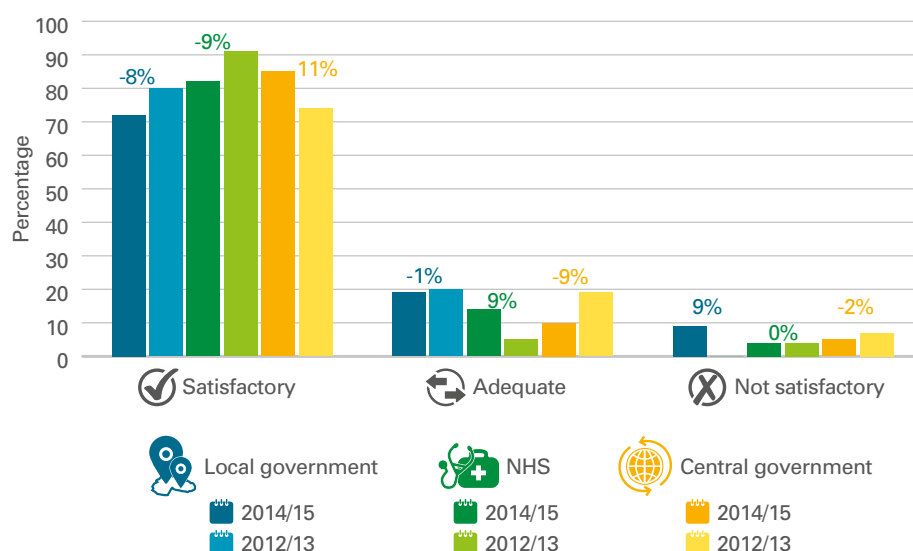
**92.** [Appendix 2](#) includes a two-part checklist that we encourage all bodies to use to self-appraise their involvement in the NFI prior to and during the NFI 2016/17 exercise. [Part A \(page 41\)](#) is designed to assist audit committee members when reviewing, seeking assurance over or challenging the effectiveness of their body's participation in the NFI. [Part B \(page 42\)](#) is for officers involved in planning and managing the NFI exercise.

**93.** The conclusions continue to indicate a high degree of commitment to the NFI. Local auditors are providing strong assurance that most participating bodies are taking the NFI seriously by putting adequate arrangements in place. Central government bodies have better arrangements in comparison with NHS and local government sectors.

**94.** The biggest change from the last exercise is that central government bodies have, overall, significantly improved their arrangements and this is commendable. In comparison, NHS bodies' arrangements declined by nine per cent and local government arrangements declined by eight per cent. This is of concern especially as the NFI 2014 report recommended that bodies should review the appendix to the report in order to try to ascertain whether it is possible to work more efficiently on the NFI matches. It should be noted that bodies are not expected to investigate all NFI matches. A robust risk-based approach, in conjunction with the risk profiling of matches in the NFI system, should be used when selecting matches for investigation.

## Exhibit 12

### External auditor review of the NFI arrangements



Source: External auditors

**95.** The transfer of counter-fraud resources from local government to the DWP's FES had major implications for the resourcing of fraud activity in some local authorities. The sector also has the largest range of data sets and number of matches returned. It is not entirely unexpected, therefore, that they have been identified as having scope to improve.

**96.** Auditors have identified that NHS bodies' arrangements for NFI have weakened. Previously in the NFI 2012/13 arrangements were found to have considerably improved. The quality of arrangements in NHS has now fallen back to just below the level in the NFI 2012/13.

**97.** Local auditors provided up-to-date information about each body's planning for the NFI 2014/15 exercise as well as progress and results midway through the exercise in June 2015. In reaching their conclusions, auditors did not attach significant weight to the value of NFI outcomes achieved by bodies but instead looked to see that bodies had approached the exercise proportionately and effectively.

**98.** Overall, local auditors concluded in June 2015 that the majority of participating bodies had managed their role in the NFI 2014/15 exercise satisfactorily so far. However, six participating bodies were found to have scope for significant improvement. As a result, the Assistant Auditor General wrote to these six bodies highlighting the following areas of significant concern:

- **Aberdeenshire Council** – no match investigation work carried out owing to a lack of resources
- **Dumfries & Galloway Council** – late submission of data sets and limited match investigation work carried out owing to a lack of resources including no dedicated fraud staff in place
- **Dundee City Council** – late submission of data sets and limited match investigation work carried out
- **East Ayrshire Council** – late submission of data sets and limited match investigation work carried out owing to a lack of resources and forward planning
- **Scottish Borders Council** – no match investigation work started
- **Scottish Police Authority** – late submission of data sets, no match investigation work started and a lack of clarity regarding roles and responsibilities in relation to NFI.

**99.** Auditors followed up progress in these six bodies in February 2016 and found improvements in all but two participants. The position was as follows (final auditor assessments are in brackets):

- Aberdeenshire Council had processed 1,682 (73 per cent) matches out of the 2,309 recommended matches and a further 85 were in progress, although none had been closed off to date (adequate).
- Dumfries & Galloway Council had investigated 77 (23 per cent) matches out of 335 recommended matches. However, limited progress had been made with regard to investigations: (not satisfactory).
- Dundee City Council was found to have made progress including improving the prioritisation given to investigating NFI matches. This had resulted in overpayments of £179,000 being identified: (satisfactory).
- In East Ayrshire Council it was found that in the majority of areas there had been improvement and sufficient involvement in the investigation of matches and recording of results (satisfactory).
- Scottish Borders Council received a total of 3,990 matches. 2,827 matches had been closed of which 798 were recommended matches: (satisfactory).
- Scottish Police Authority had made progress, however there are still some recommended matches which have not yet been examined. Auditors were advised that the majority of matches had been followed up, however this was not updated on the NFI system (only ten of the 18 NFI match reports have been opened according to the NFI system): (not satisfactory).

**100.** Other key aspects of auditor reviews:

- 36 bodies have made improvement controls in order to address control weaknesses identified as a result of NFI activity.
- Seven bodies use alternative data-matching arrangements on areas such as purchase ledger information to help identify duplicate payments and duplicate suppliers, and for single-person discount council tax comparing council tax and employee records.

**Areas that need improvement**

**101.** There has been some reduction in the quality of certain aspects of NFI arrangements since our 2014 report. [Exhibit 13 \(page 33\)](#) summarises the key areas where local auditors indicated that there was room for improvement.

**102.** In June 2015, auditors reported concerns in 34 (41 per cent) bodies in respect of bodies not following up matches promptly and/or not focusing on recommended matches. This is the first time auditors have undertaken a review mid way through a NFI exercise. Previously this was evaluated towards the end of the exercise when most bodies had processed the majority of matches. Issues identified by auditors in June 2015 include staffing changes, year end processes and a lack of resources (91 per cent of bodies correctly gave priority to following up recommended matches in the NFI 2013/14 report and 71 per cent of bodies followed up matches promptly).

**103.** The majority of the officers directly involved in preparing for the NFI and following up matches demonstrate commitment. However, auditors identified issues in 16 per cent of bodies in respect of limited NFI skills, insufficient authority and insufficient time available for NFI in respect of officers nominated to coordinate the exercise.

















**104.** Despite the NFI 2014 report recommending that audit committees, or equivalent, should review the self-appraisal checklist included in the report to ensure that they are fully informed of the planning and the progress being made by their officers investigating the NFI 2014/15 exercise, auditors concluded that only 31 per cent of audit committees reviewed the NFI 2014 report including assessing themselves against the checklist contained within it. It was also noted that 19 (23 per cent) bodies reported that the key contact had not reviewed Appendices included in the NFI 2014 report. Interestingly, in 15 of these participating bodies, neither the key contact nor the audit committee (or equivalent) reviewed the self-assessment checklist.

**105.** Auditors reported that 24 per cent of bodies did not record their outcomes fully on the NFI secure web application. Many could also improve the way they record their investigations and conclusions on the NFI application. Councils report that for some housing benefit matches delays have been experienced in receiving updates from the DWP's FES. Audit Scotland will work with colleagues in the Cabinet Office to improve the clarity of recording requirements and the future arrangements for housing benefit matches.

**106.** [Appendix 3 \(page 45\)](#) provides some help in this area. However, the likely effect is that the value of the outcomes referred to in this report is understated in some areas.



**Exhibit 13****Areas of concern**

| Areas of concern   | Percentage of bodies needing to improve NFI 2014/15                                     | Percentage of bodies needing to improve NFI 2012/13                                       |
|--|---|---|
| Regular reporting of NFI progress and outcomes to both senior management and elected/board members is limited or does not happen                   |  25%   |  24%   |
| There is limited or no internal audit involvement and/or monitoring of the NFI approach and outcomes to ensure identified weaknesses are addressed |  51%   |  39%   |
| Bodies are slow to follow up matches and/or not focusing on recommended matches  |  41%   |  n/a   |
| Bodies submitted data for NFI after the specified processing deadline  |  16%  |  11%  |
| Officers nominated to coordinate the exercise were not considered suitable for the role  |  16% |  10% |
| Bodies did not record their outcomes fully on the NFI secure web application   |  24% |  21% |
| Audit Committees, or equivalent, did not review the self-appraisal checklist included in the report  |  69% |  n/a |
| Key contacts did not review the self-appraisal checklist included in the report  |  23% |  n/a |

Source: External auditors

**DWP's Fraud and Error Service**

**107.** The introduction of the DWP's FES and the transfer of many experienced and trained counter-fraud experts to the DWP by March 2016 had implications for resourcing of some council's counter-fraud work. The risk for some local government bodies is that they have not ensured that sufficient capacity remains to counter non benefit corporate frauds.

**108.** Despite the recommendation in the NFI 2014 report for local authorities to take steps to retain or invest in sufficient capability, in the short and long term, to investigate non housing benefit fraud or corporate fraud, including relevant NFI matches, after the FES is introduced, local auditor updates in June 2015 identified that this had not happened in some councils. At that time five Scottish councils had still to make decisions about retaining investigative resources and three councils had already decided not to retain a dedicated corporate fraud investigation resource. In other councils corporate fraud teams have been set up retaining some or all of the experienced counter-fraud experts.

**109.** Interestingly, of the councils deciding not to retain a corporate fraud resource, Dumfries & Galloway and East Ayrshire Councils were found not have engaged to a satisfactory level with NFI 2014/15 at June 2015 and received reminder letters from Audit Scotland.

**110.** Auditors will follow up these findings as part of the NFI 2016/17 exercise.

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## Case study 9

### North Ayrshire Council



The council has created a counter-fraud team within its internal audit service, comprising previous housing benefit investigators, which even in its infancy is demonstrating its worth and enhancing the arrangements within the council regarding prevention and detection of fraud. The key strengths of the team include:

- the reporting lines to the Chief Internal Auditor
- the skills mix combines expertise in investigation of internal and external fraud
- added value and follow-up of findings, for example referrals of benefit fraud, are made to DWP; however, where they have council tax implications these are followed up by the counter-fraud team.

During the first year of operation, the team has:

- carried out eight separate internal investigations on council employees with various outcomes including disciplinary action being taken
  - carried out investigations in respect of council tax, discretionary housing payment and the Scottish Welfare Fund which have led to £12,000 of backdated recoveries as well as an on-going cost reduction of a further £10,000
  - reviewed all properties in receipt of 100 per cent non domestic rates Empty Property Relief which resulted in the withdrawal of £60,000 of on-going relief as well as backdated recovery of a further £87,000.
  - recovered five blue badges where there was fraud or misuse of the badge.
-

# Part 4

## Future of the NFI



### Key messages

- 1** The NFI 2016/17 exercise is due to start in July 2016 and will again look to review the suitability of participating bodies.
- 2** The NFI is increasing its opportunities for flexible and real time data matching options aimed at fraud prevention through the application checker module (AppCheck) and the flexible matching service.

### Participating bodies and data sets

**111.** Audit Scotland will continue to look at which bodies should be asked to submit data and which data sets. This exercise mandated a number of data sets for the first time and had previously expanded the number of bodies participating so it is unlikely that the number of bodies will increase significantly.

**112.** The Cabinet Office has recently launched an AppCheck fraud prevention service, complementing their other detection services. AppCheck is designed to help quickly identify and prevent fraud or mistaken payments from being made in the first place. This ultimately helps protect budgets which can then be deployed to help genuine applicants.

**113.** They have invested significant resources into developing the AppCheck product to facilitate point of application checking. This preventative service complements the traditional detection tools and allows organisations to stop fraudulent applications from being successful. Stopping them at the point of application reduces administration and future investigation costs. This is valuable at any time, but when overall capacity to tackle fraud and error has been falling it is particularly important. [Exhibit 14 \(page 36\)](#) provides more details.

**114.** The Cabinet Office also offers a flexible data-matching service which allows participating bodies to re-perform any of the existing NFI data matching at a time convenient to them. This service matches against data from the most recent NFI exercise with regularly refreshed immigration data from the Home Office, as well as student loans and Amberhill police data.

**115.** The draft data specifications for the NFI 2016/17 are available on the Cabinet Office website (Gov.uk) and key contacts have been notified of these.

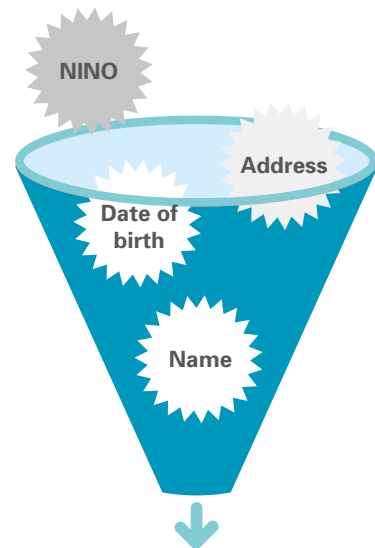
## Exhibit 14

### Application Checker

**AppCheck from the Cabinet Office National Fraud Initiative can help significantly reduce the number of application referrals organisations have to investigate. Using the AppCheck software will ensure that, from the outset, you have a validation and authentication process in place to minimise errors and costly investigations in the future.**

- Reduce the risk of your organisation falling victim to fraud by stopping invalid or fraudulent claims at the point of application.
- Establish if an applicant has no right to work – helping to mitigate the risk of falling foul of the latest requirements on employment legislation.
- Reduce and stop the provision of invalid or fraudulent payments.
- Reduce administration and future investigations cost by managing the risk of getting it wrong at application.

Enter the applicant's details into Application Checker



Research against NFI core data and refreshed immigration data

Source: Cabinet office

**116.** The provision of social care is one of the largest expenditure areas for councils. This is a complex area where client care requirements often change. Audit Scotland would like to work with council social work services to ensure that payments are accurate and reflect the level of care provision provided. This would have to be provided on a voluntary basis but Audit Scotland sees it as an area where a positive impact can be made.

**117.** A pilot data-matching exercise will be considered to review social work systems containing details of approved care packages, creditor payments to care providers and data about deceased persons.

### The NFI 2016/17 aims

**118.** The overall aims of the NFI are to serve the public interest by:

- safeguarding public money against losses from fraud or misappropriation
- contributing effectively to the fight against fraud.

**119.** To meet these aims the NFI 2016/17, which will be launched in July 2016, will involve work in the following areas:

- continuing with successful batch data matches and developing the service to offer more flexibility and meet new risks

- putting more emphasis on fraud prevention through the development of real time data-matching services
- extending data matching for fraud purposes to a broader range of organisations and sectors
- for council tax single person discounts to consider mandating this data for the NFI exercises on an annual basis – previously it has been every two years, and this would bring it in to line with the rest of the UK.

**120.** Audit Scotland looks forward to the next NFI exercise and continuing to work with the Cabinet Office, other UK audit agencies and participating bodies to successfully deliver these aims.

**121.** In the longer term the roll-out of Universal Credit is expected to have further impact on the number of data sets contributing to the NFI. The future direction of the exercise will be assessed at that time.

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# Endnotes

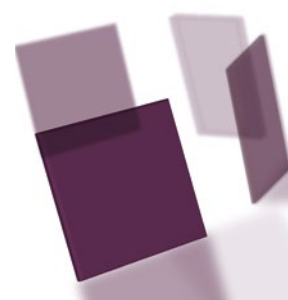
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- ◀ 1 Scottish Local Government Financial Statistics 2014-15.
- ◀ 2 For NFI data matching, individuals recorded as qualifying for council tax single person discount on the basis that they live with other disregarded adults are excluded.

# Appendix 1

## Governance arrangements



### Background

The following summarises the key legislation and controls governing the NFI data-matching exercise.


### Legislation

The NFI 2014/15 exercise was carried out under powers given to Audit Scotland for data matching included in The Criminal Justice and Licensing (Scotland) Act 2010 passed by the Scottish Parliament. Under this legislation:

- Audit Scotland may carry out data-matching exercises for the purpose of assisting in the prevention and detection of fraud or other crime and in the apprehension and prosecution of offenders
- Audit Scotland may require specified persons to provide data for data-matching exercises. These include all the bodies to which the Auditor General for Scotland or the Accounts Commission appoints auditors, licensing boards, and officers, office holders and members of these bodies or boards
- other persons or bodies may participate in Audit Scotland's data-matching exercises on a voluntary basis. Where they do so, the statute states that there is no breach of confidentiality and generally removes other restrictions in providing the data to Audit Scotland
- the requirements of The Data Protection Act 1998 continue to apply
- Audit Scotland may disclose the results of data-matching exercises where this assists the purpose of the matching, including disclosure to bodies that have provided the data and to the auditors appointed by the Auditor General for Scotland and the Accounts Commission
- Audit Scotland may disclose both data provided for data matching and the results of data matching to the Auditor General for Scotland, the Accounts Commission, the Audit Commission, or any of the other UK public sector audit agencies specified in Section 26D of The Public Finance and Accountability (Scotland) Act 2000, for the purposes described above
- wrongful disclosure of data obtained for the purposes of data matching by any person is a criminal offence

- Audit Scotland must prepare and publish a Code of Practice with respect to data-matching exercises. All bodies conducting or participating in its data-matching exercises, including Audit Scotland itself, must have regard to this code
- Audit Scotland may report publicly on its data-matching activities.

## Code of data matching practice

The Criminal Justice and Licensing (Scotland) Act 2010 includes important data-protection safeguards such as a requirement for Audit Scotland to prepare a Code of data matching practice, and to consult with the UK Information Commissioner and others before publication. Our code, [\*The Code of data matching practice 2010\*](#) , was updated in November 2010 to reflect the new legislation and to ensure that the NFI exercises continue to comply with data protection requirements and best practice in notifying individuals about the use of their information for the NFI purposes.

## The NFI web application

Bodies access the application via the internet using password access 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 developments to improve its functionality, ease of use, and security.

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

## Security review and accreditation

The National Fraud Initiative (NFI) system has undergone accreditation against HMG Information Assurance Standard No.1&2 (IAS1&2), Issue 4.0 April 2012 and is accredited to handle, store and process information up to a level of Impact Level 3 aggregating to Impact Level 5 covering information with a protective marking of OFFICIAL or legacy protective marking of RESTRICTED. OFFICIAL-SENSITIVE where the caveat is used to cover sensitive personal information can also be processed by the system.

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

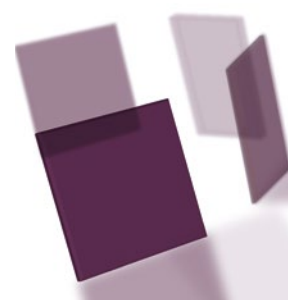
As well as regular internal reviews by the Cabinet Office, the other UK audit agencies (ie, Audit Scotland, the Wales Audit Office, the Northern Ireland Audit Office and the National Audit Office) now also share a programme of independent audits of the different aspects of the NFI data security.

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



# Appendix 2

## Self-appraisal checklist



| Part A:<br>for those charged with governance   | Yes/No/Partly | Is action<br>required? | Who by<br>and when? |
|--|---------------|------------------------|---------------------|
| <b>Leadership, commitment and communication</b>  |               |                        |                     |
| <b>1</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?  |               |                        |                     |
| <b>2</b> Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error?  |               |                        |                     |
| <b>3</b> 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? |               |                        |                     |
| <b>4</b> Are the NFI progress and outcomes reported regularly to senior management and elected/board members (eg, the audit committee or equivalent)?  |               |                        |                     |
| <b>5</b> Where we have not submitted data or used the matches returned to us, eg council tax single person discounts, are we satisfied that alternative fraud detection arrangements are in place and that we know how successful they are?                        |               |                        |                     |
| <b>6</b> Does internal audit, or equivalent, monitor our approach to NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?  |               |                        |                     |
| Cont.  |               |                        |                     |

| <b>Part A:<br/>for those charged with governance</b>   | <b>Yes/No/Partly</b> | <b>Is action<br/>required?</b> | <b>Who by<br/>and when?</b> |
|--|----------------------|--------------------------------|-----------------------------|
| <b>7</b> Do we review how frauds and errors arose and use this information to improve our internal controls?                                 |                      |                                |                             |
| <b>8</b> Do we publish, as a deterrent, internally and externally the achievements of our fraud investigators (eg, successful prosecutions)? |                      |                                |                             |

| <b>Part B:<br/>for the NFI key contacts and users</b>  | <b>Yes/No/Partly</b> | <b>Is action<br/>required?</b> | <b>Who by<br/>and when?</b> |
|--|----------------------|--------------------------------|-----------------------------|
| <b>Planning and preparation</b>  |                      |                                |                             |
| <b>1</b> Are we investing sufficient resources in the NFI exercise?  |                      |                                |                             |
| <b>2</b> Do we plan properly for NFI exercises, both before submitting data and prior to matches becoming available? This includes considering the quality of data.  |                      |                                |                             |
| <b>3</b> Is our NFI Key Contact (KC) the appropriate officer for that role and do they oversee the exercise properly?  |                      |                                |                             |
| <b>4</b> Do KCs have the time to devote to the exercise and sufficient authority to seek action across the organisation?   |                      |                                |                             |
| <b>5</b> Where NFI outcomes have been low in the past, do we recognise that this may not be the case the next time, that NFI can deter fraud and that there is value in the assurances that we can take from low outcomes? |                      |                                |                             |
| <b>6</b> Do we confirm promptly (using the online facility on the secure website) that we have met the fair processing notice requirements?  |                      |                                |                             |
| <b>7</b> Do we plan to provide all NFI data on time using the secure data file upload facility properly?   |                      |                                |                             |

Cont.

| <b>Part B:<br/>for the NFI key contacts and users</b>  | <b>Yes/No/Partly</b> | <b>Is action<br/>required?</b> | <b>Who by<br/>and when?</b> |
|--|----------------------|--------------------------------|-----------------------------|
| <b>8</b> Do we adequately consider the submission of any 'risk-based' data sets in conjunction with our auditors?  |                      |                                |                             |
| <b>9</b> 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? |                      |                                |                             |
| <b>Effective follow-up of matches</b>  |                      |                                |                             |
| <b>10</b> Do all departments involved in NFI start the follow-up of matches promptly after they become available?  |                      |                                |                             |
| <b>11</b> Do we give priority to following up recommended matches, high-quality matches, those that become quickly out of date and those that could cause reputational damage if a fraud is not stopped quickly?   |                      |                                |                             |
| <b>12</b> Do we recognise that NFI is no longer predominantly about preventing and detecting benefit fraud? Have we recognised the wider scope of NFI and are we ensuring that all types of matches are followed up?   |                      |                                |                             |
| <b>13</b> Are we investigating the circumstances of matches adequately before reaching a 'no issue' outcome, in particular?  |                      |                                |                             |
| <b>14</b> (In health bodies) are we drawing appropriately on the help and expertise available from NHS Scotland Counter-Fraud Services?  |                      |                                |                             |
| <b>15</b> Are we taking appropriate action in cases where fraud is alleged (whether disciplinary action, penalties/cautions or reporting to the Procurator Fiscal)? Are we recovering funds effectively?   |                      |                                |                             |
| <b>Cont.</b>   |                      |                                |                             |

| Part B:<br>for the NFI key contacts and users  | Yes/No/Partly | Is action<br>required? | Who by<br>and when? |
|--|---------------|------------------------|---------------------|
| <b>16</b> Do we avoid deploying excessive resources on match reports where early work (eg, on recommended matches) has not found any fraud or error?                                       |               |                        |                     |
| <b>17</b> Where the number of recommended matches is very low, are we adequately considering the related 'all matches' report before we cease our follow-up work?                          |               |                        |                     |
| <b>18</b> Overall, are we deploying appropriate resources on managing the NFI exercise?  |               |                        |                     |
| <b>Recording and reporting</b>   |               |                        |                     |
| <b>19</b> Are we recording outcomes properly in the secure website and keeping it up to date?  |               |                        |                     |
| <b>20</b> Do staff use the online training modules and guidance on the secure website and do they consult the NFI team if they are unsure about how to record outcomes (to be encouraged)? |               |                        |                     |
| <b>21</b> If, out of preference, we record some or all outcomes outside the secure website have we made arrangements to inform the NFI team about these outcomes?                          |               |                        |                     |

# Appendix 3

## How to work more efficiently

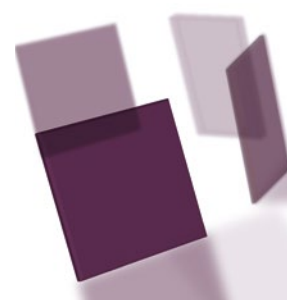


| Concerns   | How to work more efficiently   |
|--|--|
| Many participants are not using the latest time-saving enhancements to the NFI software.   | Ensure staff within the organisations that take part in the NFI keep up to date with new features of the web application and good practice by reading the guidance notes and watching the online training modules before they begin work on the matches. |
| Matches that are time critical and could identify an overpayment are not acted on first.   | Key contacts should schedule staff resources so that time-critical matches, such as housing benefit to students and payroll to immigration, can be dealt with as soon as they are received.  |
| Investigations across internal departments are not coordinated resulting in duplication of effort or delays in identifying overpayments. | Key contacts should coordinate investigations across internal departments and, for example, organise joint investigation of single person discount matches involving housing benefit, to ensure all relevant issues are actioned.                        |
| Disproportionate time is spent looking into every match in every report.   | Use the tools within the web application, such as the filter and sort options or data analysis software, to help prioritise matches that are the highest risk. This will save time and free up staff for the most important investigations.              |
| Enquiries from other organisations that take part in the NFI are not always responded to promptly.                                       | Prioritise responses to enquiries from other organisations so investigations can be progressed.  |
| Data-quality issues that are highlighted within the web application are not addressed before the next NFI exercise.                      | Review the quality of the data supplied before the next exercise as external providers normally have to phase in changes to extraction processes. Better data quality will improve the quality of resulting matches.                                     |

Source: Cabinet Office NFI team

# Appendix 4

## Estimation bases



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

Details of estimate calculations used in the report as shown in the table below.

| Data match                         | Basis of calculation of estimated outcomes   |
|------------------------------------|--|
| Pensions                           | Cabinet Office formula: annual pension multiplied by the number of years until the pensioner would have reached the age of 85. <sup>1</sup>  |
| Council tax single person discount | Annual value of the discount cancelled multiplied by two years.  |
| Housing benefit                    | Weekly benefit reduction multiplied by 21 weeks. <sup>2</sup>  |
| Blue badges                        | Number of badges confirmed as deceased multiplied by £575 to reflect lost parking and congestion charge revenue. <sup>3</sup>  |
| Payroll                            | £5,000 per case where an employee is dismissed or resigns, or £10,000 per immigration case (estimated amounts based on future losses prevented where a fraudulent employee resigns or is removed from post). |
| Private residential care homes     | £7,000 per case based on average weekly cost of residential care multiplied by 13 weeks.   |

### Notes:

- Following a review in February 2016, the 'pensioner age', for outcomes from NFI 2014/15, has been reduced from 90 to 85, to align with the latest average life expectancy for pensioners at age 65
- Following a review in February 2016, the estimated duration of overpayments, for outcomes from NFI 2014/15, has increased from 13 weeks to 21 weeks to align with the methodology used by DWP to calculate future overpayments prevented from detecting and stopping fraud and error.
- Following a review in February 2016, for outcomes from NFI 2014/15, this estimate has increased from £500 to £575 to reflect research and statistics relating to blue badge fraud

Source: Cabinet Office NFI team



# The National Fraud Initiative in Scotland

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T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk) 

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## **NORTH AYRSHIRE COUNCIL**

### **Agenda Item 5**

**22 August 2016**

#### **Audit Committee**

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**Title:** **Internal Audit and Corporate Fraud Action Plans:  
Quarter 1 update**

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**Purpose:** To advise the Audit Committee on progress made by Council services in implementing the agreed actions from Internal Audit and Corporate Fraud reports as at 30 June 2016.

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**Recommendation:** That the Committee (a) notes the current position with the implementation of Internal Audit and Corporate Fraud actions; and (b) challenges those services that have not implemented actions within the previously agreed timescales.

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#### **1. Executive Summary**

- 1.1 The CIPFA document 'Audit Committee Principles in Local Authorities in Scotland' highlights that Audit Committees should monitor and review the progress made in implementing audit recommendations.
- 1.2 Service managers are responsible for ensuring that agreed actions arising from Internal Audit and Corporate Fraud reviews are implemented. This provides assurance that identified control weaknesses have been addressed and are being managed effectively.
- 1.3 All actions are monitored on the Covalent system and service managers are responsible for updating Covalent as they progress each action. This enables Internal Audit to monitor progress on a 'real-time' basis and address any delays in implementation.
- 1.4 This report details the position at 30 June 2016.

#### **2. Background**

- 2.1 The last report to the Audit Committee on 23 May 2016 highlighted that there were 40 actions outstanding at the end of March 2016: 11 that had not been started or were only partially implemented and 29 where the due date had not yet passed.

- 2.2 In addition to these 40 'carried forward' actions, there have been 67 new actions agreed during quarter 1, giving a total of 107 action points for review.
- 2.3 Services have completed 34 actions since the last report. All services are required to retain evidence of work carried out in completing their actions and Internal Audit carries out 'spot-checks' on a sample of completed actions on an ongoing basis.
- 2.4 Of the remaining 73 actions, 5 were either not started or only partially complete at 30 June and the remaining 68 were not due for completion until after that date.
- 2.5 Appendix 1 to this report provides the Committee with full details of the 5 actions that were not complete within the agreed timescales.

### **3. Proposals**

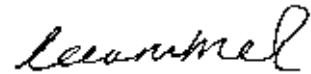
- 3.1 It is proposed that the Committee (a) notes the current position with the implementation of Internal Audit and Corporate Fraud actions; and (b) challenges those services that have not implemented actions within the previously agreed timescales.

### **4. Implications**

|  |  |
|--|--|
| <b>Financial:</b>                          | None.  |
| <b>Human Resources:</b>                    | None.  |
| <b>Legal:</b>                              | None.  |
| <b>Equality:</b>                           | None.  |
| <b>Environmental &amp; Sustainability:</b> | None.  |
| <b>Key Priorities:</b>                     | The effective implementation of agreed Internal Audit actions helps to support the efficient delivery of the strategic priorities within the Council Plan 2015-2020. |
| <b>Community Benefits:</b>                 | None.  |

## **5. Consultation**

- 5.1 Council services are consulted during the completion of each Internal Audit and Corporate Fraud review and have also provided updates on progress made in implementing action points.



LAURA FRIEL  
Executive Director (Finance and Corporate Support)

### **Reference :**

For further information please contact Paul Doak, Senior Manager (Internal Audit, Risk and Fraud) on 01294-324561.

### **Background Papers**

None.



## Actions due by 30/06/2016 but not started or partially complete

Generated on: 01 August 2016

|                                |  |                          |   |                    |                                   |
|--------------------------------|--|--------------------------|---|--------------------|-----------------------------------|
| <b>Code</b>                    | IA2015PA013e                             | <b>Description</b>       | Staff should ensure that all items accessioned to the museum collection are properly documented and recorded on the Adlib system before they are placed in the museum store.  |                    |                                   |
| <b>Priority</b>                | 3  | <b>Latest Note</b>       | <p>Progress towards the completion of the inventory has been impeded by changes in staffing and pressure on the service surrounding the opening of the Townhouse. This will continue into 2017. Changes in relation to the operation of Ayrshire Archives service have further impeded progress and this will continue as they are preparing for relocation from premises in 2017- 18. Temporary closure of The Heritage Centre is planned in late 2016 for roof replacement, which will obstruct access to the collection for planned pieces of work.</p> <p>Based on the current proposed work plans and the dependencies of third parties, the inventory will be completed by the end of October 2018.</p> |                    |                                   |
| <b>Progress Bar</b>            | <div><div>60%</div></div>                | <b>Original Due Date</b> | 31-Dec-2014   | <b>Due Date</b>    | 30-Jun-2016                       |
| <b>Parent Code &amp; Title</b> | IA2015PA013 Museums and Heritage Service |                          |   | <b>Managed By</b>  | Audrey Sutton                     |
|                                |  |                          |   | <b>Assigned To</b> | Lesley Forsyth; Alison McAllister |

|                                |                            |                          |   |                    |                                |
|--------------------------------|----------------------------|--------------------------|---|--------------------|--------------------------------|
| <b>Code</b>                    | IA2016PA021b               | <b>Description</b>       | The Corporate Transport Hub should ensure a data sharing agreement is in place with both SPT and contractors.   |                    |                                |
| <b>Priority</b>                | 1                          | <b>Latest Note</b>       | <b>2016/17- Quarter One Update:</b> It is recommended that the date is extended in line with negotiations for the Agency Agreement incorporating the ICT Security and Data Sharing Protocol to September 2016, as SPT require to consider NAC requirements. |                    |                                |
| <b>Progress Bar</b>            | <div><div>80%</div></div>  | <b>Original Due Date</b> | 31-May-2016   | <b>Due Date</b>    | 31-May-2016                    |
| <b>Parent Code &amp; Title</b> | IA2016PA021 Transportation |                          |   | <b>Managed By</b>  | Russell McCutcheon             |
|                                |                            |                          |   | <b>Assigned To</b> | Susan Adamson; Gordon Mitchell |

|                                |  |                          |  |                    |                             |
|--------------------------------|--|--------------------------|--|--------------------|-----------------------------|
| <b>Code</b>                    | IA2016PA024d                           | <b>Description</b>       | Passwords controls for staff in the schools accessing the Education network should be tightened in line with best practice.  |                    |                             |
| <b>Priority</b>                | 2                                      | <b>Latest Note</b>       | <b>2016/17- Quarter One Update:</b> Active Directory has been configured to force regular password changes for all Windows devices and all newly deployed Macs. There remains a number of older Macs that require a site visit to manually configure the device. This will be carried out as part of a programme of work during school site visits by IT Support staff. Due to other priority work it is estimated that these devices will be configured by December 2016. |                    |                             |
| <b>Progress Bar</b>            | <div><div>70%</div></div>              | <b>Original Due Date</b> | 30-Jun-2016  | <b>Due Date</b>    | 30-Jun-2016                 |
| <b>Parent Code &amp; Title</b> | IA2016PA024 Education Network Controls |                          |  | <b>Managed By</b>  | Esther Gunn                 |
|                                |  |                          |  | <b>Assigned To</b> | Iain Chisholm; Lorna Morley |

|                                |  |                          |  |                    |               |
|--------------------------------|--|--------------------------|--|--------------------|---------------|
| <b>Code</b>                    | IA2016PA028c                               | <b>Description</b>       | Senior Management should ensure that the Stakeholder Model is completed so that a full database of all stakeholders with which the authority should engage is known.<br><br>Following this the Council should put in place a process for evaluating the effectiveness of the relationships in place and where appropriate identify any opportunities for improvement.  |                    |               |
| <b>Priority</b>                | 3  | <b>Latest Note</b>       | <b>2016/17 Quarter 1 Update:</b> A review has taken place of work to date and an updated stakeholder mapping exercise and spreadsheet has been prepared.<br><br>This has been circulated for population by departments. An update will be provided to ELT and Heads of Service.<br><br>A meeting is due to take place mid-August to determine the best way forward. Following this it is intended a completion date for this action will be confirmed with Internal Audit. |                    |               |
| <b>Progress Bar</b>            | <div><div>50%</div></div>                  | <b>Original Due Date</b> | 30-Apr-2016  | <b>Due Date</b>    | 30-Apr-2016   |
| <b>Parent Code &amp; Title</b> | IA2016PA028 Review of Corporate Governance |                          |  | <b>Managed By</b>  | Audrey Sutton |
|                                |  |                          |  | <b>Assigned To</b> | Audrey Sutton |

|                                |                                     |                          |   |                    |               |
|--------------------------------|-------------------------------------|--------------------------|---|--------------------|---------------|
| <b>Code</b>                    | IA2016PA029j                        | <b>Description</b>       | The Team Manager (Corporate Procurement) should consider producing written guidance for her team regarding requirements in relation to SOC in purchasing, such as high risk categories of purchase where it might be appropriate to contact the Police for further advice |                    |               |
| <b>Priority</b>                | 2                                   | <b>Latest Note</b>       | Draft document prepared and shared with CPU team.<br><br>Awaiting Police Scotland to confirm some details before final document can be circulated   |                    |               |
| <b>Progress Bar</b>            | <div><div>70%</div></div>           | <b>Original Due Date</b> | 30-Jun-2016   | <b>Due Date</b>    | 30-Jun-2016   |
| <b>Parent Code &amp; Title</b> | IA2016PA029 Serious Organised Crime |                          |   | <b>Managed By</b>  | Margaret Hogg |
|                                |                                     |                          |   | <b>Assigned To</b> | Anne Lyndon   |





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## **NORTH AYRSHIRE COUNCIL**

### **Agenda Item 6**

**22 August 2016**

#### **Audit Committee**

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**Title:** **Internal Audit Reports issued**

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**Purpose:** To inform the Committee of the findings of Internal Audit work completed between 1 May and 31 July 2016.

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**Recommendation:** That the Committee (a) considers the outcomes from the Internal Audit work carried out; and (b) challenges services where there are significant weaknesses in internal controls; and (c) agrees the proposed changes to the 2016/17 audit plan.

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#### **1. Executive Summary**

- 1.1 The Council's local Code of Corporate Governance requires effective arrangements to be put in place for the objective review of risk management and internal control. Internal Audit is an important element in this framework as it reviews internal controls and offers Elected Members and officers an objective and independent appraisal of how effectively resources are being managed.
- 1.2 The remit of the Audit Committee includes the monitoring of Internal Audit activity. The submission and consideration of regular reports assists the Committee in fulfilling this remit.

#### **2. Background**

- 2.1 This report provides information on the Internal Audit reports published between 1 May and 31 July 2016. Internal control reviews have been completed in respect of the areas detailed in Appendix 1 to this report. The aim of these reviews is to provide assurance that the internal control framework within the areas examined is appropriate and operating effectively.

- 2.2 The findings from each audit assignment have been notified in writing to the Chief Executive, the Executive Director (Finance and Corporate Support) and the relevant Executive Director and service managers on the completion of each assignment. Where appropriate, this has included an action plan detailing recommendations for improving internal control. The key findings from 13 separate audit assignments are detailed at Appendix 1 to this report, together with any high priority actions from each one.
- 2.3 There are no significant issues to highlight to the Committee; this is a positive development and is reflected in the reduced number of high priority actions in the Appendix.
- 2.4 Full copies of all Internal Audit reports are provided to all Elected Members, in confidence, through the Council's intranet site. Reports are held within the dedicated 'Members' information' area at:
- <http://naconnects.north-ayrshire.gov.uk/elected-members/audit-reports/audit-reports.aspx>
- 2.5 Due to a reduction in available resources within the Internal Audit team, there is a need to withdraw a number of assignments from the approved audit plan for 2016/17. These cover the following areas:
- Members Allowances and Expenses (covered in the recent Payroll Transactions audit)
  - Commercial and Industrial Rents (due to service changes)
  - Secondary Schools (delay until 2017/18)
  - Income Collection (delay until 2017/18)
  - Business Continuity (delay until 2017/18)
  - Building Services systems (due to other recent audit work in this area)
- 2.6 In addition, it is proposed to combine the planned audits of the HR Payroll system and Supply Teachers payments.

### **3. Proposals**

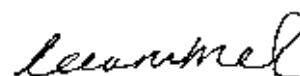
- 3.1 It is proposed that the Committee (a) considers the outcomes from the Internal Audit work carried out during the period; (b) challenges services where there are significant weaknesses in internal controls; and (c) agrees the proposed changes to the 2016/17 audit plan.

#### 4. Implications

|  |   |
|--|---|
| <b>Financial:</b>                          | None.   |
| <b>Human Resources:</b>                    | None.   |
| <b>Legal:</b>                              | None.   |
| <b>Equality:</b>                           | None.   |
| <b>Environmental &amp; Sustainability:</b> | None.   |
| <b>Key Priorities:</b>                     | The work of Internal Audit helps to support the efficient delivery of the strategic priorities within the Council Plan 2015-2020. |
| <b>Community Benefits:</b>                 | None.   |

#### 5. Consultation

- 5.1 The relevant services are consulted on Internal Audit findings during each audit assignment.



LAURA FRIEL  
Executive Director (Finance and Corporate Support)

#### Reference :

For further information please contact Paul Doak, Senior Manager (Internal Audit, Risk and Fraud) on 01294-324561.

#### Background Papers

None.



Final Reports issued – 1<sup>st</sup> May to 31<sup>st</sup> July 2016

|  |   |   |               |   |              |
|--|---|---|---------------|---|--------------|
| <b>Title</b>   | Serious and Organised Crime   |   |               |   |              |
| <b>Date of issue</b>   | 09/06/2016  |   |               |   |              |
| <b>Lead Council Service</b>  | Democratic Services   |   |               |   |              |
| <b>Background and Key Objectives</b>   | To provide a strategic focus for tackling serious organised crime and to ensure coordinated and targeted action, the Scottish Government established a Serious Organised Crime Task Force. The Serious Organised Crime Task Force issued a self-assessment checklist for Local Authorities to assess their readiness in relation to serious organised crime and corruption risk in February 2015. The main objective of this audit was to review North Ayrshire Council's readiness for the risk of Serious Organised Crime and Corruption, using the Serious Organised Crime Task Force checklist and obtain evidence to support the assessment.   |   |               |   |              |
| <b>Key Findings</b>  | <ol style="list-style-type: none"> <li>1. The self-assessment questionnaire completed by Internal Audit should be presented to the Council's Serious Organised Crime and Counter Terrorism (SOCCT) Working Group for their information and action</li> <li>2. A Communication Strategy for Serious Organised Crime (SOC) needs to be developed to communicate the risks of SOC and the Council's relevant policies and procedures to Members, Officers, partners and the public</li> <li>3. Training on SOC should be developed for members and officers</li> <li>4. The Council has a Whistleblowing Policy, which outlines how an employee would make a disclosure under the Public Interest Disclosure Act; this is available on the Intranet site. However, there are no corporate arrangements to distribute it to employees who do not have IT access.</li> </ol> |   |               |   |              |
| <b>Actions</b>   | <b>High</b>   | 2 | <b>Medium</b> | 6                                       | <b>Low</b> 3 |
| <b>High Priority Actions</b>   | <b>Management Comment</b>   |   |               | <b>Responsible Officer and Due Date</b> |              |
| The self-assessment questionnaire completed by Internal Audit should be presented to the Serious Organised Crime and Counter Terrorism Working Group for their information and action. | Agreed.   |   |               | Head of Democratic Services, 31/07/2016 |              |
| The Council should make arrangements corporately to ensure that employees who do not have IT access have access to a copy of the Council's Whistleblowing Policy                       | Agreed.   |   |               | Head of Democratic Services, 31/12/2016 |              |

## Final Reports issued – 1<sup>st</sup> May to 31<sup>st</sup> July 2016

|                                      |   |
|--------------------------------------|---|
| <b>Title</b>                         | Insurance   |
| <b>Date of issue</b>                 | 21/06/2016  |
| <b>Lead Council Service</b>          | Finance and Corporate Support   |
| <b>Background and Key Objectives</b> | The aim of the audit was to ensure there are appropriate controls in place in relation to the key processes carried out by the Insurance and Risk team, and for ensuring that where services are responsible for aspects of insurance claims processing, that roles and responsibilities are clearly documented and defined.  |
| <b>Key Findings</b>                  | <p>The audit identified key controls which were in place and operating effectively, including adequate arrangements to ensure that industry standards and legislative requirements are identified and communicated to the team. There was also a robust audit trail in place for the most recent tender exercise that was undertaken for the current external insurance contract. However, opportunities for improvement were also identified.</p> <p>From review of a sample of 20 settled claims which were processed in-house, there was not always a segregation of duties for processing claims. There is no documented requirement for a second officer to sense check successful claims to ensure the amount paid is reasonable and in line with procedures and that the decision to award the claim was appropriate. Furthermore, the approval limits for the team are not documented and clearly defined.</p> <p>The current arrangements whereby other services charge costs directly to the insurance account without obtaining authorisation from the budget holder beforehand, increases the risk that items are charged to the account which should not be deemed insurance related expenditure and that effective budget monitoring for the account is not in place.</p> <p>The processes to be followed where other sections in the Council have responsibilities in relation to insurance are not documented or well understood by the services involved. This increases the risk that the correct processes are not followed. The main areas where improvements are required are in relation to the insurance arrangements for the assisted car purchase scheme and for a small group of leased properties.</p> <p>Currently employees are not asked to provide their driving licence, MOT and insurance documents prior to claiming, and being awarded, mileage expenses for using their vehicle for business purposes. This increases the risk that employees who do not hold a valid driving licence or appropriate insurance cover are using their vehicle for business purposes.</p> |

## Final Reports issued – 1<sup>st</sup> May to 31<sup>st</sup> July 2016

| Actions   |  | High | 3 | Medium   | 13 | Low | 3   |
|---|--|------|---|--|----|-----|---|
| High Priority Actions   |  |      |   | Management Comment   |    |     | Responsible Officer and Due Date                                    |
| <p>As part of the ongoing internal review of procedures, a formal process including authorisation limits of staff in the team should be documented.</p> <p>Management should also consider carrying out a periodic sample check of claims which have been processed internally to ensure the claim is valid, the decision is appropriate and the amount awarded for a successful claim is reasonable.</p> |  |      |   | <p>There are some controls within existing practices, specifically that Masterpiece will not allow an account to be credited and debited by the same user. Controls will be reinforced and this will be captured in the ongoing programme of procedural updates. An index will be created for all internal procedures with links to the separate documents. In addition claims procedures for NAC staff will be updated and placed on 'Connects'. This will form a handbook for staff on all routine procedures.</p> |    |     | <p>Senior Manager (Internal Audit, Risk and Fraud), 31/12/2016.</p> |
| <p>Management should review the operation of the Assisted Car Purchase scheme and ensure that appropriate arrangements are put in place which places the liability for payment of the vehicle on the employee.</p>  |  |      |   | <p>The Assisted Car Purchase Scheme was reviewed and presented to the Corporate Management Team for consideration on 25 May 2016. They accepted a recommendation that the scheme be terminated.</p>  |    |     | <p>Senior Manager (Financial Management), complete.</p>             |
| <p>A documented procedure for facilitating and monitoring results of Zurich Risk Engineering Reviews should be documented.</p> <p>In particular, a formal process for identifying serious defects and ensuring the required action is taken should be documented and escalated to senior management or the relevant committee.</p>  |  |      |   | <p>It is planned to roll out CRIMSON (Zurich's risk engineering package). The package includes a facility to follow up issues identified in inspections. This will be progressed via Zurich and services. This is likely to involve workshops, training and a significant roll out programme.</p>  |    |     | <p>Senior Manager (Internal Audit, Risk and Fraud), 30/06/2017.</p> |

## Final Reports issued – 1<sup>st</sup> May to 31<sup>st</sup> July 2016

|                                      |  |   |               |   |            |   |
|--------------------------------------|--|---|---------------|---|------------|---|
| <b>Title</b>                         | NAHSCP – Procurement of Care Services  |   |               |   |            |   |
| <b>Date of issue</b>                 | 10/06/2016   |   |               |   |            |   |
| <b>Lead Council Service</b>          | Health and Social Care Partnership   |   |               |   |            |   |
| <b>Background and Key Objectives</b> | <p>North Ayrshire Health and Social Care Partnership (NAHSCP) procures a wide range of care services, including: community support, care at home, residential care, respite care and specialist support. Some services are procured through national contracts and in collaboration with other local authorities.</p> <p>Procurement activities within NAHSCP are managed by the Procurement and Service Design team within the Partnership. Procurement arrangements are governed by a number of documents, including Standing Orders Relating to Contracts, a Contract Strategy, and a Care and Contract Management Framework.</p> <p>The main objective of this audit was to assess the controls in relation to the procurement of social care services by the Health and Social Care Partnership by reviewing:</p> <ul style="list-style-type: none"> <li>• Policies and procedures governing procurement processes;</li> <li>• Processes regarding the awarding, monitoring and management of contracts.</li> </ul> |   |               |   |            |   |
| <b>Key Findings</b>                  | <ol style="list-style-type: none"> <li>1. Key documents governing procurement processes require to be updated.</li> <li>2. Contractual arrangements should be established for a number of care providers.</li> <li>3. Controls regarding the payment of invoices could be enhanced in some service areas.</li> <li>4. Data sharing agreements are not in place with a number of providers.</li> </ol>  |   |               |   |            |   |
| <b>Actions</b>                       | <b>High</b>  | 2 | <b>Medium</b> | 2 | <b>Low</b> | 2 |



## Final Reports issued – 1<sup>st</sup> May to 31<sup>st</sup> July 2016

| High Priority Actions  | Management Comment  | Responsible Officer and Due Date                     |
|--|---|--|
| NAHSCP should establish contractual arrangements for the providers operating without contracts, in line with the requirements of the Standing Orders. A review should also be undertaken to identify other providers operating without a contract. | The Partnership will analyse the 2015/16 spend on care services during May and June. This will allow for identification of spend out of contract. Outcomes from this analysis will be used to inform the development of Procurement Plans, which in line with current legislation need to be published by 31 December 2016.               | Manager – Procurement and Service Design, 31/12/2016 |
| NAHSCP should ensure Data Processor and Sharing Agreements are in place for all providers when existing contracts are renewed and new contracts are arranged   | A presentation on the Data Protection Act is being provided to care providers on 22 June 2016. The Service Design and Procurement Team will work in partnership with Legal Services and IT Services to develop an Information Sharing Protocol. This will be applied to all new contracts and existing contracts at the point of renewal. | Manager – Procurement and Service Design, 31/10/2016 |

## Final Reports issued – 1<sup>st</sup> May to 31<sup>st</sup> July 2016

|  |  |   |               |   |  |   |
|--|--|---|---------------|---|--|---|
| <b>Title</b>   | ICT Assets   |   |               |   |  |   |
| <b>Date of issue</b>   | 01/07/2016   |   |               |   |  |   |
| <b>Lead Council Service</b>  | Finance and Corporate Support  |   |               |   |  |   |
| <b>Background and Key Objectives</b>   | <p>The use of ICT assets is essential in order to support the Council in the provision of services. This audit was undertaken to review the controls around ICT asset policies, risks and controls.</p> <p>The main objectives of this audit were to ensure that:</p> <ul style="list-style-type: none"> <li>• suitable policies are in place to protect ICT assets</li> <li>• adequate physical entry controls over Data Centres are in place to protect ICT assets</li> <li>• ICT equipment is suitably sited and protected</li> <li>• adequate physical controls are in place to protect, maintain and monitor ICT assets</li> <li>• adequate arrangements are in place for the recording and insurance of ICT assets</li> <li>• adequate controls are in place over the use of ICT equipment off site</li> <li>• adequate controls are in place over the addition and disposal of equipment and are complied with</li> </ul> |   |               |   |  |   |
| <b>Key Findings</b>  | <ol style="list-style-type: none"> <li>1. Policies are in place for the procurement, protection and disposal of ICT assets and staff are aware of their responsibilities.</li> <li>2. Gas flooding fire prevention systems are installed at Data Centres. However, the smoke detectors at Bridgegate Data Centre have been covered up since 2014.</li> <li>3. Uninterruptible Power Supplies (UPS) are in situ at both locations. However no regular testing of the UPS at Bridgegate House has been carried out since 2014. Additionally, there is no emergency generator in place to service Bridgegate House.</li> <li>4. Server maintenance is provided by a contracted supplier and remote access is appropriately controlled.</li> <li>5. There is no centralised record which details the equipment held within each Data Centre.</li> </ol>  |   |               |   |  |   |
| <b>Actions</b>   | <b>High</b>  | 1 | <b>Medium</b> | 4 | <b>Low</b>   | 4 |
| <b>High Priority Actions</b>   | <b>Management Comment</b>  |   |               |   | <b>Responsible Officer and Due Date</b>                        |   |
| Property Management and Investment must ensure that the smoke detectors within the Data Centre are fully operational as a matter of urgency. | The detectors have been commissioned and connected, are operating and are under a Term Contract for maintenance.   |   |               |   | Senior Manager (Property Management and Investment), complete. |   |

## Final Reports issued – 1<sup>st</sup> May to 31<sup>st</sup> July 2016

|  |   |   |               |   |   |
|--|---|---|---------------|---|---|
| <b>Title</b>   | Health and Safety   |   |               |   |   |
| <b>Date of issue</b>   | 30/06/2016  |   |               |   |   |
| <b>Lead Council Service</b>  | Finance and Corporate Support   |   |               |   |   |
| <b>Background and Key Objectives</b>   | The main objective of this audit was to examine compliance with the Council's Health and Safety policies.   |   |               |   |   |
| <b>Key Findings</b>  | 1. Employees' development records are not always being updated correctly;<br>2. No evidence of training could be found for escorts working with pupils with Additional Support Needs.   |   |               |   |   |
| <b>Actions</b>   | <b>High</b>   | 1 | <b>Medium</b> | 3 | <b>Low</b> 1                            |
| <b>High Priority Actions</b>   | <b>Management Comment</b>   |   |               |   | <b>Responsible Officer and Due Date</b> |
| Management within Education and Youth Employment should take accountability for ASN Escorts and ensure adequate training is provided and recorded in line with procedures. | The ASN Transport Escorts are employed through James McFarlane School. Confirmation has been received that the staff have undertaken oxygen and epilepsy therapy training, emergency medication training, resuscitation training and CALM Technique training. On-going training will be delivered and identified via PPD reviews. |   |               |   | Head of Inclusion, complete.            |

## Final Reports issued – 1<sup>st</sup> May to 31<sup>st</sup> July 2016

|  |   |   |               |   |              |
|--|---|---|---------------|---|--------------|
| <b>Title</b>   | Licensing   |   |               |   |              |
| <b>Date of issue</b>   | 28/07/2016  |   |               |   |              |
| <b>Lead Council Service</b>  | Democratic Services   |   |               |   |              |
| <b>Background and Key Objectives</b>   | <p>A review of the processes in place within the Council's Licensing Section was carried out as part of the current Internal Audit Plan.</p> <p>The Council has the responsibility for administering and granting over 40 different types of licences, permits and registrations.</p> <p>The audit focussed on the application, administration and granting of liquor licences, taxi/private hire licences and private landlord registration. Also reviewed were the Council's inspection processes to ensure that licensees are complying with the conditions of their licences.</p> <p>The main objectives of this audit were to ensure:</p> <ul style="list-style-type: none"> <li>the governance arrangements in place within the Licensing Section are adequate;</li> <li>the procedures for processing licence applications are robust;</li> <li>the granting of licences is in accordance with relevant policies and legislation;</li> <li>there are adequate processes to ensure that licensees are complying with the conditions of their licences.</li> </ul> |   |               |   |              |
| <b>Key Findings</b>  | <p>1. there is no document outlining which officers have delegated authority from the Licensing Committee to grant licences;</p> <p>2. controls could be enhanced in relation to the processing and approval of private landlord registrations.</p>   |   |               |   |              |
| <b>Actions</b>   | <b>High</b>   | 1 | <b>Medium</b> | 2   | <b>Low</b> 1 |
| <b>High Priority Actions</b>   | <b>Management Comment</b>   |   |               | <b>Responsible Officer and Due Date</b>       |              |
| Licensing should highlight the issue with the Landlord Registration Scotland website to the Scottish Government. If the website issue cannot be resolved, the Licensing Section should consider delaying the input of registration information into the website until approval has been granted. | A solution is being developed to show undetermined applications as 'pending', which should then update the Landlord Registration Scotland website.  |   |               | Licensing Administration Officer, 31/12/2016. |              |

## Final Reports issued – 1<sup>st</sup> May to 31<sup>st</sup> July 2016

|  |  |   |               |   |                                 |                |
|--|--|---|---------------|---|---------------------------------|----------------|
| <b>Title</b>   | Agency Staff and Agency Workers  |   |               |   |                                 |                |
| <b>Date of issue</b>   | 28/07/2016   |   |               |   |                                 |                |
| <b>Lead Council Service</b>  | Cross Council  |   |               |   |                                 |                |
| <b>Background and Key Objectives</b>   | <p>The main objectives of this audit were to review the Council's use of agency staff and agency workers and in particular to ensure that:</p> <ul style="list-style-type: none"> <li>• Appropriate procurement arrangements were in place;</li> <li>• Services have arrangements to verify the charges being made by agencies;</li> <li>• Arrangements are in place to review the use of each agency employee regularly to ensure that they are not retained any longer than necessary;</li> <li>• There were sound reasons for the use of an agency employee.</li> </ul> |   |               |   |                                 |                |
| <b>Key Findings</b>  | 1. Agency staff are not always being appointed through the appropriate procurement frameworks.   |   |               |   |                                 |                |
| <b>Actions</b>   | <b>High</b>  | 1 | <b>Medium</b> | 1 | <b>Low</b>                      | 0              |
| <b>High Priority Actions</b>   | <b>Management Comment</b>  |   |               |   | <b>Responsible and Due Date</b> | <b>Officer</b> |
| Health and Social Care should ensure that they comply with the appropriate procurement framework for agency staff and liaise with the Corporate Procurement Unit should further arrangements require to be put in place. | The provider concerned is no longer used by the service and is not required to be added to the Framework. Any further use of agency staff will be minimised and if required purchased from a Framework provider.   |   |               |   | Principal (Finance), Complete.  | Manager HSCP,  |

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|   |   |   |               |   |   |   |
|---|---|---|---------------|---|---|---|
| <b>Title</b>  | Building Services Recharges and Job Variation Orders  |   |               |   |   |   |
| <b>Date of issue</b>  | 07/06/2016  |   |               |   |   |   |
| <b>Lead Council Service</b>   | Place   |   |               |   |   |   |
| <b>Background and Key Objectives</b>  | <p>The main objectives of this audit were to:</p> <ul style="list-style-type: none"> <li>• Review the procedures for raising, authorising, recording and monitoring variation orders;</li> <li>• Ensure recharge transactions to client services are being calculated correctly.</li> </ul> |   |               |   |   |   |
| <b>Key Findings</b>   | 1. Instances were discovered where variations to jobs had been requested and approved by the same user.   |   |               |   |   |   |
| <b>Actions</b>  | <b>High</b>   | 1 | <b>Medium</b> | 0 | <b>Low</b>                              | 0 |
| <b>High Priority Actions</b>  | <b>Management Comment</b>   |   |               |   | <b>Responsible Officer and Due Date</b> |   |
| Variations for amounts exceeding the tolerance limits must not be requested and approved by the same user. The software provider should be contacted to investigate if the system can be set up to prevent this from being permitted in future. | Permissions have been amended on the system to ensure that the same user cannot request and approve variations.   |   |               |   | Commercial Support Manager, 06/05/2016  |   |

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|                                      |   |   |               |   |   |   |
|--------------------------------------|---|---|---------------|---|---|---|
| <b>Title</b>                         | Government Procurement Cards  |   |               |   |   |   |
| <b>Date of issue</b>                 | 09/06/2016  |   |               |   |   |   |
| <b>Lead Council Service</b>          | Finance and Corporate Support   |   |               |   |   |   |
| <b>Background and Key Objectives</b> | <p>Government Procurement Cards (GPCs) are widely used throughout the Council as a means for purchasing goods and services. Since 2015, GPCs are also used for imprest petty cash, with cardholders using the cards to withdraw cash from cash machines. Transactions are recorded, reviewed and approved in the Smart Data OnLine (SDOL) system. The Corporate Procurement Unit is responsible for administering GPCs.</p> <p>The main objective of this audit was to review the use of Government Procurement Cards across the Council. The audit focussed on controls in relation to:</p> <ul style="list-style-type: none"> <li>• The use of GPCs for purchasing goods and services</li> <li>• The use of GPCs for imprest petty cash</li> <li>• The Smart Data OnLine (SDOL) system</li> </ul> |   |               |   |   |   |
| <b>Key Findings</b>                  | <ol style="list-style-type: none"> <li>1. Existing controls around the use of GPCs for cash withdrawals expose the Council to a potential risk;</li> <li>2. Cardholders and approvers are not always adhering to policies and procedures, particularly with regards to the use of GPCs for imprest petty cash and for the review and approval of transactions;</li> <li>3. Delays in review and approval have had a negative impact on the proper accounting of transactions;</li> <li>4. Controls within the SDOL system could be enhanced.</li> </ol>   |   |               |   |   |   |
| <b>Actions</b>                       | <b>High</b>   | 0 | <b>Medium</b> | 4 | <b>Low</b>                              | 2 |
| <b>High Priority Actions</b>         | <b>Management Comment</b>   |   |               |   | <b>Responsible Officer and Due Date</b> |   |
| There were no high priority actions. |   |   |               |   |   |   |

## Final Reports issued – 1<sup>st</sup> May to 31<sup>st</sup> July 2016

|                                      |  |
|--------------------------------------|--|
| <b>Title</b>                         | Capital Monitoring   |
| <b>Date of issue</b>                 | 06/07/2016   |
| <b>Lead Council Service</b>          | Finance and Corporate Support / Place  |
| <b>Background and Key Objectives</b> | <p>The purpose of the audit was to examine the effectiveness of the Council's capital monitoring arrangements to ensure that:</p> <ul style="list-style-type: none"> <li>• there are adequate governance arrangements in place to monitor the capital programme, allowing constructive challenge and effective scrutiny.</li> <li>• suitable risk management processes are in place in relation to capital projects and the programme overall.</li> <li>• there are adequate arrangements in place for the monitoring of individual projects.</li> <li>• there are effective mechanisms in place to review and agree changes/variations to capital projects.</li> </ul> <p>A sample of three current capital projects was selected to test these controls.</p>   |
| <b>Key Findings</b>                  | <ol style="list-style-type: none"> <li>1. Capital projects are approved and reviewed by the Council at the budget setting process each year and are then monitored by the CPAG, comprising of senior officers from across the Directorates.</li> <li>2. Arrangements within the Directorates for monitoring and reporting on the physical progress and expenditure were generally adequate, with monthly progress meetings held, financial reports compiled and summary sheets for each major project completed every period for the Project Boards and CPAG.</li> <li>3. All three sample projects had their original budgets increased and these were approved for various reasons. At the time of the audit, expenditure on the three projects was on target to come within the revised budget.</li> <li>4. Although the CPAG's remit is documented, there were no documented roles and responsibilities for the positions of Project Manager, Project Sponsor or Senior Responsible Officer (SRO) for two of the sample projects. For two projects in the sample, the auditor was told that more than one officer fulfilled the role of SRO or sponsor. This can make it difficult to assign accountability to the officers charged with such roles.</li> <li>5. Some projects attract external funding, and the auditor was told that the project manager was generally deemed to be responsible for ensuring compliance with any terms and conditions of this. However, without documented roles and responsibilities there is an increased risk that this duty may not be carried out, and in the most serious cases, if non-compliance was identified, could result in funding being reclaimed.</li> <li>6. Capital programme monitoring reports are presented to the Cabinet every alternate period, however the financial information contained within only focuses on the current year's budget. Audit Scotland noted in 2013 in the report "Major Capital Investment in Councils" that without visibility of earlier benchmarks for</li> </ol> |



## Final Reports issued – 1<sup>st</sup> May to 31<sup>st</sup> July 2016

|                                      |   |  |      |                    |        |   |                                  |
|--------------------------------------|---|--|------|--------------------|--------|---|----------------------------------|
|                                      | cost, timescale and benefits, Elected Members may not be able to properly challenge decisions made during the project and scrutinise how well the projects are progressing. Additionally there was no evidence to confirm whether Elected Members had been provided with training to enable them to scrutinise capital projects.  |  |      |                    |        |   |                                  |
|                                      | 7. There are no corporate-wide risk management policies or guidance for capital projects. From the audit sample it was found that arrangements and records pertaining to risk management of capital projects were inconsistent across the Council. Project risks are also not reported to Elected Members, which was a recommendation from the Audit Scotland report.   |  |      |                    |        |   |                                  |
|                                      | 8. The process for contractors to claim payments from the Council, authorisation levels and documentation differed across the sample projects. While this may be determined by the type of contract used, the auditor would have expected best practice would usually be to have a claims log and authorisation levels in place. Two of the projects had not received any contractors' claims to date, but the one project which had, recorded this as part of the Architect's Instructions list and was approved by the project manager with advice from the Quantity Surveyor. Without a documented process it was not possible to determine if this was correct. |  |      |                    |        |   |                                  |
|                                      | 9. Gateway Reviews had not been carried out for any of the three projects. This process has been identified by the Scottish Government and in the Audit Scotland report as providing an independent expert review of projects at key stages before progression to the next stage, and providing assurance on the performance and planning of the project and identify any gaps.   |  |      |                    |        |   |                                  |
|                                      | Actions   |  | High | 0                  | Medium | 4 | Low                              |
| High Priority Actions                |   |  |      | Management Comment |        |   | Responsible Officer and Due Date |
| There were no high priority actions. |   |  |      |                    |        |   |                                  |

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|                                      |  |   |               |   |   |   |
|--------------------------------------|--|---|---------------|---|---|---|
| <b>Title</b>                         | NAIJB Governance   |   |               |   |   |   |
| <b>Date of issue</b>                 | 03/05/2016 (reported to IJB Performance and Audit Committee 09/06/2016)  |   |               |   |   |   |
| <b>Lead Council Service</b>          | Health and Social Care Partnership   |   |               |   |   |   |
| <b>Background and Key Objectives</b> | <p>The objective was to undertake a review of Health and Social Care integration, focussing on governance and assurance, considering how the IJB links to North Ayrshire Council's governance arrangements and the flow of information between the IJB and the Council.</p> <p>Features of good governance are identified in the Audit Scotland Best Value Toolkit on Governance and Accountability and in the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government.</p>   |   |               |   |   |   |
| <b>Key Findings</b>                  | <ol style="list-style-type: none"> <li>1. No Strategic Risk Register has been presented to the IJB. A Risk Management Strategy to be shared by the three Ayrshire HSCPs is in the process of being agreed.</li> <li>2. The IJB has approved governance documents which define the roles and responsibilities of IJB members and key officers. The decision making mechanisms of the IJB are defined in the governance documents.</li> <li>3. Financial performance is reported in a defined reporting cycle and is reported to the IJB and North Ayrshire Council's Cabinet.</li> <li>4. The IJB has established a Performance and Audit Committee. This has Terms of Reference which cover the expected functions of Scrutiny and Audit Committees for a Health and Social Care Partnership.</li> <li>5. The IJB has a performance reporting framework including reporting to North Ayrshire Council's Scrutiny and Petitions Committee.</li> <li>6. The IJB has various mechanisms for consulting with stakeholders and receiving feedback from service users and carers.</li> </ol> |   |               |   |   |   |
| <b>Actions</b>                       | <b>High</b>  | 0 | <b>Medium</b> | 1 | <b>Low</b>                              | 0 |
| <b>High Priority Actions</b>         | <b>Management Comment</b>  |   |               |   | <b>Responsible Officer and Due Date</b> |   |
| There were no high priority actions. |  |   |               |   |   |   |
|                                      |  |   |               |   |   |   |

## Final Reports issued – 1<sup>st</sup> May to 31<sup>st</sup> July 2016

|                                      |   |   |               |   |   |   |
|--------------------------------------|---|---|---------------|---|---|---|
| <b>Title</b>                         | NAIJB Organisational Development  |   |               |   |   |   |
| <b>Date of issue</b>                 | 03/05/2016 (reported to IJB Performance and Audit Committee 09/06/2016)   |   |               |   |   |   |
| <b>Lead Council Service</b>          | Health and Social Care Partnership  |   |               |   |   |   |
| <b>Background and Key Objectives</b> | <p>The main objectives of this audit were to:</p> <ul style="list-style-type: none"> <li>• Review the Organisational Development arrangements for the Health and Social Care Partnership.</li> <li>• Review progress against the Organisational Development Plan which is included in the NAHSCP Strategic Plan.</li> </ul>   |   |               |   |   |   |
| <b>Key Findings</b>                  | <p>1. Training needs of IJB members and staff have been assessed</p> <p>2. The HSCP has a senior officer who has been appointed as the Organisational Development Lead</p> <p>3. An updated Organisational Development Plan is due to be presented to the IJB in May or June 2016. A cycle of review and evaluation will then be programmed in.</p> <p>4. All 15 actions in the Organisational Development Plan which was included in the Strategic Plan are complete or in progress.</p> |   |               |   |   |   |
| <b>Actions</b>                       | <b>High</b>   | 0 | <b>Medium</b> | 0 | <b>Low</b>                              | 0 |
| <b>High Priority Actions</b>         | <b>Management Comment</b>   |   |               |   | <b>Responsible Officer and Due Date</b> |   |
| There were no high priority actions. |   |   |               |   |   |   |
|                                      |   |   |               |   |   |   |

## Final Reports issued – 1<sup>st</sup> May to 31<sup>st</sup> July 2016

|                                      |   |   |               |   |              |
|--------------------------------------|---|---|---------------|---|--------------|
| <b>Title</b>                         | Corporate Landlord  |   |               |   |              |
| <b>Date of issue</b>                 | 21/06/2016  |   |               |   |              |
| <b>Lead Council Service</b>          | Place   |   |               |   |              |
| <b>Background and Key Objectives</b> | <p>The corporate landlord function is undertaken by Property Management and Investment (PMI). The aim of the corporate landlord is to provide a single corporate approach to the management of property assets and deliver best value while ensuring the property portfolio meets future Service demands. PMI has a broad remit, covering six distinct areas, with a team for each: Major Capital Projects; Contracts, Compliance and Maintenance; Schools for the Future; Housing Assets and Investment; Governance and Systems; and Asset Management and Estates. Several of these areas are covered by other recent or forthcoming audits. The main objectives of this audit were to review controls within the Contracts, Compliance and Maintenance team regarding planned maintenance and reactive maintenance.</p> |   |               |   |              |
| <b>Key Findings</b>                  | <ol style="list-style-type: none"> <li>1. Documents produced for Services outlining maintenance procedures require to be updated.</li> <li>2. Details of maintenance procedures should be made available to staff via Connects.</li> <li>3. Inspection records are not maintained within PMI systems.</li> <li>4. A number of weaknesses were identified in the use of the Corporate Property Handbook for reporting faults; however, this is being phased out.</li> </ol>  |   |               |   |              |
| <b>Actions</b>                       | <b>High</b>   | 0 | <b>Medium</b> | 0                                       | <b>Low</b> 1 |
| <b>High Priority Actions</b>         | <b>Management Comment</b>   |   |               | <b>Responsible Officer and Due Date</b> |              |
| There were no high priority actions. |   |   |               |   |              |

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## **NORTH AYRSHIRE COUNCIL**

### **Agenda Item 7**

**22 August 2016**

#### **Audit Committee**

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|                        |   |
|------------------------|---|
| <b>Title:</b>          | <b>Corporate Fraud Reports issued</b>   |
| <b>Purpose:</b>        | To inform the Committee of the findings of Corporate Fraud investigations completed between 1 May and 31 July 2016.   |
| <b>Recommendation:</b> | That the Committee (a) considers the outcomes from the Corporate Fraud work carried out; and (b) challenges services where there are significant weaknesses in internal controls. |

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#### **1. Executive Summary**

- 1.1 The Council's local Code of Corporate Governance requires effective arrangements to be put in place for the objective review of risk management and internal control. The Corporate Fraud team is an important element in this framework as it investigates allegations of fraud and error within the Council as well as exploring associated control weaknesses and provides Elected Members and officers with an objective and independent appraisal of each allegation.
- 1.2 The remit of the Audit Committee includes the monitoring of Corporate Fraud activity. The submission and consideration of regular reports assists the Committee in fulfilling this remit.
- 1.3 Section 50 (A) 4 of the Local Government (Scotland) Act 1973 allows reports, in certain circumstances, to be exempted from public inspection, on the grounds indicated in terms of Paragraph 1 of Part 1 of Schedule 7A of the Act.
- 1.4 This report has been exempted on the grounds that the Corporate Fraud investigations deal with current or former employees of the Council who could be identified if the investigation reports were made public.

## **2. Background**

- 2.1 This report provides information on one Corporate Fraud investigation finalised between 1 May and 31 July 2016, in respect of an allegation relating to employees at one of the Council's Household Waste Recycling Centres. The aim of the review was to investigate the allegations and make recommendations for action, both in relation to the specific allegations and any associated control weaknesses.
- 2.2 The findings from the investigation have been notified in writing to the Chief Executive, the Executive Director (Finance and Corporate Support) and the Executive Director (Place) and service managers. This included an action plan detailing recommendations for action. Appendix 1 includes the executive summary and action plan from the investigation report.

## **3. Proposals**

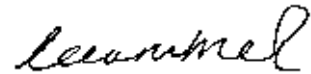
- 3.1 It is proposed that the Committee (a) considers the outcomes from the Corporate Fraud work carried out during the period; and (b) challenges services where there are significant weaknesses in internal controls.

## **4. Implications**

|  |   |
|--|---|
| <b>Financial:</b>                          | None.   |
| <b>Human Resources:</b>                    | None.   |
| <b>Legal:</b>                              | None.   |
| <b>Equality:</b>                           | None.   |
| <b>Environmental &amp; Sustainability:</b> | None.   |
| <b>Key Priorities:</b>                     | The work of the Corporate Fraud team helps to support the efficient delivery of the strategic priorities within the Council Plan 2015-2020. |
| <b>Community Benefits:</b>                 | None.   |

## **5. Consultation**

- 5.1 The relevant services are consulted on Corporate Fraud findings during each investigation.



LAURA FRIEL  
Executive Director (Finance and Corporate Support)

### **Reference :**

For further information please contact Paul Doak, Senior Manager (Internal Audit, Risk and Fraud) on 01294-324561.

### **Background Papers**

None.





## **EXECUTIVE SUMMARY**

### **ALLEGATIONS AGAINST HOUSEHOLD WASTE AND RECYCLING OPERATIVES**

#### **Background**

An anonymous complaint was received through North Ayrshire Council's Customer Contact Centre, alleging that operatives at a named Household Waste and Recycling Centre (HWRC) were charging members of the public to use the site. Further to this members of staff had raised concerns over possible aluminium sorting being carried out by operatives and to the type of waste being discharged on site.

The Corporate Fraud Team carried out an investigation to establish if there was any truth in the allegations.

#### **Key Objectives**

The key objectives of the investigation were to establish if:

- there was any evidence of operatives charging members of the public to use the site;
- there was any evidence of operatives being involved in aluminium sorting;
- commercial waste or large household clearances were being discharged on site;
- operatives were enforcing the household waste permit scheme on site;
- the monitoring and control of the household waste permit scheme at source was robust.

#### **Key Findings and Actions**

All the recommended actions arising from this investigation are detailed in the action plan which follows this Executive Summary. The key findings are as follows:

- no evidence was found of operatives charging members of the public to use the site;
- no evidence was found of operatives being involved in aluminium sorting;
- loads of waste not appropriate to the HWRC were observed being discharged on site;
- operatives were found not to be enforcing the household waste permit scheme on site;
- Health and Safety concerns were identified as members of the public were found to be using the site incorrectly;
- members of the public were observed removing items from the site;
- the household waste permit scheme was not being adequately monitored and controlled at source.

#### **Conclusion**

A full investigation of the allegations was carried out, including an examination of a two week period of CCTV footage from the site in question. There was no evidence available of operatives charging members of the public to use the site or of aluminium sorting; however operatives were found not to be enforcing the household waste permit scheme on site. Vehicles discharging potential loads of commercial waste and large household clearances were observed at the HWRC posing a potential breach of the waste management licence and a reputational risk to the Council.

Investigators identified a number of control weaknesses in terms of the monitoring and reconciliation of the household waste permits issued.

The implementation of the recommendations contained in the action plan attached to this report will improve the internal controls of the household waste permit scheme and will minimise any potential breach of the waste management licence on site.

## ACTION PLAN

### ALLEGATIONS AGAINST HOUSEHOLD WASTE AND RECYCLING OPERATIVES

|                            |  |
|----------------------------|--|
| <b>Action</b>              | a  |
| <b>Action Description</b>  | <p>A mandate should be signed by operatives to affirm their knowledge of the following:</p> <ul style="list-style-type: none"> <li>the HWRC exit barrier must remain closed at all times, unless under permitted circumstances;</li> <li>the household waste permit scheme and the need for its enforcement at the HWRC;</li> <li>that commercial waste and large household clearances cannot be disposed of at the HWRC.</li> </ul> |
| <b>Risk</b>                | Breach of the Council's household waste permit scheme; potential breach of the waste management licence; reputational risk to the Council; lack of accountability.   |
| <b>Priority (1, 2, 3)</b>  | 2  |
| <b>Paragraph Reference</b> | 3.27-3.31, 3.44-3.45, 3.47, 3.49   |
| <b>Assigned to</b>         | Senior Manager Waste Resources (Operations);<br>Landfill, Transfer Station & HWRC Supervisor   |
| <b>Due Date</b>            | 31 August 2016   |
| <b>Management Response</b> | A tool box talk will be developed to cover the issues raised in relation to managing the entry and exit barriers, a reminder of the permit scheme process and rules surrounding the site licence for disposal of materials. A mandate will be developed as suggested for site attendants to sign to confirm they have understood the toolbox talk and affirmed it to their knowledge.  |

|                            |   |
|----------------------------|---|
| <b>Action</b>              | b   |
| <b>Action Description</b>  | The HWRC exit barrier must remain closed and the line manager should carry out regular checks to ensure this is the case.   |
| <b>Risk</b>                | Lack of control; lack of accountability.  |
| <b>Priority (1, 2, 3)</b>  | 1   |
| <b>Paragraph Reference</b> | 3.27-3.28   |
| <b>Assigned to</b>         | Senior Manager Waste Resources (Operations);<br>Landfill, Transfer Station & HWRC Supervisor  |
| <b>Due Date</b>            | Complete  |
| <b>Management Response</b> | An HWRC foreman now exists within the Waste Resources structure and an employee was appointed to that post in January 2016. Regular supervision is now in place to ensure the exit barrier remains closed. The service has introduced a recording system to allow the foreman to record any instances when the barrier has not been closed together with the reasons. |

|                            |  |
|----------------------------|--|
| <b>Action</b>              | c  |
| <b>Action Description</b>  | Operatives should increase their monitoring of the HWRC by: <ul style="list-style-type: none"> <li>• making a thorough check of items discharged by members of the public at the site;</li> <li>• ensuring that members of the public do not breach the site Health and Safety procedures;</li> <li>• not allowing members of the public to remove items of unknown origin from the site.</li> </ul> |
| <b>Risk</b>                | Reduced recycle performance; potential breach of site Health and Safety procedures; reputational risk to the Council; potential risk of loss to the Council; increased likelihood of theft; potential risk to members of the public by removing items of unknown origin from the site.   |
| <b>Priority (1, 2, 3)</b>  | 2  |
| <b>Paragraph Reference</b> | 3.32, 3.34-3.40  |
| <b>Assigned to</b>         | Senior Manager Waste Resources (Operations) & Landfill, Transfer Station & HWRC Supervisor   |
| <b>Due Date</b>            | 31 August 2016   |
| <b>Management Response</b> | A toolbox talk will be developed to reiterate the responsibilities of the operatives to monitor members of the public to ensure they do not put themselves at risk. A reporting protocol to record such H&S breaches will be introduced using current H&S incident reporting procedures. Regular supervision is now in place.  |

|                            |  |
|----------------------------|--|
| <b>Action</b>              | d  |
| <b>Action Description</b>  | A regular collection of perforated tickets, expired permits and emergency permits should be made from the HWRC by the site foreman for submission to Business Support. |
| <b>Risk</b>                | Poor reconciliation controls; lack of audit trail; lack of accountability.   |
| <b>Priority (1, 2, 3)</b>  | 2  |
| <b>Paragraph Reference</b> | 3.53   |
| <b>Assigned to</b>         | Senior Manager Waste Resources (Operations) & Operational Manager Business Support   |
| <b>Due Date</b>            | Complete   |
| <b>Management Response</b> | A collection of perforated tickets already takes place and is part of the duties of the HWRC foreman these are returned to Montgomerie House.                          |

|                            |   |
|----------------------------|---|
| <b>Action</b>              | e   |
| <b>Action Description</b>  | A combined electronic record of all household waste permits issued should be recorded by Business Support.  |
| <b>Risk</b>                | Risk of misuse of emergency permits; poor reconciliation controls; incomplete records; lack of audit trail.   |
| <b>Priority (1, 2, 3)</b>  | 2   |
| <b>Paragraph Reference</b> | 3.56  |
| <b>Assigned to</b>         | Senior Manager Waste Resources (Operations) & Operational Manager Business Support  |
| <b>Due Date</b>            | 31 March 2017   |
| <b>Management Response</b> | The service has identified projects within the service plan to review business processes using six sigma methodologies. The tip permit process is one of those processes that will undertake a review. This review will include record keeping. |

|                            |   |
|----------------------------|---|
| <b>Action</b>              | f   |
| <b>Action Description</b>  | The return of perforated tickets from three day hire and annual permits should be recorded against the record of permits issued held by Business Support.   |
| <b>Risk</b>                | Poor reconciliation controls; incomplete records; lack of audit trail.  |
| <b>Priority (1, 2, 3)</b>  | 2   |
| <b>Paragraph Reference</b> | 3.57  |
| <b>Assigned to</b>         | Senior Manager Waste Resources (Operations) & Operational Manager Business Support  |
| <b>Due Date</b>            | 31 March 2017   |
| <b>Management Response</b> | The service has identified projects within the service plan to review business processes using six sigma methodologies. The tip permit process is one of those processes that will undertake a review. This review will include record keeping. |

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| <b>Action</b>              | g  |
| <b>Action Description</b>  | Use of the Automatic Number Plate Recognition (ANPR) system should be made to carry out spot checks, to ensure that vehicles entering the HWRC have an appropriate permit and that the number of permitted visits is not exceeded. |
| <b>Risk</b>                | Lack of reconciliation controls.   |
| <b>Priority (1, 2, 3)</b>  | 2  |
| <b>Paragraph Reference</b> | 3.58-3.59  |
| <b>Assigned to</b>         | Senior Manager Waste Resources (Strategy) & Technical Officer (Waste Resources)  |
| <b>Due Date</b>            | 30 August 2016   |
| <b>Management Response</b> | A process will be developed to introduce spot checks on the information available from the ANPR system.  |

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| <b>Action</b>              | h  |
| <b>Action Description</b>  | Waste Resources should consider disciplinary proceedings in light of the breaches of procedures and regulations identified by this report. |
| <b>Risk</b>                | No deterrent to other employees; reputational risk to the Council; potential breach of the waste management licence.                       |
| <b>Priority (1, 2, 3)</b>  | 1  |
| <b>Paragraph Reference</b> | 3.27-3.29, 3.31, 3.44-3.45, 3.47, 3.49   |
| <b>Assigned to</b>         | Senior Manager Waste Resources (Operations)  |
| <b>Due Date</b>            | Complete   |
| <b>Management Response</b> | The officer with previous management responsibility for the HWRC sites has since retired from the service of the Council.                  |

### Priority Key used in Action Plan

|                   |   |
|-------------------|---|
| <b>1 (High)</b>   | Control weakness requiring prompt attention.  |
| <b>2 (Medium)</b> | Control weakness which needs to be rectified, but where there is no material impact on the achievement of the control objectives. |
| <b>3 (Low)</b>    | Minor weakness  |