Inverclyde council

Report To:	**Audit Committee**	**Date**:	**6 June 2017**
Report By:	**Corporate Director Environment, Regeneration & Resources**	**Report No:**	**AC/15/16/SA/APr**
Contact Officer:	**Andi Priestman**	**Contact No**:	**01475 712251**
Subject:	**National Fraud Initiative 2016-2017 - Progress Report**		

1.0 PURPOSE

1.1 The purpose of this report is to update Members on the progress for the National Fraud Initiative 2016-2017 exercise.

2.0 SUMMARY

2.1 The National Fraud Initiative (NFI) is now well established with this being the 6th biennial exercise since 2006. The NFI enables public bodies to take advantage of computer data matching techniques to detect fraud and error.

2.2 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.

2.3 In terms of the 2016-2017 exercise, the following progress can be reported:-
- Data sets were submitted in accordance with the prescribed timescale.
- 2454 new matches were released to the Council by the end of February 2017. The Corporate Fraud team has carried out training and awareness sessions for Services involved in the investigation of data matches.
- Investigations are now underway within Services and oversight is being provided by Internal Audit. To date, 714 matches have been closed and 11 are currently in progress. There were 40 matches where errors have been identified and fraud has been reported in 2 cases, totalling £7833.
- AppCheck is now being used by Safer Communities to verify the validity of taxi licence applications. Any matches which require investigation are passed to the Corporate Fraud team.
- The Internal Audit Annual Audit Plan for 2017-2018 will target specific areas where data matches are high including Council Tax Discounts and Exemptions, Duplicate Creditor Payments and Payroll to Creditor matches.
- An updated Self Appraisal checklist on progress with the National Fraud Initiative is attached at Appendix 1.   Appendix 1

3.0 RECOMMENDATIONS

3.1 It is recommended that Members note the progress made in the NFI 2016-2017 exercise.

Scott Allan
Corporate Director Environment, Regeneration & Resources

4.0 BACKGROUND

4.1 The NFI in Scotland is now well established with this being the 6th 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.

4.2 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.

4.3 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.

4.4 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.

5.0 CURRENT STATUS

5.1 In terms of the 2016-2017 exercise, the following progress can be reported:-
- Data sets were submitted in accordance with the prescribed timescale.
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- Investigations are now underway within Services and oversight is being provided by Internal Audit. To date, 714 matches have been closed and 11 are currently in progress. There were 40 matches where errors have been identified and fraud has been reported in 2 cases, totalling £7833.
- AppCheck is now being used by Safer Communities to verify the validity taxi licence applications. Any matches which require investigation are passed to the Corporate Fraud team.
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Appendix 1

6.0 IMPLICATIONS

6.1 Finance

There are no direct financial implications arising from this report.

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments

6.2 Legal

There are no direct legal implications arising from this report.

6.3 Human Resources

There are no direct HR implications arising from this report.

6.4 Equalities

There are no direct equalities implications arising from this report.

6.5 Repopulation

There are no direct repopulation implications arising from this report.

7.0 CONSULTATIONS

7.1 Relevant Officers were asked to provide updates to the report as appropriate.

8.0 LIST OF BACKGROUND PAPERS

8.1 Audit Committee Report AC/15/16/GM/APr
Audit Scotland National Report: The National Fraud Initiative in Scotland – June 2016

Part A			
for those charged with Governance	**Yes/No/ Partly**	**Is action Required?**	**Who and By When**
Leadership Commitment and Communication			
1 Are we committed to NFI? Has the council/board, audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff?	Yes	Further work will be carried out in this area as the responsibility for NFI now lies within Internal Audit. Internal Audit will review all aspects of NFI for the coming 2016/17 exercise. A report will be presented to the Audit Committee outlining how the Council plans to engage with the 2016/2017 exercise.	Chief Internal Auditor Complete
2 Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error ?	Yes	Internal Audit has recently taken over responsibility for NFI. The anti-fraud and corruption policy is currently being reviewed and will be updated to reflect our approach to NFI.	Chief Internal Auditor Complete
3 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?	Partly	Further work will be carried out in this area as part of the Corporate Fraud work undertaken within Services to consider whether this facility will assist the Council in improving its approach to risk management within key services.	Chief Internal Auditor Complete
4 Are the NFI progress and outcomes reported regularly to senior management and elected/board members (eg, the audit committee or equivalent)?	Yes	Regular reports are provided to Committee on NFI progress and outcomes. Internal Audit will continued to provide regular progress reports including outcomes to Audit Committee.	Chief Internal Auditor Ongoing
5 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?	Partly	In the past, specific exercises have been carried out by Council Tax team using Experian to perform data matches on Single Person Discounts. The Council Tax team is currently in the process of evaluating costs v outcomes of using Experian, Call Credit or similar companies to determine whether a further exercise will be conducted. The Council fully complies with the NFI matching to the electoral register to try and identify properties where the single person discount is erroneously in place. The Council's Corporate Fraud Team supports this work by carrying out activities such as house visits. The exercise is ongoing and the matches will be updated onto the website once the enquiries are complete.	Revenues and Customer Services Manager Ongoing
6 Does internal audit, or equivalent, monitor our approach to NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?	Partly	Internal Audit has recently taken over responsibility for NFI. Recommendations will be made to management where control weaknesses are identified in order to reduce the risk of recurrence of the error in the future.	Chief Internal Auditor Ongoing
7 Do we review how frauds and errors arose and use this information to improve our internal controls?	Partly	Internal Audit has recently taken over responsibility for NFI. Recommendations will be made to management where control weaknesses are identified in order to reduce the risk of recurrence of the error in the future.	Chief Internal Auditor Ongoing
8 Do we publish, as a deterrent, internally and externally the achievements of our fraud investigators (eg, successful prosecutions)?	Partly	For earlier exercises, results are published on the Council's website. Internal Audit has recently taken over responsibility for NFI and a review of how we publish this information will be carried out as part of the review of the anti-fraud and corruption policy.	Chief Internal Auditor Complete

Planning and Preparation

1 Are we investing sufficient resources in the NFI exercise?	Yes	Internal Audit has recently taken over responsibility for NFI. The Annual Audit Plan for 2017-2018 includes an allocation of days for Internal Audit staff to co-ordinate with and support services in the NFI exercise and to undertake specific corporate fraud reviews eg Council Tax Reduction Scheme; Creditors - Duplicate Payments; Employee Conflict of Interest. Progress reports will be provided to Audit Committee on a regular basis.	Chief Internal Auditor 31 March 2018
2 Do we plan properly for NFI exercises, both before submitting data and prior to matches becoming available? This includes considering the quality of data.	Yes	Quality checks on data are carried out regularly to ensure quality of data. A review of all services has been conducted and data quality reports have been discussed with each service.	Corporate Fraud Team Complete for 2016-2017 exercise
3 Is our NFI Key Contact (KC) the appropriate officer for that role and do they oversee the exercise properly?	Yes	Internal Audit have recently taken over this responsibility. A full review of all users and protocols has been carried out and regular meetings with Service representatives have been held.	Chief Internal Auditor Complete
4 Do KCs have the time to devote to the exercise and sufficient authority to seek action across the organisation?	Yes	The NFI work is included within the Internal Audit Annual Audit Plan. Progress reports are submitted to Audit Committee on a regular basis.	Chief Internal Auditor Ongoing
5 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?	Yes	This is recognised in terms of the matches received. Resources for the Internal Audit workplan are reviewed in light of the matches received and the level of outcomes for earlier exercises.	Chief Internal Auditor Ongoing
6 Do we confirm promptly (using the online facility on the secure website) that we have met the fair processing notice requirements?	Yes	This exercise was carried out in July and August and confirmed using the online facility in September 2016.	Chief Internal Auditor Complete
7 Do we plan to provide all NFI data on time using the secure data file upload facility properly?	Yes	Internal Audit has recently taken over the co-ordination of the NFI exercise and a timetable is in place to meet timescales for data upload.	Chief Internal Auditor Complete
8 Do we adequately consider the submission of any 'risk-based' data sets in conjunction with our auditors?	Partly	Internal Audit attends the Scottish Local Authorities Investigators Group. Audit Scotland attended a meeting in September 2016 to discuss potential risk areas which will be co-ordinated via the SLAIG Chair. We will also liaise with Services to consider further potential risk areas to discuss with our local auditors.	Corporate Fraud Team Complete
9 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?	Yes	Further work will be carried out in this area as part of the Corporate Fraud work undertaken within Services to consider whether this facility will assist the Council in improving its approach to risk management within key services.	Chief Internal Auditor Complete

Effective Follow up Matches

10 Do all departments involved in NFI start the follow-up of matches promptly after they become available?	Yes	A full review of protocols for all services has been carried out by Internal Audit to ensure compliance. This will be monitored regularly by the Corporate Fraud team.	Corporate Fraud Team Ongoing
11 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?	Yes	A full review of protocols for all services has been carried out by Internal Audit to ensure compliance. This will be monitored regularly by the Corporate Fraud team. Training will continue to be provided to Services in terms of how to prioritise the matches highlighted in the reports.	Corporate Fraud Team Ongoing
12 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?	Yes	Training has been provided to Services in terms of the reports provided and the types of matches that require to be investigated. Internal Audit will work with Services to ensure that matches are prioritised in terms of higher risk and work with Services to review control procedures for improvements going forward.	Corporate Fraud Team Complete

13 Are we investigating the circumstances of matches adequately before reaching a 'no issue' outcome, in particular?	Yes	A full review by Internal Audit has been conducted to ensure all services are investigating adequately. This will continue to be monitored by Internal Audit.	Corporate Fraud Team Ongoing
14 (In health bodies) are we drawing appropriately on the help and expertise available from NHS Scotland Counter-Fraud Services?	n/a	n/a	
15 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?	Yes	Internal Audit has recently taken over responsibility for NFI. The anti-fraud and corruption policy is currently being reviewed and will be updated to reflect our approach to NFI.	Chief Internal Auditor Complete
16 Do we avoid deploying excessive resources on match reports where early work (eg, on recommended matches) has not found any fraud or error?	Yes	Reviews of results undertaken and resources based on the outcomes achieved will be deployed to other recommended or high risk matches. Internal Audit will review all services to ensure compliance and monitor on an ongoing basis.	Corporate Fraud Team Ongoing
17 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?	Yes	Internal Audit have recently taken over responsibility for NFI and have reviewed each service to ensure they consider the "All Matches" report. This will be monitored on an ongoing basis.	Corporate Fraud Team Ongoing
18 Overall, are we deploying appropriate resources on managing the NFI exercise?	Yes	Internal Audit has recently taken over responsibility for NFI. The Annual Audit Plan for 2017-2018 includes an allocation days for Internal Audit staff to co-ordinate with and support services in the NFI exercise and to undertake specific corporate fraud reviews eg Council Tax Reduction Scheme; Creditors - Duplicate Payments; Employee Conflict of Interest. Progress reports will be provided to Audit Committee on a regular basis.	Chief Internal Auditor Ongoing
Recording and Reporting			
19 Are we recording outcomes properly in the secure website and keeping it up to date?	Yes	Internal Audit have recently taken over responsibility for NFI and have carried out a full review of this area to ensure compliance. This will be monitored on an ongoing basis.	Corporate Fraud Team Ongoing
20 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)?	Yes	Officers have found the online training helpful and if required they have been informed to consult with Internal Audit for further training/assistance. Internal Audit have also raised awareness of the online training modules with all services. When data matches are released in January, further training and support will be provided to Services.	Corporate Fraud Team Complete
21 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?	n/a	All outcomes are reported on the secure website. This is monitored on an ongoing basis by Internal Audit.	Corporate Fraud Team Ongoing