

A meeting of the Audit Committee will held on Tuesday 21 August 2018 at 3pm within the Municipal Buildings, Greenock.

GERARD MALONE
Head of Legal & Property Services

BUSINESS

1. Apologies, Substitutions and Declarations of Interest	Page
PERFORMANCE MANAGEMENT	
2. Interim Audit Letter – Review of Internal Controls and Financial Systems 2017/18 Report by Chief Financial Officer	p
3. Internal Audit Progress Report – 30 March to 27 July 2018 Report by Corporate Director Environment, Regeneration & Resources	p
4. Internal Audit Annual Report and Assurance Statement 2017/18 Report by Corporate Director Environment, Regeneration & Resources	p
5. Annual Review of Risk Management Activity 2017/18 Report by Corporate Director Environment, Regeneration & Resources	p
NEW BUSINESS	
6. Audit Scotland National Report: The National Fraud Initiative in Scotland – July 2018 Report by Corporate Director Environment, Regeneration & Resources	p
The documentation relative to the following item has been treated as exempt information in terms of the Local Government (Scotland) Act 1973 as amended, the nature of the exempt information being that set out in paragraph 6 of Part I of Schedule 7(A) of the Act.	
7. Appendix relative to Item 3 providing information on a special investigation undertaken since the last meeting of the Committee	p

Enquiries to – Diane Sweeney – Tel 01475 712147

Report To:	The Audit Committee	Date:	21 August 2018
Report By:	The Chief Financial Officer	Report No:	FIN/74/18/AP
Contact Officer:	Alan Puckrin	Contact No:	01475 712223
Subject:	Interim Audit Letter – Review of Internal Controls and Financial Systems 2017/18		

1.0 PURPOSE

- 1.1 The purpose of this report is to bring to Committees attention a letter received from Audit Scotland regarding a review of the internal controls and financial systems 2017/18.

2.0 SUMMARY

- 2.1 Each year the Councils External Auditors will issue an interim letter in respect of work carried out to date. Appendix 1 is the letter received from Audit Scotland dated 5 July 2018. **APPENDIX 1**
- 2.2 The letter covers the scope of the work carried out, any key findings and other updates in respect of the National Fraud Initiative and the Best Value Assurance report.
- 2.3 The interim letter identifies one issue in relation to the authorisation of control account reconciliations and actions have been taken within the Finance Service to remind employees of the need to ensure that reconciliations are authorised by both the preparer of the reconciliation and the authorising officer.
- 2.4 A representative of Audit Scotland will be present at Committee to answer any questions which Members may have on the contents of the letter.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Committee note the contents of the interim letter received from Audit Scotland and the matters arising.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

4.1 Audit Scotland are required to assess the systems of internal controls put in place by management. Each year the Councils External Auditors will issue an interim letter in respect of work carried out to date. Appendix 1 is the letter received from Audit Scotland dated 5 July 2018.

5.0 INTERIM LETTER

5.1 The overall conclusion of the letter is that the Council has appropriate and effective internal controls in place for the systems reviewed.

5.2 The interim letter identifies one issue in relation to the authorisation of control account reconciliations and actions have been taken within the Finance Service to remind employees of the need to ensure that reconciliations are authorised by both the preparer of the reconciliation and the authorising officer.

5.3 The letter also provides a positive assessment of the Council's involvement in the National Fraud Initiative (NFI). A separate report on the agenda highlights the main findings of the national NFI exercise.

5.4 The letter also provides an update in respect of follow up work relating to the Best Value Assurance Report and advises that these matters will be picked up in the Annual Audit Report which will be presented to the Inverclyde Council meeting on the 27 September 2018.

6.0 IMPLICATIONS

6.1 Finance

There are no financial implications arising from this report.

Financial Implications:

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From (If Applicable)	Other Comments
N/A					

6.2 Legal

There are no specific legal implications arising from this report.

6.3 Human Resources

There are no HR implications arising from this report.

6.4 Equalities

Has an Equality Impact Assessment been carried out?

Yes See attached appendix

No

This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy. Therefore, no Equality Impact Assessment is required.

6.5 Repopulation

There are no repopulation implications arising from this report.

7.0 CONSULTATIONS

7.1 The letter has been discussed with the three Finance Managers and an email has been issued to remind employees of the need to ensure that reconciliations are authorised appropriately.

8.0 LIST OF BACKGROUND PAPERS

8.1 None

Mr Alan Puckrin
Chief Financial Officer
Inverclyde Council
Municipal Buildings
Clyde Square
Greenock
PA15 1LY

12 July 2018

Dear Mr Puckrin

Inverclyde Council - Review of internal controls in financial systems 2017/18

1. Audit Scotland's Code of Audit Practice requires us to assess the systems of internal control put in place by management. In carrying out this work, we seek to gain assurance that Inverclyde Council:
 - has systems for recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests;
 - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption; and
 - complies with established policies, procedures, laws and regulation.

Overall conclusion

2. On the basis of audit work undertaken, we concluded that appropriate and effective internal controls were in place for those key financial systems reviewed by us.

System coverage

3. The following table summarises the key systems that we have tested in our interim audit for financial year 2017/18.

Key system	Audit coverage
Payroll	✓
General ledger	✓
Trade payables	✓
Trade receivables	✓
Cash and banking	✓
Capital accounting	✓
Council tax income and collection	✓
Non domestic rates collection	✓
Treasury management	✓

Key findings

- Overall we found the key controls in place within the Council's main financial systems operate satisfactorily. We identified one control weaknesses as summarised in Exhibit 1.
- Where possible we place reliance on the work of internal audit to avoid duplication of effort. This year we were able to place reliance on work done on council tax billing. We continue to consider other areas of internal audit work in relation to our wider code responsibilities as set out in our annual audit plan 2017/18.

Exhibit 1

Recommendations for improvement

Issue / risk	Recommendation	Additional audit procedures	Management response, responsible officer and target date
1. Key control reconciliations	Testing identified instances where control account reconciliations had not been adequately signed off by the preparer or confirmed as authorised. A failure to properly document and/or authorise reconciliations increases the risk of error in the system.	We have confirmed that this weakness did not lead to any errors or irregularities remaining undetected or uncorrected. We do not intend to revise our planned audit procedures.	The Finance Manager will formally remind all those involved in the preparation and approval of reconciliations that signatures are required in all cases. Finance Manager, July 2018

Source: *Testing of internal controls*

National Fraud Initiative

- The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. Recommended matches should be investigated by participating public bodies.
- At the date of our final submission for the 2016/17 exercise (covering the period to January 2018), Inverclyde Council had followed up all 520 recommended matches and had completed 2,755 investigations (76% of total matches). A total of 51 investigations were ongoing. Through this work, four frauds and 61 errors had been identified, with total overpayments of £51,971.
- We submitted an auditor questionnaire in February 2018. This showed that the Council has made good progress in its engagement, with 11 of 12 areas assessed as satisfactory and one as mostly adequate. The Council's intention is to follow up all matches identified and we will provide an update on this work in our Annual Audit Report which will be issued in September 2018.

Exhibit 2

National Fraud Initiative

Total number of matches



3,608

Number recommended for investigation



520

Completed/closed investigations



2,755

Source: NFI web application (January 2018)

Best Value Assurance Report - progress against actions

9. In response to the Accounts Commission's Best Value Assurance Report (BVAR) in June 2017, Inverclyde Council prepared a BVAR improvement plan. The latest progress report on this plan was presented to the Council's Policy and Resources Committee in February 2018. This recorded that of the ten improvement actions nine were on-track and one, relating to undertaking a full-review of earmarked reserves, had been completed. We will review and report on this assessment of progress in our Annual Audit Report.
10. As part of our audit work in the current year we have undertaken detailed reviews of the Council's progress in corporate workforce planning and development, as well as succession planning. We have also continued to review the Council's financial management arrangements. The results of this work will also be reported in our Annual Audit Report.

Risk identification

11. The issues identified in preparing this management letter are only those which have come to our attention during the course of our normal work and are not necessarily, therefore, all the risk areas that may exist. It remains the responsibility of management to determine the extent of the internal control system appropriate to Inverclyde Council. We would stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.

Acknowledgement

12. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit from officers is gratefully acknowledged.

Yours sincerely



Brian Howarth
Assistant Director
cc (email)

Report To: Audit Committee **Date:** 21.08.18

Report By: Corporate Director Environment Regeneration and Resources **Report No:** AC/23/18/SA/APr

Contact Officer: Andi Priestman **Contact No:** 01475 712251

Subject: INTERNAL AUDIT PROGRESS REPORT – 30 MARCH TO 27 JULY 2018

1.0 PURPOSE

- 1.1 The purpose of this report is to enable members to monitor the performance of Internal Audit, to discharge their scrutiny and performance monitoring roles and gain an overview of the overall control environment throughout the Council.
- 1.2 The Monitoring Report from 30 March to 27 July 2018 is attached as an Appendix to this report since its content is essential to the understanding of the Council's control environment. **Appendix 1**

2.0 SUMMARY

- 2.1 There were 3 internal audit reports finalised since the last Audit Committee meeting in April 2018:
- Customer Services
 - HSCP Commissioning Arrangements
 - Inverclyde Leisure Trust – Performance Management Arrangements

- 2.2 These reports contained 7 issues categorised as follows:

Red	Amber	Green
0	2	5

- 2.3 The fieldwork for the 2017/18 plan is now complete and the current status of the plan is as follows:

Stage	Number of Reports
Final Report	14
Draft Report	2
Fieldwork Complete	1
Fieldwork in Progress	0
Planning	0
Not started	0
Total	17

- 2.4 In relation to Internal Audit follow up, there was one item due for completion by 30 June 2018 and action in relation to this item has been revised. The current status report is attached at Appendix 2. **Appendix 2**
- 2.5 The CMT has reviewed and agreed the current status of actions.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that Members agree to note the progress made by Internal Audit in the period from 30 March to 27 July 2018.

Scott Allan
Corporate Director Environment, Regeneration and Resources

4.0 BACKGROUND

- 4.1 In June 2017, the Audit Committee approved the current Internal Audit Annual Plan which detailed a programme of activity to be undertaken during 2017-18.
- 4.2 Internal Audit regularly reports findings and action plans to relevant Council Officers and the Audit Committee as part of the annual audit plan. A follow up process is in place to allow follow up of current internal audit actions to be co-ordinated and updated by Internal Audit on a monthly basis with regular reporting to CMT and the Audit Committee.

5.0 CURRENT POSITION

- 5.1 There have been 3 internal audit reports finalised since the last Audit Committee meeting in April 2018:
- Customer Services
 - HSCP Commissioning Arrangements
 - Inverclyde Leisure Trust – Performance Management Arrangements
- 5.2 The fieldwork for the 2017/18 plan is now complete and the current status of the plan is as follows:

Stage	Number of Reports
Final Report	14
Draft Report	2
Fieldwork Complete	1
Fieldwork in Progress	0
Planning	0
Not started	0
Total	17

- 5.3 There are 6 current action points being progressed by officers. There was one action point due for completion by 30 June 2018 and action in relation to this item has been revised.
- 5.4 The CMT has reviewed and agreed the current status of actions.

6.0 IMPLICATIONS

Finance

- 6.1 There are no direct financial implications arising from this report.

Financial Implications:

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
N/A					

Legal

6.2 There are no direct legal implications arising from this report.

Human Resources

6.3 There are no direct HR implications arising from this report.

Equalities

6.4 There are no direct equalities implications arising from this report.

Repopulation

6.5 There are no direct repopulation implications arising from this report.

7.0 CONSULTATIONS

7.1 Relevant officers have been consulted in the preparation of this report.

8.0 LIST OF BACKGROUND PAPERS

8.1 File of completed internal audit reports: Available from Andi Priestman, Chief Internal Auditor.



**Audit Committee Report
Report on Internal Audit Activity from
30 March to 27 July 2018**

INVERCLYDE COUNCIL – REPORT ON INTERNAL AUDIT ACTIVITY

FROM 30 MARCH TO 27 JULY 2018

Section	Contents	Page
1	Audit work undertaken in the period	1
2	Summary of main findings from reports issued since previous Audit Committee	2-4
3	Audit Plan for 2018-2019 – progress to 27 July 2018	5
3	Audit Plan for 2017-2018 – progress to 27 July 2018	6
4	Corporate Fraud Activity	7-12
5	Ad hoc activities undertaken since the previous Audit Committee	13
6	Special Investigations	14-15

INVERCLYDE COUNCIL – REPORT ON INTERNAL AUDIT ACTIVITY

FROM 30 MARCH TO 27 JULY 2018

1 Audit work undertaken in the period

Reports issued since last update

- 1.1 Detailed findings and recommendations reported to management are currently graded using the following criteria:

Red	<ul style="list-style-type: none">• In our opinion the control environment is insufficient to address the risk and this could impact the Council as a whole.• Corrective action must be taken and should start immediately.• Overseen to completion by Corporate Management Team.
Amber	<ul style="list-style-type: none">• In our opinion there are areas of control weakness which we consider to be individually significant but which are unlikely to affect the Council as a whole.• Corrective action must be taken (some exceptions may be agreed with IA) within reasonable timeframe.• Overseen to completion by Head of Service.
Green	<ul style="list-style-type: none">• In our opinion the risk area is well controlled or our audit highlighted areas for minor control improvement and/or areas of minor control weakness.• Process improvements/efficiencies may be actioned at management discretion in consultation with Internal Audit (IA).• Managed by service owner.

- 1.2 There were 3 audit reports finalised since the April Audit Committee, which are identified below, together with a summary of the gradings of the issues identified. In Section 2 we have provided a summary of the main findings from the review

Reports finalised since previous Audit Committee	Grading			Total Number of Issues
	Red	Amber	Green	
Customer Services	0	0	3	3
HSCP Commissioning Arrangements	0	2	1	3
ILT – Performance Management Arrangements	0	0	1	1
Total	0	2	5	7

Other activities

Risk Management

- 1.3 Risk Management is the subject of separate reporting to Audit Committee and a full report is submitted separately on an annual basis.

Internal Audit Action Plan Follow Up

- 1.4 The current status of Internal Audit Action plans is set out as an attachment at Appendix 2 to this report.

INVERCLYDE COUNCIL – REPORT ON INTERNAL AUDIT ACTIVITY

FROM 30 MARCH TO 27 JULY 2018

2 Summary of main findings from reports issued since previous Audit Committee

- 2.1 We have provided below a summary of the key findings from the final report issued after 27 March 2018.

Customer Services

- 2.2 A wide range of services are provided from the customer service centre. These services vary from providing advice to customers by telephone, online, face-to-face contact, email and letter. In practice Customer Services is the first point of contact for customers even although a proportion of queries relate to other Services. Customer expectations continue to increase as knowledge and availability of digital channels become more common. One of the main aims of the Customer Services Strategy for 2015-18 is to progress the Council's digital access agenda and to use this as a tool for modernising and improving the overall customer experience.
- 2.3 The objective of this audit was to provide management and the Audit Committee with an assessment of the adequacy and effectiveness of the governance, risk management and controls surrounding the key risks in relation to customer services.
- 2.4 We excluded the cash receipting process, the licensing process, Registrars and Customer Services Complaints as these processes will be or have been subject to separate audit reviews.
- 2.5 The overall control environment opinion for this audit review was **Strong**. In terms of good practice, we found that management is committed to delivering a consistent, modern and responsive front line service to its customers.
- 2.6 The review identified 3 GREEN issues and an action plan is in place to address all issues by 30 September 2018.

HSCP Commissioning Arrangements

- 2.7 The Inverclyde Integration Joint Board requires the Health & Social Care Partnership (HSCP) to provide local residents with defined services. Directly employed staff and commissioned services are central to the delivery of those services, with commissioned services costing in the region of £35m per year. Commissioning includes a range of activities such as assessing clients' needs, planning services and procuring those services. It is important to have clear commissioning priorities when implementing the overarching Strategic Plan. In this respect senior HSCP officers have produced a Market Facilitation & Commissioning Plan. The traditional "silo" approach to commissioning HSCP services is no longer compatible with the five strategic commissioning themes. Instead, the aim is to meet clients assessed needs in ways which deliver positive outcomes for them and improves their lives.
- 2.8 The objective of this audit was to provide management and the Audit Committee with an assessment of the adequacy and effectiveness of the governance, risk management and controls surrounding the key risks faced by Inverclyde Council in relation to the HSCP's commissioning arrangements.
- 2.9 We excluded contract management as this subject will be covered as part of future HSCP audits.

INVERCLYDE COUNCIL – REPORT ON INTERNAL AUDIT ACTIVITY

FROM 30 MARCH TO 27 JULY 2018

2 Summary of main findings from reports issued since previous Audit Committee (Continued)

2.10 The overall control environment opinion for this audit review was **Satisfactory**. Two AMBER issues were identified as follows:

Developing themed strategic commissioning of HSCP services

The HSCP uses a mix of internal and external providers to deliver defined services to local clients. The commissioning of services includes assessing clients' overall care needs. Although HSCP services are organised by function, senior officers' commission services using five strategic commissioning themes. Through discussions with staff we understand that when developing themed strategic commissioning there is a need to examine how best to;

- more closely co-ordinate client assessments and themed commissioning arrangements, especially for clients with multiple care needs;
- avoid unintentionally providing clients with more care than their assessed needs require, which can occur when service provision is inadvertently emphasised over trying to achieve positive outcomes for clients;
- place a greater emphasis on a “bottom-up” rather than “top-down” approach to commissioning services which focuses on improving clients lives; and
- develop the financial information which underpins commissioning activities. An effective mechanism for allocating client care costs across Team budgets is required for those clients with complex care needs.

In addition, it is necessary to identify changes to relevant policies and procedures to support themed strategic commissioning.

It will be more difficult to successfully implement a themed approach to strategic commissioning and improve clients' lives without addressing issues which do not support the overall process.

Managing Strategic Commissioning practices

It is important that those HSCP officers who commission and manage services work collaboratively with the Strategic Commissioning Team. We found that there is scope to promote the role of the Strategic Commissioning Team amongst relevant HSCP officers. More specifically, operational officers must be encouraged to always make contact at an early stage whenever they need to change commissioned services and review grants or Service Level Agreements relating to external organisations for commissioned services. Also, relevant HSCP expenditure must be subject to approved commissioning arrangements. Key officers are not entirely certain that this is the case, although this issue is understood to have greatly reduced over the last year.

In addition, the Market Facilitation & Commissioning Plan was approved during March 2018. This plan contains a number of actions and highlights areas which require further development. Whilst we acknowledge that officers have started to implement this plan, there is scope to create a prioritised action plan of key tasks and identify risks to successfully implementing the Plan.

The effectiveness of the HSCP's commissioning arrangements may be reduced without on-going collaboration between the Strategic Commissioning Team and all relevant HSCP officers.

HSCP expenditure which is incurred without involving the Strategic Commissioning Team may lack the support of formal contracts and not fully comply with established commissioning policies and procedures.

INVERCLYDE COUNCIL – REPORT ON INTERNAL AUDIT ACTIVITY

FROM 30 MARCH TO 27 JULY 2018

2 Summary of main findings from reports issued since previous Audit Committee (Continued)

In addition, in the absence of a formally agreed and prioritised action plan it will be more difficult for officers to successfully implement the Market Facilitation & Commissioning Plan. Likewise, resource and capacity issues may not be adequately considered without preparing such an action plan.

- 2.11 The review identified 3 issues, 2 of which we consider to be individually significant, and an action plan is in place to address all issues by 31 March 2019.

Inverclyde Leisure Trust – Performance Management Arrangements

- 2.12 Inverclyde Leisure Trust (ILT) is a registered charity, a community focused non-profit company established in 2001 for the purpose of delivering sport, leisure, health and community activities. ILT works in partnership with Inverclyde Council and aims to provide a quality service for its customers, employees and stakeholders by delivering high quality facilities and services.

Falling levels of income from Inverclyde Council drives the need for growth in income generation and a determination to manage expenditure effectively.

- 2.13 The objective of this audit was to provide management and the Audit Committee with an assessment of the adequacy and effectiveness of the governance, risk management and controls surrounding the key risks in relation to ILT's performance management arrangements.
- 2.14 The review focused on the high level processes and procedures in relation to performance management arrangements and concentrated on identified areas of perceived higher risk, such as ILT not having a documented and approved approach to the management of its performance in accordance with its strategic objectives or that appropriate performance measures are not in place or are not sufficiently comprehensive.

The following areas were not tested for completeness and accuracy as we have placed reliance upon the work of ILT's external auditor:

- Health & Safety Operational audits;
- Quality management audits; and
- Recording and reporting all accidents.

In addition, the audit did not review the completeness and accuracy of the LGBF indicators as these are subject to a separate audit through the Improvement Service.

- 2.15 The overall control environment opinion for this audit review was **Strong**. Areas of good practice were identified as follows:-
- Inverclyde Leisure Trust's senior management team demonstrated a strong overall commitment to effectively managing its performance whilst also responding to a reduction in the management fee received from Inverclyde Council; and
 - The management team consists of experienced and professional staff who showed high levels of knowledge of and commitment to achieving the strategic aims of Inverclyde Leisure Trust.
- 2.16 The review identified 1 GREEN issue and an action plan is in place to address this issue by 31 July 2018.

INVERCLYDE COUNCIL – REPORT ON INTERNAL AUDIT ACTIVITY

FROM 30 MARCH TO 27 JULY 2018

3. Audit Plan for 2018/2019 – Progress to 27 July 2018

Planned Audit Cover	Planning	TOR Issued	Fieldwork in Progress	Fieldwork Complete	Draft Report	Report Finalised	Reported to Audit Committee
Risk-Based Reviews							
General Data Protection Regulation	✓	✓	✓				
Corporate Purchase Cards	✓	✓	✓				
Regularity Audits							
Stock/Inventory Control – Quarterly Checks	✓	N/A	✓				
Corporate Governance							
Annual Governance Statement 2017-2018	Complete - Input provided by CIA.						
Other Work							
National Fraud Initiative	2016/17 Data Matching Exercise Investigations are almost complete - See section 5 for detailed activity						
SPOC Liaison with DWP	Ongoing – see section 5 for detailed activity						
Inverclyde IJB	Proposed plan for 2018/2019 has been drafted for approval in September 2018 – 50 days allocated to IJB audit plan.						

INVERCLYDE COUNCIL – REPORT ON INTERNAL AUDIT ACTIVITY

FROM 30 MARCH TO 27 JULY 2018

4. Audit Plan for 2017/18 – Progress to 27 July 2018

Planned Audit Cover	Planning	TOR Issued	Fieldwork in Progress	Fieldwork Complete	Draft Report	Report Finalised	Reported to Audit Committee
Risk-Based Reviews							
Grants to Voluntary Organisations	✓	✓	✓	✓	✓	✓	January 2018
Older Peoples Services – Billing and Collection	✓	✓	✓	✓	✓	✓	April 2018
Customer Services	✓	✓	✓	✓	✓	✓	August 2018
HSCP Commissioning	✓	✓	✓	✓	✓	✓	August 2018
Limited Scope Finance Reviews							
Revenues - Council Tax Billing	✓	✓	✓	✓	✓	✓	February 2018
Project Assurance Reviews							
SWIFT Financials – Phase 1	✓	✓	✓	✓	✓	✓	October 2017
Corporate Fraud Reviews							
Procurement – Quick Quotes	✓	✓	✓	✓	✓	✓	February 2018
Flexi Time	✓	✓	✓	✓	✓		
Commercial Leases	✓	✓	✓	✓	✓	✓	January 2018
Employee Expenses and Overtime Claims	✓	✓	✓	✓	✓		
Regularity Audits							
Education – Pupil Equity Funding	✓	✓	✓	✓			
Arms Length External Organisations							
Inverclyde Leisure Trust – Performance Management Arrangements	✓	✓	✓	✓	✓	✓	August 2018
Code of Conduct – Other Remunerative Employment/Conflicts of Interest	Review complete – see section 5 for detailed activity						
Council Tax Reduction Scheme	Review complete – see section 5 for detailed activity						
Creditors – Duplicate Payments	Review complete – see section 5 for detailed activity						
Corporate Governance							
Annual Governance Statement 2016-2017	Input provided by CIA.						
Other Work							
National Fraud Initiative	Investigations are almost complete - See section 5 for detailed activity						
SPOC Liaison with DWP	Ongoing – see section 4 for detailed activity						
Inverclyde IJB	2017-2018 Audit Plan is complete.						

INVERCLYDE COUNCIL – REPORT ON INTERNAL AUDIT ACTIVITY

FROM 30 MARCH TO 27 JULY 2018

5 Corporate Fraud Activity

The undernoted table sets out progress to date on corporate fraud activity in the period 30 March to 27 July 2018.

Council Tax Reduction Scheme 30 March to 27 July 2018		
Number of Home Visits	Number of Errors Identified and Corrected	Total Overpayment/Future Savings
113	10	£15,337.37/£8,041.96
Council Tax Reduction Scheme 1/4/17 to 30/3/18		
Number of Home Visits	Number of Errors Identified and Corrected	Total Overpayment/Future Savings
315	31	£44,429/£22,542
In relation to overpayments identified during 2017/2018, £25,200 has been repaid to the relevant accounts at 27/7/18.		
Flexi Time		
Draft report is being prepared for management comment.		
Commercial Leases		
Final report has been issued. Summary of findings was reported to January 2018 Audit Committee.		
Quick Quotes		
Final report has been issued. Summary of findings was reported to April 2018 Audit Committee.		
Code of Conduct – Other Remunerative Employment/Conflicts of Interest		
Relevant cases from the 2016/2017 NFI exercise have now been investigated. Findings have been reported to Corporate Directors and recommendations have been agreed. Summary of findings was reported to January 2018 Audit Committee.		
National Fraud Initiative 2016-2017		
Services have completed review of identified matches and investigations are almost complete. Corporate Fraud team continue to provide oversight and support to Services. The current status of matches are as follows:-		
Total matches reported – 3608 (520 recommended matches)		
Total matches processed to date – 3602 (includes 520 recommended matches)		
In progress – 6		
Fraud – 10		
Error – 63		
Total Outcomes - £61,864.21		

INVERCLYDE COUNCIL – REPORT ON INTERNAL AUDIT ACTIVITY

FROM 30 MARCH TO 27 JULY 2018

4 Corporate Fraud Activity (Continued)

National Fraud Initiative 2016-2017 Re-check – Position at 27/7/18

Over short periods of time, existing customers personal and financial circumstances change, affecting their entitlement to a benefit or service that the Council provides. ReCheck allows the Council to proactively check existing customer records to establish and monitor these changes.

In December 2017, we participated in a re-check exercise through NFI on Single Person Discount information to other datasets (Blue Badge, Housing Benefits, Occupational Pensions, Payroll, Taxi Driver Licence, Personal Alcohol Licence, State Benefits) – report number 803.

Total Matches reported – 786
 Total Matches processed to date – 741
 In Progress – 42
 Frauds – 10
 Error – 1
 Recovering - £15,357.04

Specific NFI cases being reviewed by Corporate Fraud since the last Audit Committee are set out below:

File Ref	Description	Status
17/18 17-91	CTR > Pension	Ongoing investigation
17/18 17-108	CTR > Pension	Closed – no fraud detected.
17/18 17-113	CTR > Pension	Fraud established. Account updated and liable party has now been rebilled.
17/18 17-117	CT SPD > Pension	Fraud established. Passed to Finance for adjudication.
17/18 17-119	CTR > Pension	Fraud established. Account updated and liable party has now been rebilled.
17/18 17-121	CT SPD > Pension	Closed – no fraud detected.
17/18 17-126	CT SPD > Payroll	Ongoing investigation
17/18 17-133	CT SPD > Payroll	Passed to Finance for adjudication.
17/18 17-136	CT SPD > Taxi Drivers	Fraud established. Account updated and liable party has been rebilled.
17/18 17-150	CTR > Taxi Drivers	Referred to DWP.
17/18 17-152	CTR > Taxi Drivers	Referred to DWP.
17/18 17-154	CT SPD > Pension	Fraud established. Account updated and liable party has now been rebilled.
17/18 17-160	CT SPD > Payroll	Fraud established. Account updated and liable party has been rebilled.
17/18 17-161	CTR > Taxi Drivers	Ongoing investigation
17/18 17-162	CTR > Pension	Ongoing investigation
17/18 17-167	CTR > Personal Alcohol Licence	Ongoing investigation

INVERCLYDE COUNCIL – REPORT ON INTERNAL AUDIT ACTIVITY

FROM 30 MARCH TO 27 JULY 2018

4 Corporate Fraud Activity (Continued)

18/19 18-07	CTR > Pension (Recheck report)	Closed – no fraud detected.
18/19 18-09	CT SPD > Pension (Recheck report)	Passed to Finance for adjudication.
18/19 18-11	CT SPD > Pension (Recheck report)	Fraud established. Account updated and liable party has been rebilled.
18/19 18-12	CT SPD > Pension (Recheck report)	Passed to Finance for adjudication.
18/19 18-15	CT SPD > Pension (Recheck report)	Closed – no fraud detected.
18/19 18-17	CT SPD > Pension (Recheck report)	Ongoing investigation.
18/19 18-18	CT SPD > Pension (Recheck report)	Ongoing investigation.
18/19 18-22	CT SPD > Pension (Recheck report)	Closed – no fraud detected.
18/19 18-23	CT SPD > Pension (Recheck report)	Closed – no fraud detected.
18/19 18-25	CT SPD > Pension (Recheck report)	Fraud established. Account updated and liable party has been rebilled.
18/19 18-26	CT SPD > Payroll (Recheck report)	Passed to Finance for adjudication.
18/19 18-28	CT SPD > Pension (Recheck report)	Ongoing investigation.
18/19 18-29	CT SPD > Pension (Recheck report)	Closed – no fraud detected.
18/19 18-30	CT SPD > State Benefit (Recheck report)	Fraud established. Account updated and liable party has been rebilled.
18/19 18-31	CT SPD > State Benefit (Recheck report)	Closed – no fraud detected.
18/19 18-32	CT SPD > State Benefit (Recheck report)	Referred to DWP.
18/19 18-33	CT SPD > State Benefit (Recheck report)	Passed to Finance for adjudication.
18/19 18-34	CT SPD > State Benefit (Recheck report)	Closed – no fraud detected.
18/19 18-35	CT SPD > Pension (Recheck report)	Closed – no fraud detected.
18/19 18-36	CT SPD > State Benefit (Recheck report)	Fraud Established. Account updated and liable party has been rebilled.
18/19 18-41	CTR > Pension (Recheck report)	Case joint worked with DWP. Fraud established. Reported to Procurator Fiscal and sanction applied.
18/19 18-42	HB > Pension	Fraud established. HB overpayment being recovered.
18/19 18-43	CTR > Pension (Recheck report)	Fraud established. Account updated and liable party has been rebilled.
18/19 18-44	CTR > Payroll (Recheck report)	Closed – no fraud detected.
18/19 18-45	CTR > Pension (Recheck report)	Fraud established. Account updated and liable party has been rebilled.

INVERCLYDE COUNCIL – REPORT ON INTERNAL AUDIT ACTIVITY

FROM 30 MARCH TO 27 JULY 2018

4 Corporate Fraud Activity (Continued)

18/19 18-46	CT SPD > State Benefits (Recheck report)	Closed – no fraud detected.
18/19 18-49	CT SPD > State Benefits (Recheck report)	Fraud established. Account updated and liable party has been rebilled.
18/19 18-50	CT SPD > State Benefits > Blue Badge (Recheck report)	Passed to Finance for adjudication.
18/19 18-51	CT SPD > State Benefits	Passed to Finance for Adjudication
18/19 18-52	CT SPD > State Benefits (Recheck report)	Passed to Finance for adjudication.
18/19 18-53	CT SPD > State Benefits (Recheck report)	Closed – no fraud detected.
18/19 18-54	CT SPD > State Benefits (Recheck report)	Closed – no fraud detected.
18/19 18-57	CT SPD > State Benefits (Recheck report)	Closed – no fraud detected.
18/19 18-58	CT SPD > State Benefits (Recheck report)	Passed to Finance for adjudication.
18/19 18-59	CT SPD > Blue Badge (Recheck report)	Closed – no fraud detected.
18/19 18-60	CT SPD > State Benefits (Recheck report)	Passed to Finance for adjudication.
18/19 18-61	CT SPD > State Benefits (Recheck report)	Closed – no fraud detected.
18/19 18-62	CT SPD > State Benefits (Recheck report)	Closed – no fraud detected.
18/19 18-63	CT SPD > State Benefits (Recheck report)	Passed to Finance for adjudication.
18/19 18-64	CT SPD > State Benefits (Recheck report)	Passed to Finance for adjudication.
18/19 18-65	CT SPD > State Benefits (Recheck report)	Closed – no fraud detected.
18/19 18-66	CT SPD > State Benefits (Recheck report)	Passed to Finance for adjudication.
18/19 18-67	CT SPD > State Benefits (Recheck report)	Closed – no fraud detected.
18/19 18-69	CT SPD > State Benefits (Recheck report)	Passed to Finance for adjudication.
18/19 18-70	CT SPD > State Benefits (Recheck report)	Closed – no fraud detected.
18/19 18-71	CT SPD > State Benefits (Recheck report)	Passed to Finance for adjudication.
18/19 18-72 18/19 18-79	CT SPD > State Benefits (Recheck report)	Passed to Finance for adjudication.
18/19 18-74	CT SPD > State Benefits (Recheck report)	Passed to Finance for adjudication.
18/19 18-75	CT SPD > State Benefits (Recheck report)	Passed to Finance for adjudication.

INVERCLYDE COUNCIL – REPORT ON INTERNAL AUDIT ACTIVITY

FROM 30 MARCH TO 27 JULY 2018

4 Corporate Fraud Activity (Continued)

18/19 18-76	CT SPD > State Benefits (Recheck report)	Referred to DWP.
18/19 18-78	CT SPD > State Benefits (Recheck report)	Passed to Finance for adjudication.
18/19 18-81	CT SPD > State Benefits (Recheck report)	Closed – no fraud detected.
18/19 18-84	CT SPD > State Benefits (Recheck report)	Ongoing investigation.
18/19 18-85	CT SPD > State Benefits (Recheck report)	Referred to DWP.
18/19 18-91	CT SPD > State Benefits (Recheck report)	Passed to Finance for adjudication.
18/19 18-107	CT SPD > Taxi Drivers (Recheck report)	Ongoing investigation.
18/19 18-109	CT SPD > State Benefits (Recheck report)	Ongoing investigation.
18/19 18-110	CT SPD > Taxi Drivers (Recheck report)	Ongoing investigation.
18/19 18-111	CT SPD > Payroll (Recheck report)	Ongoing investigation.
18/19 18-112	CT SPD > Blue Badge (Recheck report)	Ongoing investigation.
18/19 18-113	CT SPD > State Benefits (Recheck report)	Closed – no fraud detected.
18/19 18-114	CT SPD > Payroll (Recheck report)	Ongoing investigation.
18/19 18-115	CT SPD > Taxi Drivers (Recheck report)	Ongoing investigation.
18/19 18-116	CT SPD > Personal Alcohol Licence.	Closed – no fraud detected.
18/19 18-117	CT SPD > State Benefits	Ongoing investigation.

SPOC Liaison 1/4/18 – 27/7/18

DWP Referrals	30 this period	30 to date
LAIEF requests actioned	38 this period	38 to date

Whistleblowing/Referrals

Whistleblowing and referral cases closed/being investigated since the last Audit Committee are as follows:

File Ref	Description	Status
17/18 17-76	Council Tax Exemption	Ongoing investigation.
17/18 17-96	Council Tax Exemption	Ongoing investigation.
17/18 17-103	Council Tax Exemption	Closed – no fraud detected.
17/18 17-124	Fraudulent Expense Claims	Fraud established – report issued to management. Disciplinary investigations underway.
17/18 17-127	Misuse of Blue Badge	Closed – no fraud detected.
17/18 17-140	Misuse of Blue Badge	Misuse established. Letter issued.
17/18 17-145	Council Tax Exemption	Fraud established. Account updated and liable party rebilled.
17/18 17-147	Alleged misuse of Funds	Report issued to management. See section 6.

INVERCLYDE COUNCIL – REPORT ON INTERNAL AUDIT ACTIVITY

FROM 30 MARCH TO 27 JULY 2018

4 Corporate Fraud Activity (Continued)

Whistleblowing and referral cases closed/being investigated since the last Audit Committee are as follows:

File Ref	Description	Status
17/18 17-159	Misuse of Blue Badge	Misuse established. Letter issued.
17/18 17-163	Misuse of Blue Badge	Misuse established. Visit to badge holder and advice given.
17/17 17-166	Council Tax Residence enquiry	Closed – no fraud established.
17/18 17-168	Misuse of Blue Badge	Misuse established. Badge cancelled.
18/19 18-01	Misuse of Expired Blue Badge	Misuse established. Letter issued.
18/19 18-02	Undeclared income – HB, CTR	Fraud established. Case being considered by DWP for criminal prosecution.
18/19 18-03	Undeclared partner – HB, CTR	Referred to DWP.
18/19 18-04	Council Tax Single Person Discount	Closed – no fraud detected.
18/19 18-05	Misuse of Blue Badge	Badge seized and misuse letter issued.
18/19 18-06	Misuse of Blue Badge	Badge seized and misuse letter issued.
18/19 18-08	Council Tax Exemption	Ongoing investigation.
18/19 18-10	Misuse of Blue Badge	Closed – no fraud detected.
18/19 18-13	Misuse of Blue Badge	Misuse established. Badge cancelled.
18/19 18-14	Council Tax Exemption	Passed to Finance for adjudication.
18/19 18-16	Misuse of Blue Badge	Badge seized and misuse letter issued.
18/19 18-19	Undeclared non dependant – HB, CTR	System updated and fraud prevented.
18/19 18-20	Misuse of Blue Badge	Referred to Corporate Fraud team at North Ayrshire Council.
18/19 18-21	Housing Benefits enquiry	Referred to DWP.
18/19 18-24	Council Tax Residence enquiry	Closed – no fraud detected.
18/19 18-27	Misuse of Expired Blue Badge	Badge seized and misuse letter issued. BBIS updated.
18/19 18-37	Housing Benefits enquiry	Closed – no fraud detected.
18/19 18-38	Misuse of Blue Badge	Referred to North Ayrshire Council.
18/19 18-39	Council Tax Residence enquiry	Closed – no fraud detected.
18/19 18-40	Housing Benefits enquiry	Referred to DWP.
18/19 18-56	Single Person Discount	Fraud established. Account updated and liable party rebilled.
18/19 18-68	Council Tax Residence enquiry	Closed – no fraud detected.
18/19 18-73	Housing Benefit enquiry	Referred to DWP.

INVERCLYDE COUNCIL – REPORT ON INTERNAL AUDIT ACTIVITY

FROM 30 MARCH TO 27 JULY 2018

4 Corporate Fraud Activity (Continued)

18/19 18-77	Misuse of Blue Badge	Badge seized and misuse letter issued.
18/19 18-80	Council Tax Residence enquiry	Closed – no fraud detected.
18/19 18-82	Single Person Discount	Ongoing investigation.
18/19 18-83	Misuse of Expired Blue Badge	Badge seized and misuse letter issued.
18/19 18-86	Misuse of Blue Badge	Badge seized and misuse letter issued.
18/19 18-87	Council Tax Residence enquiry	Referred to DWP.
18/19 18-89	Misuse of Expired Blue Badge	Badge seized and misuse letter issued.
18/19 18-90	Housing Benefits enquiry	Passed to Finance for adjudication.
18/19 18-92	Single Person Discount	Ongoing investigation.
18/19 18-93	Misuse of Expired Blue Badge	Badge seized and misuse letter issued.
18/19 18-95	Single Person Discount	Ongoing investigation.
18/19 18-96	Single Person Discount	Ongoing investigation.
18/19 18-98	Misuse of Blue Badge	Badge seized and misuse letter issued.
18/19 18-99	Misuse of Blue Badge	Badge seized and misuse letter issued.
18/19 18-100	Misuse of Expired Blue Badge	Badge seized and misuse letter issued.
18/19 18-102	Misuse of Blue Badge	Misuse letter issued.
18/19 18-103	CTR/Single Person Discount	Ongoing investigation.
18/19 18-108	Council Tax Exemption	Ongoing investigation.
18/19 18-118	Misuse of Blue Badge	Ongoing investigation.

5 Ad hoc activities undertaken since the previous Audit Committee

- 5.1 From time to time, management will request the assistance of Internal Audit in certain activities that are in addition to the annual Operational Plan. Examples of such activities include investigations of alleged irregularities, review of changes in system procedures etc.
- 5.2 Contingency has been made available in the Operational Plan for such ad hoc activities. Since the previous Audit Committee, ad hoc activity undertaken in the period is as follows:
- Providing relevant information in relation to FOI requests.
 - Review of SPT Grant Claims.

INVERCLYDE COUNCIL INTERNAL AUDIT
REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS (RED AND AMBER ONLY)
AT 30 JUNE 2018

Summary: Section 1 Summary of Management Actions due for completion by 30/06/18

There was one action due for completion by 30 June 2018 and the action date for this item has been revised.

Section 2 Summary of Current Management Actions Plans at 30/06/18

At 30 June 2018 there were no audit reports delayed due to management not finalising the action plan within agreed timescales.

Section 3 Current Management Actions at 30/06/18

At 30 June 2018 there was a total of 6 current audit action points.

Section 4 Analysis of Missed Deadlines

At 30 June 2018 there was one audit action point where the agreed deadline had been missed.

Section 5 Summary of Action Plan Points by Audit Year

**INVERCLYDE COUNCIL INTERNAL AUDIT
 REPORT TO AUDIT COMMITTEE ON
 STATUS OF INTERNAL AUDIT ACTION PLAN POINTS (RED AND AMBER ONLY)
 SUMMARY OF MANAGEMENT ACTION PLANS DUE FOR COMPLETION BY 30.06.18**

SECTION 2

Directorate	No. of Actions Due	No. of Actions Completed	Deadline missed Revised date set*	Deadline missed Revised date to be set*
Environment, Regeneration & Resources	0			
Health and Social Care Partnership (HSCP)	0			
Education, Communities and Organisational Development	1		1	
Total	1		1	

* These actions are included in the Analysis of Missed Deadlines – Section 4

**INVERCLYDE COUNCIL INTERNAL AUDIT
REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS (RED AND AMBER ONLY)
SUMMARY OF CURRENT MANAGEMENT ACTION PLANS AS AT 30.06.18**

SECTION 2

CURRENT ACTIONS BY DIRECTORATE

Education, Communities and Organisational Development	
Due for completion September 2018	1
Total Actions	1
HSCP	
Due for completion March 2019	5
Total Actions	5
Total current actions:	6

**INVERCLYDE COUNCIL INTERNAL AUDIT
REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS (RED AND AMBER ONLY)
CURRENT MANAGEMENT ACTIONS AS AT 30.06.18**

SECTION 3

Education, Communities and Organisational Development

Action	Owner	Expected Date
Corporate Health and Safety (September 2016)		
<p>Planning and Managing Health and safety audits and inspections including data retention requirements (Amber) Feasibility of using Figtree for Health and Safety information is now complete and functionality is now being tested with a view to populating the system by the end of the financial year 2017/2018. (New Action)</p>	Health and Safety Team Leader	30.09.18*

HSCP

Action	Owner	Expected Date
HSCP Commissioning (July 2018)		
<p>Developing themed strategic commissioning of HSCP services (Amber) Management will examine how to:</p> <ul style="list-style-type: none"> • reduce unnecessary differences in client assessment arrangements between Teams for those clients with two or more care needs. This exercise will aim to more closely co-ordinate overall client assessments with practically applying themed strategic commissioning arrangements; • avoid unintentionally providing clients with more care than their assessed needs require by focusing themed strategic commissioning activities on delivering positive outcomes for clients. These efforts will be undertaken alongside the on-going development of preventative and early intervention activities; • place a greater emphasis on a “bottom-up” rather than “top-down” approach to themed strategic commissioning of services by focusing on trying to achieve positive outcomes for clients and so improve their lives; and • develop an effective mechanism for allocating client care costs across Team budgets for those clients with complex needs and so enhance the financial information which underpins commissioning activities. 	Commissioning Working Group	31.03.19

* See Analysis of Missed Deadlines – Section 4

**INVERCLYDE COUNCIL INTERNAL AUDIT
REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS (RED AND AMBER ONLY)
CURRENT MANAGEMENT ACTIONS AS AT 30.06.18**

SECTION 3

HSCP (Continued)

Action	Owner	Expected Date
HSCP Commissioning (July 2018)		
<p>Developing themed strategic commissioning of HSCP services (Amber) Management will identify changes to procurement and commissioning policies and procedures which will adequately support themed strategic commissioning in practice.</p>	Commissioning Working Group	31.03.19
<p>Managing Strategic Commissioning practices (Amber) Management will promote the role of the Strategic Commissioning Team amongst relevant HSCP officers. This exercise will include encouraging operational managers to always make contact at an early stage whenever they need to;</p> <ul style="list-style-type: none"> • change commissioned services; • review grants paid to external organisations for commissioned services; and • review Service Level Agreements for commissioned services. 	Commissioning Working Group	31.03.19
<p>Management will consult relevant Finance staff about how best to use FMS in a one-off exercise to identify and manage any pockets of HSCP expenditure which are not yet subject to approved commissioning arrangements.</p>	Commissioning Working Group	31.03.19
<p>Management will create a prioritised action plan of key tasks for the Market Facilitation & Commissioning Plan. This exercise will include an analysis of the risks to successfully implementing the plan.</p>	Commissioning Working Group	31.03.19

* See Analysis of Missed Deadlines – Section 4

**INVERCLYDE COUNCIL INTERNAL AUDIT
REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS (RED AND AMBER ONLY)
ANALYSIS OF MISSED DEADLINES**

SECTION 4

Report	Action	Original Date	Revised Date	Management Comments
Corporate Health and Safety (September 2016)	Planning and Managing Health and safety audits and inspections including data retention requirements (Amber) Feasibility of using Figtree for Health and Safety information is now complete and functionality is now being tested with a view to populating the system by the end of the financial year 2017/2018. (New Action)	31.03.18 30.06.18	30.09.18	User acceptance testing has been carried out and feedback has been provided to the software developer. Further development work will be carried out and further UAT will be undertaken. The project plan has been updated and the implementation date is now September 2018.

**INVERCLYDE COUNCIL INTERNAL AUDIT
 REPORT TO AUDIT COMMITTEE ON
 STATUS OF INTERNAL AUDIT ACTION PLAN POINTS (RED AND AMBER ONLY)
 SUMMARY OF ACTION PLAN POINTS BY AUDIT YEAR**

SECTION 5

The following table sets out the total number of agreed actions raised by audit year together with their completion status as at 30 June 2018.

Audit Year	Total Agreed Actions	Total Actions Completed	Total Current Actions Not Yet Due*		
			Red	Amber	Green
2012/2013	76	76	0	0	0
2013/2014	116	115	0	0	1
2014/2015	77	76	0	0	1
2015/2016	52	52	0	0	0
2016/2017	66	65	0	1	0
2017/2018	53	32	0	5	16
Total	440	416	0	6	18

*This part of the table sets out the total number of current actions not yet due at the date of the follow up report. The AMBER actions are included in Section 3 of the follow up report.

Report To:	Audit Committee	Date:	21.08.18
Report By:	Corporate Director Environment, Regeneration and Resources	Report No:	AC/25/18/SA/APr
Contact Officer:	Andi Priestman	Contact No:	01475 712251
Subject:	INTERNAL AUDIT ANNUAL REPORT AND ASSURANCE STATEMENT 2017/2018		

1.0 PURPOSE

- 1.1 The purpose of this report is to present the Internal Audit Annual Report and Assurance Statement for 2017/2018, which forms part of the Council's Annual Governance Statement.

2.0 SUMMARY

- 2.1 The Internal Audit Annual Report 2017/2018 is attached as an Appendix to this report for consideration by Committee. The report concludes that the majority of Inverclyde Council's established internal control procedures operated as intended to meet management's control requirements for each area reviewed by Internal Audit. The overall audit opinion is **Generally Satisfactory with some improvement needed.** **Appendix 1**
- 2.2 It is also highlighted that, based on the results of the ongoing audit follow up process during 2017/2018, management has continued to make good progress in implementing agreed action plans arising from Internal Audit reviews.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Audit Committee review and consider the Internal Audit Annual Report and Assurance Statement.

Scott Allan
Corporate Director
Environment, Regeneration and Resources

4.0 BACKGROUND

4.1 Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor provides a written statement to the Section 95 Officer to support the Annual Governance Statement. This report should present an opinion as to the overall adequacy and effectiveness of the organisation's internal control environment.

4.2 The report should also:

- Disclose any qualifications to that opinion, together with reasons for the qualification;
- Present a summary of the audit work undertaken to formulate the opinion including reliance placed on the work by other assurance bodies;
- Draw attention to any issues the Chief Internal Auditor judges particularly relevant to the preparation of the statement on internal control; and
- Compare the work undertaken with work planned.

4.3 The Accounting Code of Practice ("ACOP") requires that the Section 95 Officer produces a signed Annual Governance Statement as part of the Council's Annual Report. This report is subject to External Audit scrutiny as part of the year-end audit process.

5.0 CURRENT POSITION

5.1 The Internal Audit Annual Report 2017/2018 is attached as an Appendix to this report for consideration by Committee. The report concludes that the majority of Inverclyde Council's established internal control procedures operated as intended to meet management's control requirements for each area reviewed by Internal Audit. The overall audit opinion is **Generally Satisfactory with some improvement needed**.

5.2 It is also highlighted that, based on the results of the ongoing audit follow up process during 2016/2017, management has continued to make good progress in implementing agreed action plans arising from Internal Audit reviews.

6.0 IMPLICATIONS

6.1 There are no direct financial implications arising from this report.

Financial Implications:

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
N/A					

Legal

6.2 There are no direct legal implications arising from this report.

Human Resources

6.3 There are no direct HR implications arising from this report.

Equalities

6.4 There are no direct equalities implications arising from this report.

Repopulation

6.5 There are no direct repopulation implications arising from this report.

7.0 CONSULTATIONS

7.1 Not applicable. This report summarises the work carried out during 2017-2018 which have been included in separate progress reports to Audit Committee.

8.0 LIST OF BACKGROUND PAPERS

8.1 Internal Audit Progress Reports to Audit Committee in August and October 2017, and January, February and April 2018.



Internal Audit Annual Report and Assurance Statement 2017/2018

30 June 2018

CONTENTS	Page
SECTION 1 – INTRODUCTION	1
SECTION 2 – ASSESSMENT OF RISK MANAGEMENT, CONTROLS AND GOVERNANCE	2
SECTION 3 – INTERNAL AUDIT WORK CONDUCTED	2-4
SECTION 4 – SCOPE, RESPONSIBILITIES AND ASSURANCE	5-7

SECTION 1 – INTRODUCTION

Purpose of this report

- 1.1 Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor provides a written statement to the organisation to inform the Annual Governance Statement. This report constitutes the required statement. As required by PSIAS, this report presents the opinion of the overall adequacy and effectiveness of Inverclyde Council's risk management, control and governance processes, based on the work Internal Audit has performed. The scope of internal audit work, the responsibilities of Internal Audit, and the assurance given on the adequacy and effectiveness of the Internal Control System of Inverclyde Council are explained further in Section 4 of this report.

Main objectives of Inverclyde Council's Internal Audit Team

- 1.2 Internal Audit is an assurance function that primarily provides an independent, objective opinion to the Council on the control environment. The overall objective of Internal Audit is to review, appraise and report on the adequacy of internal controls as a contribution to the proper, economic, efficient and effective use of resources. A secondary objective is to advise management on improvements in internal control systems.

Scope of Inverclyde Council's Internal Audit Team

- 1.3 The scope of Internal Audit allows for unrestricted coverage of the Council's activities and unrestricted access to records and assets deemed necessary by auditors in the course of an audit.

Acknowledgements

- 1.4 The assistance provided by Council staff in the course of the work undertaken by Internal Audit during 2017/2018 is gratefully acknowledged.

SECTION 2 – ASSESSMENT OF RISK MANAGEMENT, CONTROLS AND GOVERNANCE

Scope

- 2.1 The work undertaken by Internal Audit in 2017/2018 is summarised in Section 3 of this Report.
- 2.2 The overall assessment arising from work undertaken is summarised in paragraphs 2.3 to 2.4 below. In interpreting this assessment, consideration needs to be given to the respective responsibilities of Management and Internal Audit and the related limitations on the assurance that Internal Audit can provide (as explained in Section 4).

Overall assessment

On the basis of Internal Audit work carried out in 2017/2018, the majority of Inverclyde Council's established internal control procedures appeared to operate as intended to meet Management's requirements for the individual systems reviewed by Internal Audit. On the basis of selective testing of key controls it can be concluded that, in the main, controls were generally operating as expected during the period under review, although it does need to be recognised that a number of recommendations were made by Internal Audit to improve controls. The overall opinion is **Generally Satisfactory with some improvement needed.**

Other matters

- 2.3 Summaries of the issues arising in relation to each system or activity covered by Internal Audit work in 2017/2018 have been reported separately to the Audit Committee. Appropriate responses to the recommendations made in internal audit reports have been obtained. When actioned, the recommendations made in the Internal Audit reports should provide management with additional comfort that the system of control operates as intended. It is therefore imperative that the agreed actions are implemented by management.
- 2.4 A monthly follow up process was put in place in January 2008 and continues to operate effectively. All actions arising from internal and external audit reviews are captured within a follow up database and are subject to follow up and validation by the CMT and the Chief Internal Auditor on a regular basis, with reporting on progress to the Audit Committee.

SECTION 3 – INTERNAL AUDIT WORK CONDUCTED

Internal audit approach

- 3.1 The internal audit work has been conducted in accordance with an established methodology that promotes quality and conformance with the Public Sector Internal Audit Standards and the agreed Internal Audit annual audit plan.

Progress on the 2017/2018 internal audit plan

- 3.2 The Annual Internal Audit Operational Plan 2017/2018 was discussed and agreed with the Audit Committee on 6 June 2017.
- 3.3 Progress against planned audit work for the year to 30 June 2018 can be summarised as follows:-

Planned audit coverage	Status
Risk Based Reviews	
HSCP Commissioning Arrangements	Completed
Older Peoples Services – Billing and Collection	Completed
Customer Services	Completed
Grants to Voluntary Organisations	Completed
Limited Scope Finance Reviews	
Council Tax Billing	Completed
Corporate Fraud Reviews	
Council Tax Reduction Scheme – Exemptions	Completed
Creditors – Duplicate Payments	Completed
Quick Quotes	Completed
Code of Conduct – Conflicts of Interest/ Other Remunerative Employment	Completed
Employee Expenses	Draft Report
Flexi Time	Draft Report
Commercial Leases	Completed
Regularity Audits	
Education - Pupil Equity Fund	Fieldwork In Progress
Project Assurance Reviews	
SWIFT Financials – Phase 1	Completed
Arms Length External Organisations Reviews	
ILT – Performance Management Arrangements	Completed
Other Work	
National Fraud Initiative	Completed
IJB Audit Plan	Completed

- 3.4 The total number of issues raised is set out in the following table:

Report	Red	Amber	Green	Overall Grading
Older Peoples Services – Billing and Collection	0	1	4	Satisfactory
Customer Services	0	0	3	Strong
Grants to Voluntary Organisations	0	0	2	Strong
Council Tax Billing	0	0	3	Strong
Quick Quotes	0	4	6	Satisfactory
Commercial Leases	0	1	3	Satisfactory
SWIFT Financials – Phase 1	0	0	6	Satisfactory
HSCP Commissioning	0	2	1	Satisfactory
ILT – Performance Management Arrangements	0	0	1	Satisfactory
Total	0	8	29	

INTERNAL AUDIT ANNUAL REPORT AND ASSURANCE STATEMENT 2017/2018

Progress on Implementation of Action Plans

- 3.5 A number of action plans were agreed in relation to the reports generated for the 2017/2018 annual audit plan. The following table sets out the total number of actions agreed for each report issued and the status of completion at 30 June as follows:

Report	No of Actions Agreed	No of Actions Complete at 30/6/18	No of Actions Revised at 30/6/18	No of Actions Not Due at 30/6/18
Older Peoples Services – Billing and Collection	11	9	2	0
Customer Services	4	2	0	2
Grants to Voluntary Organisations	2	2	0	0
Council Tax Billing	3	0	0	3
Quick Quotes	11	10	0	1
Commercial Leases	4	4	0	0
SWIFT Financials – Phase 1	10	5	2	3
HSCP Commissioning	7	0	0	7
ILT – Performance Management Arrangements	1	0	0	1
Total	53	32	4	17

- 3.6 It is encouraging to note that of the 53 agreed actions subject to follow-up procedures, 32 out of 36 actions (89%) which were due for completion by 30 June 2018 have now been fully implemented. All actions are subject to ongoing follow up by Internal Audit and are included within the Internal Audit action plan follow up reports to the Corporate Management Team and the Audit Committee on a regular basis.

Corporate Fraud Activity

The undernoted table sets out corporate fraud activity in the period 1 April 2017 to 31 March 2018:

Council Tax Reduction Scheme 1/4/17 to 31/3/18		
Number of Home Visits	Number of Errors Identified and Corrected	Total Overpayment/Future Savings
315	31	£44,429/£22,542
In relation to overpayments identified and corrected, £25,200 has been repaid to the relevant accounts.		
Non Domestic Rates		
Number of Visits	Number of Errors Identified and Corrected	Total Overpayment/Future Savings
5	1	N/A
Commercial Properties		
Number of Visits	Number of Errors Identified and Corrected	Total Overpayment/Future Savings
9	0	N/A

Corporate Fraud Activity (Continued)

National Fraud Initiative 2016-2017	
Services have completed review of identified matches and investigations are almost complete. Corporate Fraud team continue to provide oversight and support to Services. The current status of matches are as follows:-	
Total matches reported – 3608 (520 recommended matches)	
Total matches processed to date – 3602 (includes 520 recommended matches)	
In progress – 6	
Fraud – 10	
Error – 63	
Total Outcomes - £61,864.21	
Investigations 1/4/17 to 31/3/18	
National Fraud Initiative	62
Whistleblowing/Service Referrals	83
SPOC Referrals 1/4/17 to 31/3/18	
DWP	57
LAIEF	173

Ad hoc assignments

3.7 Internal Audit undertook the following ad hoc assignments during 2017/18:

Ad hoc assignment	Status
Co-ordination of Annual Governance Statement and supporting self-assessment processes for 2017/2018.	Completed
Providing input to FOI requests as appropriate.	Completed
SPT Grant Claims.	Completed

Reliance by external audit

3.8 During the year under review, liaison has taken place with the Council's External Auditors through joint attendance at the Audit Committee, meetings, ad hoc discussions and the sharing of audit plans and reports. External audit have indicated that they intend to place reliance on specific areas of Internal Audit work for the purposes of their external audit where appropriate.

SECTION 4 – SCOPE, RESPONSIBILITIES AND ASSURANCE

Approach

- 4.1 The internal audit work has been conducted in accordance with an established methodology that promotes quality and conformance with the Public Internal Audit Standards and the agreed annual audit plans. The overall scope of the internal audit work encompasses Inverclyde Council's risk management practices, governance practices and internal controls.
- 4.2 The Annual Audit Plan is based on a formal risk assessment which is revised on an ongoing basis to reflect evolving risks and changes within the Council. The Internal Audit Annual Audit Plan 2017/2018 was discussed and agreed at the Audit Committee on 6 June 2017. In addition, consultation on the content and coverage of the audit plan took place with Corporate Directors, and the Chief Executive.

Responsibility and reporting lines of the Chief Internal Auditor

- 4.3 The Chief Internal Auditor reports functionally to the Council's Monitoring Officer and has a right of access and freedom to report in her own name to all officers and members and particularly those charged with governance. The adoption of these arrangements enables the Council to conform with the reporting line requirements of the International Standard on Auditing ("ISA") (UK and Ireland) 610 and the Public Sector Internal Audit Standards which were adopted by Local Government in the United Kingdom on 1 April 2013.
- 4.4 The Chief Internal Auditor also has a specific responsibility to the Council's s95 Officer to provide assurances which informs the preparation of the Annual Governance Statement for inclusion in the Council's Annual Accounts.

The work of Internal Audit

- 4.5 Internal Audit is an independent appraisal function established by the Council for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.
- 4.6 In accordance with the principles of Corporate Governance, the Chief Internal Auditor reports with independence and impartiality to the Council's Audit Committee on a regular basis. The Chief Internal Auditor prepares an annual report containing a view on the adequacy and effectiveness of the systems of internal controls.
- 4.7 The Internal Audit team operates in accordance with an established methodology that promotes quality and conformance with the Public Sector Internal Audit Standards. Internal Audit undertakes an annual programme of work approved by the Council's Audit Committee. The Annual Audit Plan is based on a formal risk assessment, which is revised on an ongoing basis to reflect emerging risks and changes within the Council.
- 4.8 All Internal Audit reports identifying system improvements or non-compliance with expected controls are brought to the attention of management and include agreed action plans. It is management's responsibility to give proper consideration to Internal Audit reports and take appropriate action on audit recommendations. The Chief Internal Auditor is required to confirm that appropriate arrangements are made to determine whether action has been taken on Internal Audit recommendations or that management has understood and accepted the risk of not taking action. Management progress on implementing significant actions, which have been categorised as Red or Amber, is reported to the Corporate Management Team on a bi-monthly basis, and to the Council's Audit Committee on each committee cycle.

Responsibilities of Management and Internal Audit

- 4.9 It is Management's responsibility to maintain systems of risk management, internal control and governance.
- 4.10 Internal Audit is an element of the internal control framework established by management to examine, evaluate and report on accounting and other controls over operations. Internal Audit assists management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal Audit cannot be held responsible for internal control failures.
- 4.11 Internal Audit's role includes assessing the adequacy of the risk management, internal controls and governance arrangements put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review.

Basis of the internal audit assessment

- 4.12 In accordance with the Public Sector Internal Audit Standards, the assessment on risk management, control and governance is based upon:
- Internal Audit work undertaken by the Internal Audit Team during the year to 31 March 2018 (in accordance with the annual audit plan approved by the Audit Committee);
 - The assessments of risk completed during the preparation and updating of the annual audit plan;
 - Reports issued by Audit Scotland, the Council's External Auditors; and
 - Internal Audit's knowledge of the Council's governance, risk management and performance management and monitoring arrangements.

Limitations on the assurance that Internal Audit can provide

- 4.13 It should be noted that the assurance expressed within this report can never be absolute. It is not a guarantee that all aspects of risk management, control and governance are adequate. The most that internal audit can provide to the Corporate Director Environment, Regeneration and Resources, s95 Officer and Audit Committee is reasonable assurance based on the work performed.
- 4.14 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from this engagement. These limitations include the possibility of faulty judgment in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Also there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.
- 4.15 Organisations and their internal control needs differ by type, size, culture and management philosophy. One organisation's internal control system may be very different from another's in relation to similar processes. Also, decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.

Satisfactory	<p>Controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> • A limited number of Amber rated issues may have been identified, but generally only green issues have been found in individual audit assignments. • None of the individual assignment reports have an overall opinion of <i>Requires Improvement or Unsatisfactory</i>.
Generally Satisfactory with some improvement needed	<p>A few specific control weaknesses were noted: generally however, controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> • A number of Amber rated issues identified in individual audit assignments that collectively do not significantly impact the system of internal control. • Red rated issues that are isolated to specific systems or processes. • None of the individual assignment reports have an overall opinion of <i>Unsatisfactory</i>.
Major improvement needed	<p>Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> • A high number of Amber rated issues that collectively have a significant impact on some parts of the system of internal control but are not widespread. • A number of Red rated issues that collectively have a significant impact on some parts of the system of internal control but are not widespread. • A small number of individual assignment reports have an overall opinion of <i>Requires Improvement or Unsatisfactory</i>.
Unsatisfactory	<p>Controls evaluated are not adequate, appropriate or effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> • Amber and Red rated issues identified in individual assignments that collectively are widespread to the system of internal control. • A high number of individual assignment reports have an overall opinion of <i>Requires Improvement or Unsatisfactory</i>.

Report To:	Audit Committee	Date:	21.08.17
Report By:	Corporate Director Environment, Regeneration and Resources	Report No:	AC/26/18/SA/APr
Contact Officer:	Andi Priestman	Contact No:	01475 712251
Subject:	ANNUAL REVIEW OF RISK MANAGEMENT ACTIVITY 2017/2018		

1.0 PURPOSE

- 1.1 The purpose of this report is to present to Committee progress made in 2017/2018 in developing and monitoring a strategic approach to managing risks faced by the Council.
- 1.2 This approach forms part of the Council's overall Corporate Governance Framework.

2.0 SUMMARY

- 2.1 During 2017/2018 the Council continued to value the importance of maintaining the momentum on risk management and progress has been made in the following areas:
 - Ongoing review and update of strategic and operational risk registers by Services.
 - Maintaining a risk register for the Financial Strategy which allows management to consider the risks to the overall financial position arising from matters contained within the Financial Strategy.
 - Maintaining risk management as a key aspect of the Strategic Planning and Performance Management Framework.
 - Continuing the advancement of emergency planning, crisis management and business continuity within the Council and fulfil the Council's legislative requirements under the Civil Contingencies Act 2004 in conjunction with the Joint Civil Contingencies Service.
 - Promoting the e-learning module on Risk Management for employees as part of the Brightwave corporate training platform.
 - A number of fraud risk reviews were included in the 2017/2018 Internal Audit Plan and progress has been reported on a regular basis to Audit Committee.
 - A risk register was developed for the Child Protection Committee.
 - The Anti-Fraud and Corruption Policy was updated and approved in June 2017. This included the approval of a Sanctions Policy in relation to Council Tax Reduction Scheme and Non-Domestic Rates.
- 2.2 It is considered important to actively progress the risk management process to achieve further improvement. We continue to review progress against the Audit Scotland BV toolkit relating to Risk Management and initiatives will be undertaken in 2018/2019 where appropriate to ensure the Council meets the requirements of the guidance.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that Members note the progress made in 2017/2018 in developing, implementing and monitoring a coherent corporate approach to managing risks faced by the Council.

Scott Allan
Corporate Director Environment, Regeneration and Resources

4.0 BACKGROUND

4.1 The role of Internal Audit in Risk Management is defined as contributing to the management of risk by evaluating and providing assurance on risk management processes. The assurance extends principally to two main areas, firstly that major business risks are being managed and secondly that the Risk Management and Internal Control Framework is operating effectively.

4.2 The responsibility for managing risk lies not with Internal Audit but with service management, with corporate consistency being supported through the Corporate Management Team by the Chief Internal Auditor.

5.0 CURRENT POSITION

5.1 During 2017/2018 the Council continued to value the importance of maintaining the momentum on risk management and progress has been made in the following areas:

- Ongoing review and update of strategic and operational risk registers by Services.
- Maintaining a risk register for the Financial Strategy which allows management to consider the risks to the overall financial position arising from matters contained within the Financial Strategy.
- Maintaining risk management as a key aspect of the Strategic Planning and Performance Management Framework.
- Continuing the advancement of emergency planning, crisis management and business continuity within the Council and fulfil the Council's legislative requirements under the Civil Contingencies Act 2004 in conjunction with the Joint Civil Contingencies Service.
- Promoting the e-learning module on Risk Management for employees as part of the Brightwave corporate training platform.
- A number of fraud risk reviews were included in the 2017/2018 Internal Audit Plan and progress has been reported on a regular basis to Audit Committee.
- A risk register was developed for the Child Protection Committee.
- The Anti-Fraud and Corruption Policy was updated and approved in June 2017. This included the approval of a Sanctions Policy in relation to Council Tax Reduction Scheme and Non-Domestic Rates.

5.2 It is considered important to actively progress the risk management process to achieve further improvement. We continue to review progress against the Audit Scotland BV toolkit relating to Risk Management and initiatives will be undertaken in 2018/2019 where appropriate to ensure the Council meets the requirements of the guidance.

6.0 IMPLICATIONS

6.1 There are no direct financial implications arising from this report.

Financial Implications:

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
N/A					

Legal

6.2 There are no direct legal implications arising from this report.

Human Resources

6.3 There are no direct HR implications arising from this report.

Equalities

6.4 There are no direct equalities implications arising from this report.

Repopulation

6.5 There are no direct repopulation implications arising from this report.

7.0 CONSULTATIONS

7.1 Not applicable. This report summarises the work carried out during 2017-2018.

8.0 LIST OF BACKGROUND PAPERS

8.1 Risk Management Strategy. Copy available from Andi Priestman.

Report To:	Audit Committee	Date:	21.08.18
Report By:	Corporate Director Environment Regeneration and Resources	Report No:	AC/27/18/SA/APr
Contact Officer:	Andi Priestman	Contact No:	01475 712251
Subject:	AUDIT SCOTLAND NATIONAL REPORT: THE NATIONAL FRAUD INITIATIVE IN SCOTLAND – JULY 2018		

1.0 PURPOSE

- 1.1 The purpose of this report is to inform Members of the Audit Scotland Report “The National Fraud Initiative in Scotland” published in July 2018 and to provide an overview of the key messages and recommendations raised in the report and how these issues are being addressed by the Council.

**Appendix
1**

2.0 SUMMARY

- 2.1 The National Fraud Initiative (NFI) is now well established with the 2016/2017 exercise 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 key messages, the report identified the following:

- 83% of participating public bodies managed their roles in the 2016/2017 exercise satisfactorily. This is an improvement since the NFI 2016 report when it was 80%.
- All bodies have taken appropriate action in cases where fraud is alleged.
- The effectiveness of the NFI arrangements has improved across the central government and NHS sectors. The picture for councils is mixed.
- NFI arrangements in colleges are generally sound but could be further developed.
- 62% of audit committees reviewed our last NFI report and carried out the self-assessment checklist contained within it. This is an improvement since the 2014/2015 NFI report when only 31% of audit committees reviewed the self-assessment checklist.
- About a third of bodies could follow up their matches more promptly. This is a slight improvement since the 2016 NFI report when the figure was 41%.

- 2.4 NFI outcomes in Scotland have increased from £16.8 million in the 2014/2015 exercise to £18.6 million in the 2016/2017 exercise. The areas which generated the most outcomes from the current exercise were:

- Pensions – 34% (£6.3 million)
- Council tax discounts – 24% (£4.4 million)
- Blue badges – 14% (£2.6 million)

2.5 From a local perspective, outcomes valued at £61,864 have been recorded for the 2016/2017 exercise:

Area	No of Cases	Fraud	Error	Financial Outcome
HB Claimants to Student Loans	2	1	1	£3,862
CTRS to Pensions	8	6	2	£29,343
CTRS to Payroll	2	2	0	£2,015
CTRS to Immigration	1	1	0	£3,972
CTRS to Taxi Drivers	2	0	2	£2,511
Creditors	12	0	12	£20,161
Blue Badges	42	0	42	-

2.6 The report recommends that:

- All participants in the NFI exercise should ensure that they maximise the benefits of their participation. They should consider using the NFI AppCheck point of application service, the flexible matching service and the Equifax Public Sector Gateway Service as appropriate when planning their counter-fraud activities.
- Audit Committees, or equivalent, and officers leading the NFI should review the National Fraud Initiative: Self-appraisal checklist. This will ensure they are fully informed of their organisation's planning and progress in the 2018/2019 NFI exercise.
- Where local auditors have identified specific areas where improvements could be made, the public bodies should act on these as soon as possible.
- Local authorities should investigate the council tax single person (SPD) matches in conjunction with other data-matching suppliers as they determine appropriate to ensure that their awarded discounts are valid.

2.7 In response to the recommendations, a copy of the completed self-appraisal checklist is attached at Appendix 2. This highlights the good progress the Council has made in undertaking counter-fraud activities. In addition, there were no specific areas for improvement identified by Audit Scotland in their Interim Audit Letter in relation to the Council's engagement in the 2016/2017 NFI exercise.

**Appendix
2**

2.8 In relation to council tax single person (SPD) matches, the Council has participated in a recheck exercise through the NFI. To date, this has resulted in overpayments of £15,357 which are in the process of being recovered.

3.0 RECOMMENDATIONS

3.1 It is recommended that the Audit Committee notes the contents of this report and agrees that a further update report is submitted to the February 2019 Audit Committee outlining the Council's progress with the 2018-2019 exercise.

Scott Allan
Corporate Director Environment Regeneration and 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.
- 4.5 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.
- 4.6 NFI outcomes in Scotland have increased from £16.8 million in the 2014/2015 exercise to £18.6 million in the 2016/2017 exercise. Cumulative outcomes from the NFI in Scotland are now at £129.2 million and represent a significant return to the public finances of Scotland.

5.0 CURRENT STATUS

- 5.1 In terms of key messages, the report identified the following:
- 83% of participating public bodies managed their roles in the 2016/2017 exercise satisfactorily. This is an improvement since the NFI 2016 report when it was 80%.
 - All bodies have taken appropriate action in cases where fraud is alleged.
 - The effectiveness of the NFI arrangements has improved across the central government and NHS sectors. The picture for councils is mixed.
 - NFI arrangements in colleges are generally sound but could be further developed.

- 62% of audit committees reviewed our last NFI report and carried out the self-assessment checklist contained within it. This is an improvement since the 2014/2015 NFI report when only 31% of audit committees reviewed the self-assessment checklist.
- About a third of bodies could follow up their matches more promptly. This is a slight improvement since the 2016 NFI report when the figure was 41%.

5.2 The areas which generated the most outcomes from the current exercise were:

- Pensions – 34% (£6.3 million)
- Council tax discounts – 24% (£4.4 million)
- Blue badges – 14% (£2.6 million)

5.3 From a local perspective, outcomes valued at £61,864 have been recorded for the 2016/2017 exercise:

Area	No of Cases	Fraud	Error	Financial Outcome
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CTRS to Pensions	8	6	2	£29,343
CTRS to Payroll	2	2	0	£2,015
CTRS to Immigration	1	1	0	£3,972
CTRS to Taxi Drivers	2	0	2	£2,511
Creditors	12	0	12	£20,161
Blue Badges	42	0	42	-

5.4 The report recommends that:

- All participants in the NFI exercise should ensure that they maximise the benefits of their participation. They should consider using the NFI AppCheck point of application service, the flexible matching service and the Equifax Public Sector Gateway Service as appropriate when planning their counter-fraud activities.
- Audit Committees, or equivalent, and officers leading the NFI should review the National Fraud Initiative: Self-appraisal checklist. This will ensure they are fully informed of their organisation's planning and progress in the 2018/2019 NFI exercise.
- Where local auditors have identified specific areas where improvements could be made, the public bodies should act on these as soon as possible.
- Local authorities should investigate the council tax single person (SPD) matches in conjunction with other data-matching suppliers as they determine appropriate to ensure that their awarded discounts are valid.

5.5 In response to the recommendations, a copy of the completed self-appraisal checklist is attached at Appendix 2. This highlights the good progress the Council has made in undertaking counter-fraud activities. In addition, there were no specific areas for improvement identified by Audit Scotland in their Interim Audit Letter in relation to the Council's engagement in the 2016/2017 NFI exercise.

5.6 In relation to council tax single person (SPD) matches, the Council has participated in a recheck exercise through the NFI. To date, this has resulted in overpayments of £15,357 which are in the process of being recovered.

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
			(£34,195)		Housing Benefits/Council Tax reduction stopped or reduced

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 Scotland National Report: The National Fraud Initiative in Scotland – July 2018

The National Fraud Initiative in Scotland



Prepared by Audit Scotland
July 2018



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.

Contents



Key facts	4
Summary	5
Part 1. Background	7
Part 2. Results of the 2016/17 NFI exercise	11
Part 3. How public bodies work with the NFI	22
Part 4. Future developments	28
Endnotes	30
Appendix 1. NFI governance arrangements	31
Appendix 2. Estimation bases	33

Audit team

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

Links

-  PDF download
-  Web link

Key facts



NFI outcomes in Scotland from the 2016/17 exercise

£18.6 million

The 2016/17 Scottish outcomes are derived from the 2016/17 exercise and late outcomes from the 2014/15 exercise

2016/17
£16.8m

2014/15
£1.8m

£1.69 billion

NFI outcomes cumulatively in the UK

£129.2 million

NFI outcomes cumulatively in Scotland

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

Summary




Key messages

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

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

Recommendations

All participants in the NFI exercise should:

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

Local authorities should:

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

Part 1

Background



Key messages

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

The NFI aims to detect and prevent fraud and error

- 1.** The NFI is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The Cabinet Office oversees it and Audit Scotland leads the exercise in Scotland, working with a range of Scottish public bodies and external auditors. The NFI takes place every second year. The last one was for 2014/15, and we reported on the findings from that exercise in June 2016.¹
- 2.** The NFI in Scotland is now well established, with the 2016/17 exercise being the sixth exercise since 2006/07. The NFI enables public bodies to use computer data matching techniques to detect fraud and error. [Exhibit 1 \(page 8\)](#) shows the NFI's key features and [Exhibit 2 \(page 9\)](#) illustrates how the NFI exercise works.
- 3.** Public bodies that take part in the NFI in Scotland include the Scottish Government and other central government bodies, all councils, NHS bodies, pension administering bodies, the Scottish Fire and Rescue Service, Police Scotland and colleges.
- 4.** We carry out the NFI process under powers in The Criminal Justice and Licensing (Scotland) Act 2010. It is important for all parties involved that this exercise is properly controlled and data handled in accordance with the law. [Appendix 1 \(page 31\)](#) summarises the key legislation and controls governing the NFI data matching exercise.

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

Exhibit 1

Key features of the National Fraud Initiative



Acts as a deterrent to potential fraudsters



Identifies errors and fraud enabling appropriate action to be taken



Operates across boundaries and public bodies in different sectors and countries



Can provide assurances that systems are operating well



Can identify where system improvements are required



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

Source: Audit Scotland

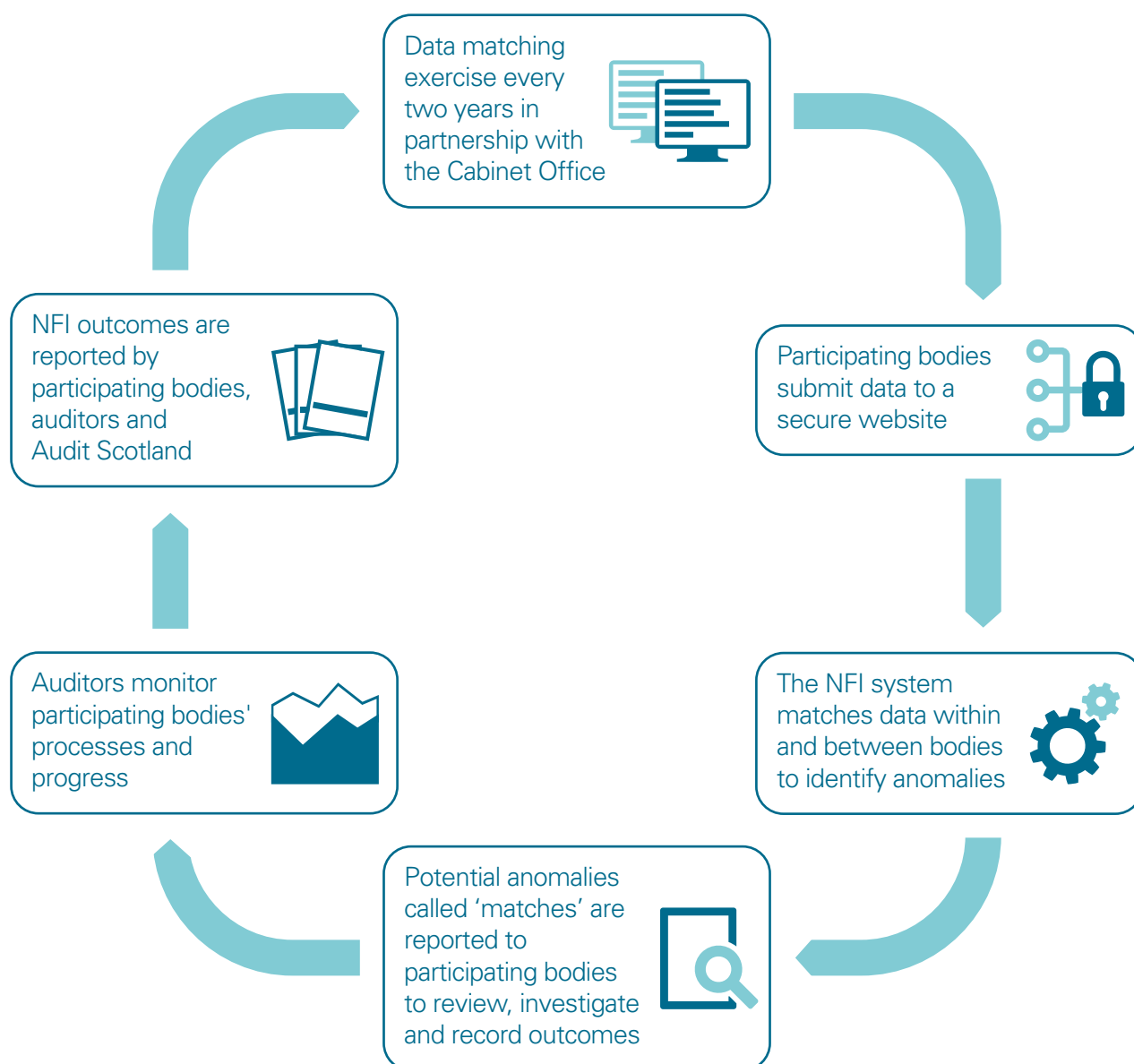
5. Fraud does not recognise organisational or geographic boundaries. Data sharing enables the NFI to use technology to compare information about individuals held by different public bodies, and on different financial systems, that might suggest fraud or error exists. This means public bodies can take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

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

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

Exhibit 2

How the biennial NFI exercise works



Source: Audit Scotland

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

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

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

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

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

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

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

Part 2

Results of the 2016/17 NFI exercise



Key messages

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

The NFI has identified £18.6 million of fraud and error

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

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

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

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

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

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

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

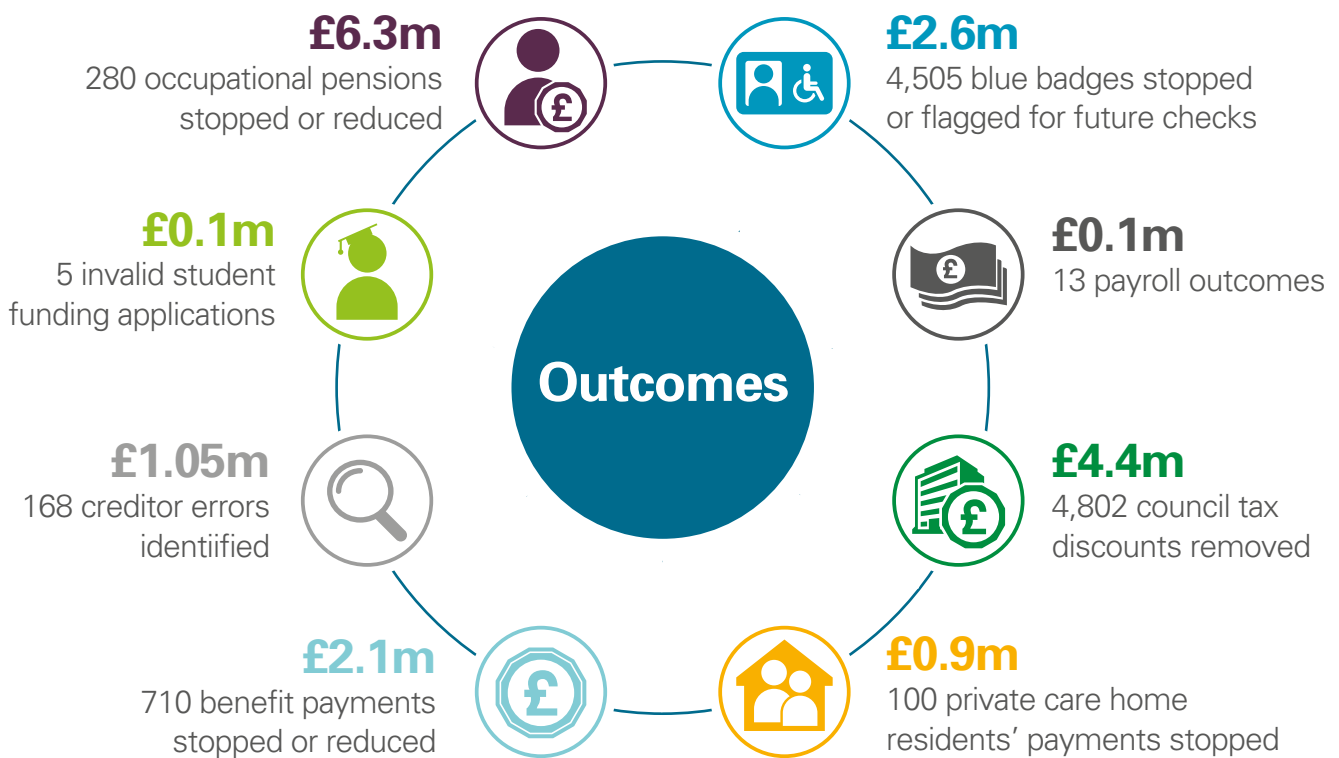
18. Importantly, once overpayments have been identified, public bodies can take appropriate action to recover the money. As at 31 March 2018, public bodies were taking action to recover £4.8 million (£4.6 million was being recovered at the end of the 2014/15 NFI in March 2016).

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

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

Exhibit 3

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



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

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

NFI outcomes from specific matches

Pensions

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

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

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

Case study 1

SPPA – NHS superannuation scheme re-employment controls



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

Source: SPPA

Council tax

25. People living on their own, or with no countable adults in the household, are eligible for a 25 per cent Single Person Discount (SPD) on their annual council tax bill. The Scottish Government estimates that two-fifths of chargeable dwellings were entitled to the discount in 2017. Based on the average band 'D' council tax charge for Scotland in 2017, this equates to an annual discount cost of £285 million.² This demonstrates that the SPD is of considerable value.

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

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

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

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

Case study 2



Midlothian Council – council tax SPD

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

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

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

Blue badges

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

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

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

Case study 3



The Moray Council's 'tell us once' approach

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

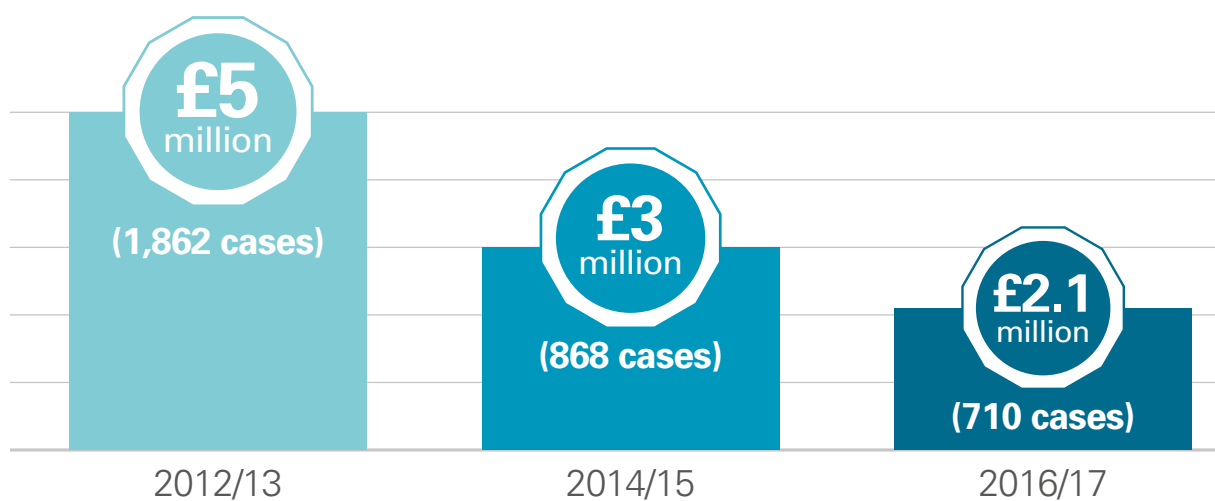
Source: The Moray Council

Benefits

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

Exhibit 4

Housing and other benefit outcomes



Source: The Cabinet Office NFI secure web application

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

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

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

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

Case study 4



East Dunbartonshire Council – housing benefit and council tax reduction

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

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

Creditors

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

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

Case study 5



NHS Lanarkshire – creditors

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

Source: NHS Lanarkshire

Payments to private care homes

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

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

Case study 6



Aberdeen City Council – residential care homes

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

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

Source: Aberdeen City Council

Payroll

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

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

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

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

Student immigration checks

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

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

New matches were introduced in 2016/17

Housing waiting lists

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

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

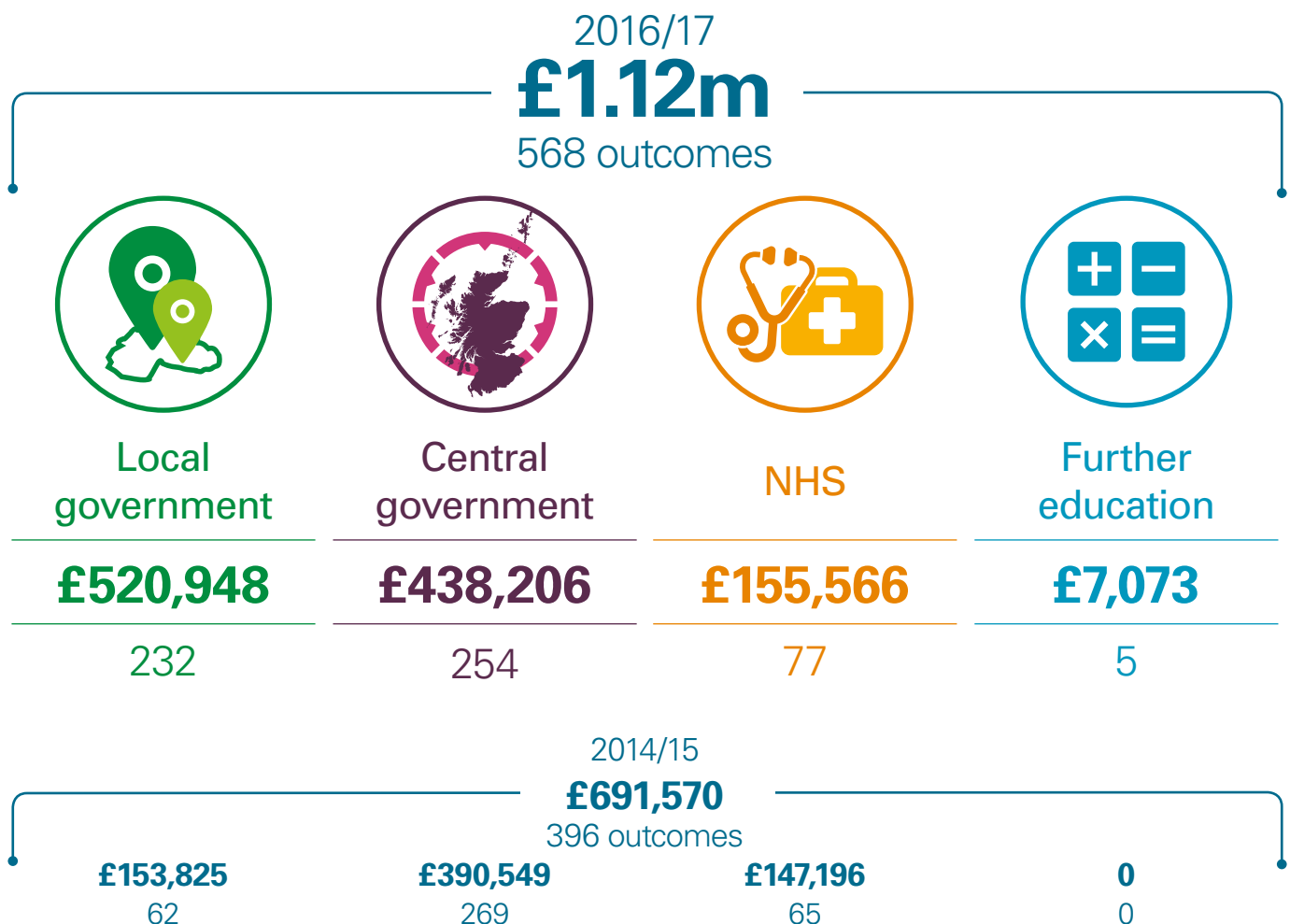
Matches benefiting other public bodies

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

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

Exhibit 5

Matches benefiting other bodies both within and outwith Scotland



Source: The Cabinet Office NFI secure web application

Other NFI services to prevent and detect fraud

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

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

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

Case study 7



East Dunbartonshire Council – use of AppCheck

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

Source: East Dunbartonshire Council

Costs and benefits of participating in the NFI

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

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

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

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

Part 3

How public bodies work with the NFI



Key messages

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

most public bodies manage their role in the NFI satisfactorily

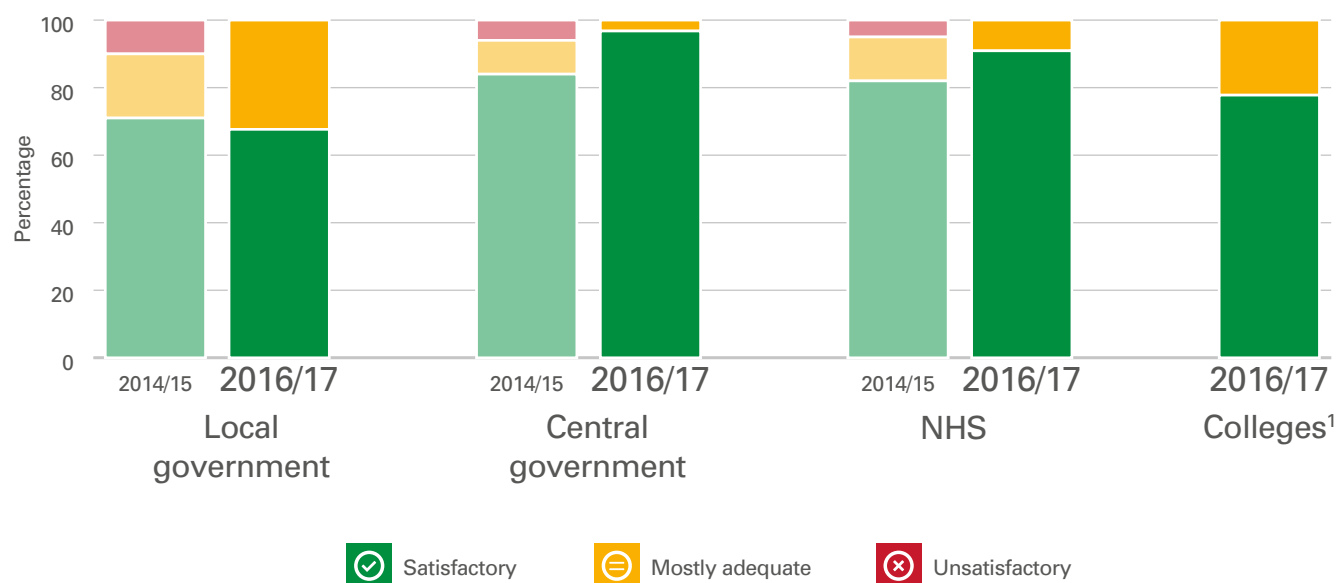
Overall findings

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

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

Exhibit 6


External auditor review of NFI arrangements



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

Source: External auditors

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

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

Areas for further improvement

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

Exhibit 7 Conclusions from audit work on NFI participating bodies

Key questions (from local auditor questionnaire)	Conclusion
Overall, how do you rate your audited body's engagement with the NFI exercise (planning, progress and response to outcomes)?	<p>83% 17% 0%</p>
Has the body completed its review of the 2016/17 matches?	<p>75% 23% 2%</p>
In the auditors' judgement has the body made satisfactory progress with processing its NFI matches?	<p>78% 22% 0%</p>
Has the body taken appropriate action in cases where fraud is alleged?	<p>100%</p>
Has the body reported internally or externally on NFI progress and outcomes, eg to senior management/elected members/audit committees?	<p>83% 15% 2%</p>
Does internal audit, or equivalent, monitor the body's approach to the NFI and the main outcomes, ensuring that any weaknesses are addressed in relevant cases?	<p>78% 13% 9%</p>
Do all departments involved in the NFI start the follow-up of matches promptly after they become available?	<p>70% 23% 7%</p>
Did the body's audit committee (or equivalent) and the key contact review the self-appraisal checklist in the 2016 NFI report as a means of monitoring the body's planning and progress with the 2016/17 exercise?	<p>62% 23% 15%</p>
Is the body deploying appropriate resources on managing the NFI exercise?	<p>85% 11% 4%</p>

Satisfied
 Mostly adequate
 Unsatisfactory

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

60. It is worth noting from audit work that:

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

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

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

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

Actions to improve the NFI

Scottish Parliament post-legislative scrutiny review of the NFI

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

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

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

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

Case study 8



NHS Scotland Counter Fraud Service – use of social media

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

Source: NHS Scotland Counter Fraud Service

Case study 9



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

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

Source: NHS Scotland Counter Fraud Service

Costs of NFI









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

67. Many bodies do not keep separate records for NFI costs as it is just one of many counter-fraud activities they are doing. Those that did have records were able to estimate that their costs ranged from £255 to £40,000 ([Exhibit 8, page 27](#)). This compares favourably with the average outcome for each public body in Scotland of £165,000 for the 2016/17 NFI.

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

Exhibit 8

Cost of NFI

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

Source: NFI local auditor questionnaire

Part 4

Future developments



Key messages

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

Participating bodies and data sets

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

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

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

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

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

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

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

Case study 10



East Dunbartonshire Council – NFI pilot in social care

A pilot was undertaken to investigate if data matching could be used to ensure that social care payments were cancelled when a client died.

Currently the NFI only matches the following:

- Private residential care home residents to deceased person records.
- Personal budget direct payments to housing benefits, pensions, Amberhill¹ and other councils' personal budget data.

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

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

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

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

The Code of Data Matching Practice

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

The 2018/19 NFI exercise



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

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

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

Endnotes



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

Appendix 1

NFI governance arrangements



Background

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

Legislation

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

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

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

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

The NFI web application

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

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

Security review and accreditation

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

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

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

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

Appendix 2

Estimation bases



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

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

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

The National Fraud Initiative in Scotland

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

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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	The responsibility for NFI now lies within Internal Audit. Internal Audit will review all aspects of NFI for the coming 2018/2019 exercise. A report will be presented to the Audit Committee outlining how the Council is engaging with the 2018/2019 exercise.	Chief Internal Auditor January 2019
2 Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error ?	Yes	The anti-fraud and corruption policy was reviewed and updated in June 2017 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	App check is used by Enforcement Officers in relation to immigration checks for taxi badge holders. Further areas will be considered as part of the planning for the 2018-2019 exercise.	Chief Internal Auditor January 2019
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.	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?	Yes	As part of the NFI exercise, new reports have been refreshed and updated at December 2017 and all matches are being investigated: 801 - Council Tax to Electoral Register 802 - Council Tax rising 18s 803 - Council Tax to other data sets The Council's Corporate Fraud team continues to support this work by carrying out house visits and matches are updated once enquiries are complete.	Chief Internal Auditor 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?	Yes	Where an investigation identifies control weaknesses, recommendations are made to management 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?	Yes	Where an investigation identifies control weaknesses, recommendations are made to management 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 responsibility for NFI and a review of how we publish this information will be carried out as part of the planning for the 2018/2019 exercise.	Chief Internal Auditor March 2019

Part B			
For the NFI Key contacts and users			
Planning and Preparation			
1 Are we investing sufficient resources in the NFI exercise?	Yes	Internal Audit has responsibility for NFI. The Annual Audit Plan for 2018-2019 includes an allocation of days for Internal Audit staff to co-ordinate with and support services in the NFI exercise and to undertake specific investigations as these arise. Progress reports will be provided to Audit Committee on a regular basis.	Chief Internal Auditor 31 March 2019
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 will be carried out with all Services as part of the 2018/2019 exercise. Data is due to be submitted by October 2018.	Chief Internal Auditor October 2018
3 Is our NFI Key Contact (KC) the appropriate officer for that role and do they oversee the exercise properly?	Yes	Internal Audit has responsibility for co-ordination of the NFI exercise. 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 is being carried out in July and August and will be confirmed using the online facility by September 2018.	Chief Internal Auditor September 2018
7 Do we plan to provide all NFI data on time using the secure data file upload facility properly?	Yes	Internal Audit co-ordinates the NFI exercise and a timetable is in place to meet timescales for data upload for the 2018-2019 exercise.	Chief Internal Auditor October 2018
8 Do we adequately consider the submission of any 'risk-based' data sets in conjunction with our auditors?	Yes	Internal Audit attends the Scottish Local Authorities Investigators Group. We also liaise with Services to consider further potential risk areas to discuss with our local auditors.	Chief Internal Auditor Ongoing
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	App check is used by Enforcement Officers in relation to immigration checks for taxi badge holders. Further areas will be considered as part of the planning for the 2018-2019 exercise.	Chief Internal Auditor January 2019
Effective Follow up of 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	The anti-fraud and corruption policy was reviewed and updated in June 2017 to reflect our approach to NFI. A Sanctions Policy was also developed in relation to Council Tax Reduction Scheme and Non Domestic Rates. Liable party are rebilled for the overpayments which are identified and recovery processes are in place.	
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 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	The Annual Audit Plan for 2018-2019 includes an allocation days for Internal Audit staff to co-ordinate with and support services in the NFI exercise and to undertake specific investigations. 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 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