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Date: 29 April 2019

Dear Sir/Madam

You are invited to the following meeting:

Audit Committee
Council Chamber, Town Hall, Lerwick
Monday 6 May 2019 at 2pm

Apologies for absence should be notified to Louise Adamson at the above number.

Yours faithfully

Executive Manager – Governance and Law

Chair: Mr A Duncan
Vice-Chair: Ms C Hughson

AGENDA

- (a) Hold circular calling the meeting as read.
- (b) Apologies for absence, if any.
- (c) Declarations of Interest - Members are asked to consider whether they have an interest to declare in relation to any item on the agenda for this meeting. Any Member making a declaration of interest should indicate whether it is a financial or non-financial interest and include some information on the nature of the interest. Advice may be sought from Officers prior to the meeting taking place.
- (d) Confirm the minutes of the meeting held on 7 March 2019 (enclosed)

Items

1. Internal Audit – Audit Plan – 2019/20
CRP-07-19
2. National Fraud Initiative – Audit Scotland Findings
F-027



MINUTES

A & B

Audit Committee

Council Chamber, Town Hall, Lerwick

Thursday 7 March 2019 at 10am

Present:

A Duncan	J Fraser
S Leask	A Manson
I Scott	R Thomson

Apologies:

C Hughson	R McGregor
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In attendance (Officers):

C Ferguson, Director of Corporate Services
J Manson, Executive Manager - Finance
J Riise, Executive Manager – Governance and Law
R Sinclair, Executive Manager – Assets, Commissioning and Procurement
M Mullan, Performance and Improvement Officer
L Adamson, Committee Officer

Also:

J Corrigan, Deloitte LLP
C Healy, Deloitte LLP
D Black, Audit Glasgow (by telephone link)

Chairperson

Mr Duncan, Chair of the Committee, presided.

Circular

The circular calling the meeting was held as read.

Declarations of Interest

None

Minutes

The Committee confirmed the minutes of the meeting held on 13 December 2018 on the motion of Ms Manson, seconded by Mr Scott.

In response to questions from the Chair, the following updates were provided:

18/18 - External Audit Annual Report 2017/18 – Update on Recommendations

- (4th paragraph): Assurance was given on the ongoing work to value Council assets, including those transferring from SLAP. Following completion of the valuations a comprehensive report would be presented to Members.
- (5th paragraph): The briefing note on the processes in place when considering and accepting offers for the sale of Council assets would be circulated to Members during the next cycle. Any current issues could be raised separately with the Executive Manager – Assets, Commissioning and Procurement.
- (11th paragraph): Regarding staff training, the demands on the training budget are high and the budget is fully committed when set. However, should significant training requirements arise during the year, discussion could take place with the Executive Manager – Human Resources and the Executive Manager – Finance to see how the cost of additional training can be met.

21/18 - Risk Assessment Update

Progress was being made to obtain professional advice to establish the benefits and costs to install sprinkler systems at rural care centres. A brief had been drafted, and a report would be presented to Policy and Resources Committee. The Director of Corporate Services said that she would advise Members soon on the proposed date for presenting the report to Committee.

01/19 **Scottish Household Survey**

The Committee considered a report by the Executive Manager – Assets, Commissioning and Procurement (CPS-03-19-F), which provided an opportunity to discuss the Scottish Household Survey results, the trends in local indicators, and comparisons between the local and national indicators.

In introducing the report, the Executive Manager – Assets, Commissioning and Procurement advised that the report had previously been discussed at Policy and Resources Committee, and he highlighted a number of the local indicators as set out in Section 4.

During the discussion, reference was made to the findings at Section 4.2.7 of the report, that Shetland had scored significantly higher compared to the overall Scotland figure, on the indicator “more involved in decisions”. However it was noted that Shetland had ranked low on the category that the Council “does its best with the money”. In that regard, it was questioned whether there was a need for the Council to communicate more effectively with communities on the more positive outcomes of the Council. In responding, the Director of Corporate Services advised on a number of activities and the different elements of community engagement in Shetland, including participatory budgeting, community choices and the work through the ‘participation’ priority of the Shetland Partnership Plan. In terms of information on the Council finances, she reported that the detailed accounts of the Council were reported annually. She also referred to the update provided on the “Our Plan 2016-20” at the recent Policy and Resources Committee which had included significant information on Council achievements, and she confirmed that the updated Plan was to be publicised widely within the

community. She added that at the same meeting, there had also been discussion on how the Council can use additional media outlets to promote the work of, and encourage engagement with, the Council.

In responding to a comment on the Shetland sample size for most indicators, as reported at Section 2.4, the Director of Corporate Services referred to the work done within Community Planning and Development to corroborate sources of data, and the methodology used to make sure the results are statistically representative, which she said can provide confidence to the Shetland Partnership when setting targets and aspirations.

Reference was made to the survey results as reported at Section 4.2.1, that 12% of the Social Sector households “do not manage well financially”. The Executive Manager – Assets, Commissioning and Procurement advised that in the local environment it was difficult to target intervention in Shetland as there are small pockets of social deprivation close to other areas that are thriving.

In responding to a question, the Executive Manager - Assets, Commissioning and Procurement undertook to contact the Transport Planning Service, for an explanation on the increased satisfaction rates for Shetland public transport in 2016 and 2017, at a time when less people are now using public transport. During a brief discussion, reference was made to the review of the bus network, and Members were informed that consultation is to take place with bus users and also with people who do not travel on buses, to develop a bus service for Shetland that is fit for purpose going forward. Reference was made to the decision to sell the Viking bus station and freight centre, which had impacted on a number of people who travelled by bus to Lerwick and has also had a detrimental effect on the Lerwick shops. Comment was also made that the supermarket delivery service to rural areas has resulted in a decline in the number of people using rural shops.

During debate, the Chair thanked the officers for the preparation of the report, and Members advised that they found the findings in the report to be very interesting.

Comments were made on the good standard of living in Shetland compared to other areas, and that Shetland is a fantastic place to live in terms of provision of services to local communities. It was suggested that more should be done to communicate the positive outcomes of the Council and the good news stories to the Shetland community, through the Council’s Communications team, using the various media and social media channels. The Chair suggested that should a Member have any concerns in terms of media coverage, these could be relayed to the Chief Executive, for discussion at her regular meetings with media representatives.

During further debate, it was however acknowledged that there could be a number of factors that could impact on the survey results locally, including lifestyle choices, underlying issues and the unique island

circumstances with the higher cost of living in Shetland, and it was suggested that until further analysis was undertaken the results could be considered as purely subjective. It was also questioned, with the small sample size, that the results may not be a true representation of local issues.

Decision:

The Committee **NOTED** the contents of the report.

02/19

Audit Scotland and Other External Audit Reports

The Committee considered a report by the Executive Manager – Assets, Commissioning and Procurement (CPS-06-19-F) which provided an opportunity for the Committee to consider and monitor progress on any recommended actions resulting from Audit Scotland and External Audit body reports that have been or will be presented to the functional Committees.

The Executive Manager – Assets, Commissioning and Procurement introduced the report.

In responding to a question on the two actions overdue for reporting, the Director of Corporate Services explained that a change in the postholder at Executive Manager level had contributed to the oversight and the delayed reporting on EA176 and EA188. She confirmed however that work was ongoing to present the reports to the Joint Governance Group in May 2019.

Decision:

The Committee **NOTED** the contents of the report.

03/19

Annual Audit Plans 2018/19 for Shetland Islands Council and Shetland Islands Council Pension Fund

The Committee considered a report by the Executive Manager – Finance (F-016-F) which presented the planned audit work by the Council's external auditors, Deloitte LLP, for the 2018/19 financial year, as set out in the Shetland Islands Council and Shetland Islands Council Pension Fund Audit Plans.

The Executive Manager – Finance introduced the report, and advised that Mr Healy and Mr Corrigan, from Deloitte LLP, would present the Audit Plans to Committee.

Mr Corrigan advised on the key messages from the Annual Audit Plan for Shetland Islands Council, including the key risks and the wider audit dimensions. Members were advised on the proposed change in reporting on the Audit Plan, with an interim report to Audit Committee in June 2019 to cover wider scope areas and the annual report in September 2019 where more focus would be on the financial statement audit.

Mr Healy provided further detail on the areas of audit focus for 2018/19, including the Council's decision to purchase SLAP, Health and Social Care Integration and the College Merger. He also advised on the wider scope requirements that were a common framework for all public sector audits in Scotland. Members' attention was drawn to the audit fee, which was noted to be substantially higher due to additional work required on a number of areas.

In responding to questions, Mr Corrigan advised on how the range of materiality had been determined, and the approach taken in that regard. It was reported that while there has been an increase this year, the level of materiality was very much in line across the board. Members were advised that materiality would be regularly reviewed as the audit progresses and any change would be reported in the year end audit.

During the discussion, reference was made to the area of audit focus on "governance and transparency", where it was questioned whether the assessment of governance arrangements would include the benefit of having a Policy and Resources Committee. It was however advised that consideration of the Council's Committee structure would form part of the Council's Governance review, and any proposals for change would be reported to Council rather than through the Audit Committee.

In responding to a question on the proposal to split the reporting on the audit plan, Mr Healy advised on the benefit to report on the wider scope elements in June, which would allow for additional focus on the financial statements when reported in September.

During the discussion comment was made on the significant work anticipated as part of the audit of the College Merger. In responding to a question, Mr Healy advised on the requirement to report audit findings to Audit Committee, however he added that the Council can request for a report on any specific areas of audit work to be reported to other Committees of the Council.

In responding to questions on the preparations for the withdrawal from the EU, Mr Healy commented on the uncertainty in this area. He advised however that Deloitte LLP are in contact with the Scottish Government and Audit Scotland, and guidance has been provided to Councils to assist in their Brexit preparations. The Director of Corporate Services and the Executive Manager – Governance and Law outlined to Members the ongoing areas of focus within the Council in terms of readiness for the EU withdrawal.

In response to a question on the audit work to be undertaken following the Council's decision to purchase SLAP, Mr Healy reported on the areas of audit focus being value for money and lessons learned. It was noted that while the purchase had been agreed in October 2018, ongoing work in terms of due diligence had been delegated to the Executive Manager – Governance and Law.

Reference was made to the Key Risk, at Page 3 of the Audit Plan, namely, “In accordance with auditing standards, management override of controls has also been identified as a significant audit risk”, where assurance was sought from Deloitte on the controls in place in the Council to prevent instances of fraud. In his response, Mr Healy advised this was a standard key risk area within all audit plans, even when there are no areas of concerns with the controls in place.

Reference was then made to Page 5 of the Audit Plan, where clarity was sought on the report that there were ‘vacancies’ on the Council’s Audit Committee. Mr Healy advised on the typographical error, confirming that there was only one vacancy.

The Committee noted the contents of the Audit Plan 2018/19 and the Sector Developments paper for Shetland Islands Council.

(Mr Fraser left the meeting).

Mr Healy then introduced the Audit Plan 2018/19 for the Pension Fund, outlining the key messages, the audit dimensions and wider scope requirements. Members were also advised that the Audit Plan had been presented at the Pension Fund Committee/Pension Board earlier this week.

In response to a question, Mr Healy advised that the Pension Fund not being 100% funded would be considered a business risk for the Pension Fund, rather than an audit risk. He added that the audit work includes assessment of processes in place for revaluations and the assumptions used, and the Council’s ability to meet its contributions.

There were no further questions, or debate, and the Committee noted the report.

Decision:

The Committee **NOTED** the contents of the Audit Plan 2018/19, and the Sector Developments paper for Shetland Islands Council, and the Audit Plan 2018/19 for Shetland Islands Council Pension Fund, from the Council’s external auditors, Deloitte LLP.

The meeting concluded at 12.05pm.

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Chair



Meeting:	Audit Committee	6 May 2019
Report Title:	Internal Audit - Audit Plan 2019/20	
Reference Number:	CRP-07-19-F	
Author / Job Title:	Duncan Black, Chief Internal Auditor	

1.0 Decisions / Action required:

That the Audit Committee:

- 1.1 APPROVES the Audit Plan 2019/20 attached to this report as Appendix 1.

2.0 High Level Summary:

- 2.1 The purpose of this report is to provide details of the Internal Audit plan for 2019/20 and the outputs, which the Committee and senior management of the Council can expect from Internal Audit services in 2019/20.
- 2.2 The Public Sector Internal Audit Standards (PSIAS) require the Chief Internal Auditor to submit the annual audit plan to an appropriate Audit Committee for approval. This report presents the proposed internal annual audit plan for the Council for 2019/20.

3.0 Corporate Priorities and Joint Working:

- 3.1 The Audit Committee is an integral part of the formal governance arrangements of the Council making a significant contribution to the 20 by '20 commitments in Our Plan 2016-2020, which aim to "set the tone for standards the organisation expects everyone to achieve over the next four years".

4.0 Key Issues:

Background

- 4.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion on the control environment within the Council. The annual audit plan is designed to assist the Chief Internal Auditor in formulating that opinion.
- 4.2 In developing the annual audit plan, the Audit Team:

- Consolidated our understanding of the Council through discussions with senior management, the Internal Audit team staff and a review of key strategic documentation;
- Consulted risk registers to understand the nature of inherent risks facing the organisation; and
- Reviewed the outputs from previous reviews at the Council.

4.3 Changes in organisational structures, system developments, changes in working practices and legislative requirements create a constantly changing control environment. Taking these factors into account, the highest risk areas are brought forward in the annual audit plan. Risk is assessed by considering various factors. These include the potential financial impact if controls fail; any changes or new processes/systems that have been implemented and the assessment of senior officers and auditors regarding the effectiveness of controls in key areas. These risk scores are weighted and the highest composite scoring areas are prioritised in the audit plan.

4.4 Internal Audit work will be undertaken in accordance with the PSIAS, which have been adopted by the Relevant Internal Audit Standard Setters (RIASS). The RIASS includes, among others, HM Treasury, the Scottish Government and the Chartered Institute of Public Finance and Accountancy (CIPFA).

4.5 Following the retirement of the previous Chief Internal Auditor, the audit team will now be led by Duncan Black, Head of Audit and Inspection and Will Hart, Chief Auditor at Glasgow City Council. The day to day management of the audit team will be undertaken by Jillian Campbell and Francis Scott, Senior Audit Managers at Glasgow City Council. Duncan, Will, Jillian and Francis have significant experience providing the internal audit service to Glasgow City Council, its Arm's Length External Organisations, the Strathclyde Pension Fund, Integration Joint Board and City Deal. The Internal Audit team at Glasgow holds the British Standard ISO9001:2008 Quality Management Standard. This Standard has been held for over 17 years and an annual assessment of compliance with the Standard is undertaken by independent British Standard reviewers. The last review undertaken by British Standard reviewers was in March 2019 and confirmed that the Internal Audit team continues to have processes and procedures in place that demonstrate compliance with the requirements of the Standard.

4.6 The PSIAS include key principles that public sector Internal Audit functions must follow and cover a range of areas including governance, performance standards and reporting requirements. The PSIAS introduced a requirement for an external assessment of an organisation's Internal Audit function, which must be conducted at least once every five years by a qualified, independent reviewer from outside the organisation. During 2015/16 an external assessment was undertaken at Glasgow City Council by the Chief Auditor and Audit Manager from Manchester City Council. The assessment confirmed that Internal Audit conforms to the requirements of the PSIAS. An action plan has been developed to further enhance the Internal Audit service and all actions have now been fully addressed.

Approach

4.7 The Audit Plan 2019/20 shows the outputs which members of the Audit Committee and management can expect from Internal Audit during 2019/20. For each audit assignment, the Audit Team will agree a terms of reference with management

prior to commencing fieldwork. A summary of our findings will be agreed in draft with management, prior to reporting to the Audit Committee.

- 4.8 Our reports will include a summary of main audit findings, highlighting any control weaknesses and recommendations for improvement.
- 4.9 The PSIAS require that the audit plan should be kept under review to reflect any changing priorities and emerging risks. The Audit Team will therefore ensure the plan remains relevant and reflects any changes to the inherent risks at the Council. The Audit Committee will be asked to approve any material adjustments to the audit plan.
- 4.10 Internal Audit will work with the appointed external auditors, Deloitte, to ensure that audit work dovetails efficiently, minimising unnecessary overlap or duplication.

The Role of the Chief Internal Auditor

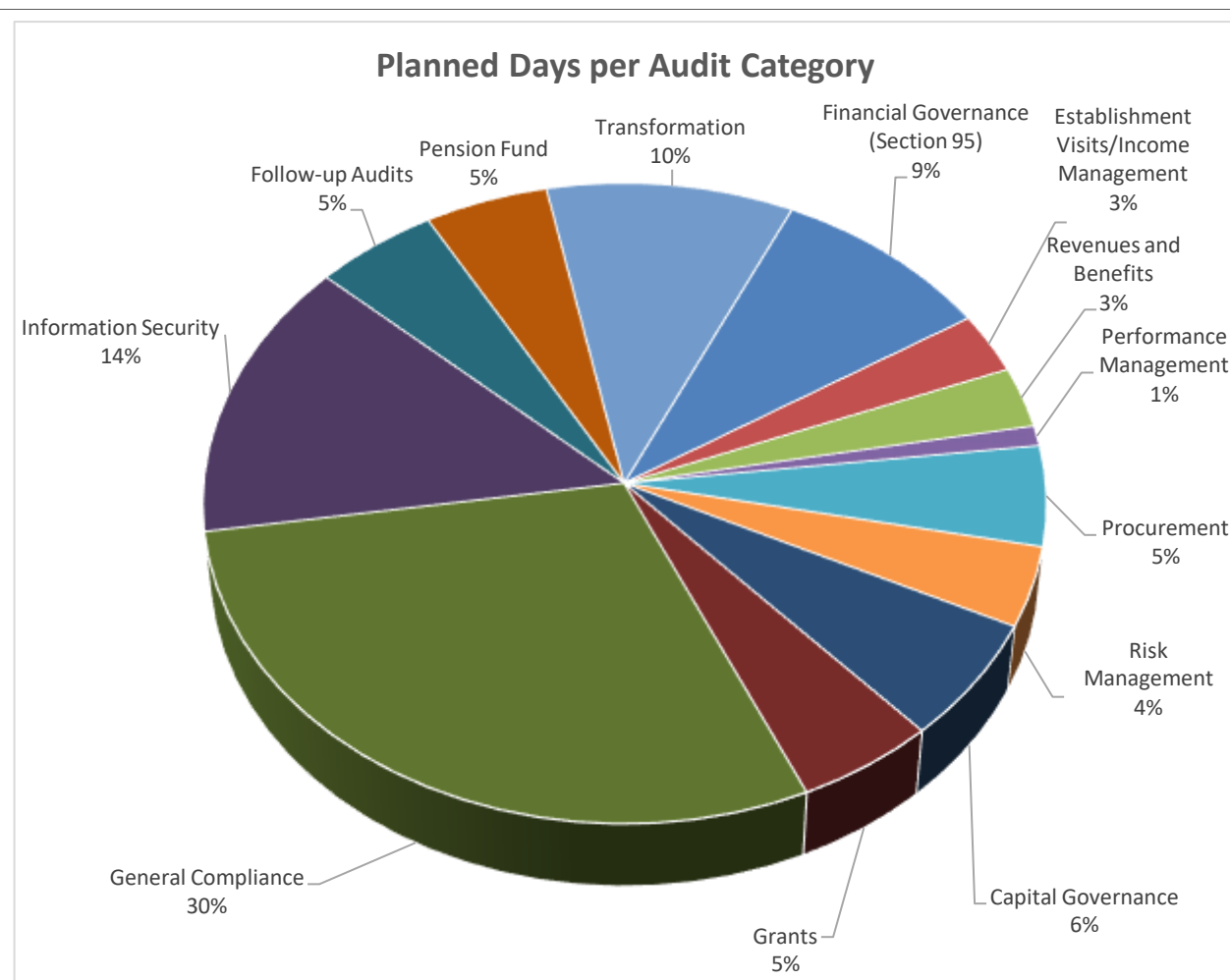
- 4.11 The CIPFA guidance in relation to “The Role of the Head of Internal Audit in Public Service Organisations” is intended to provide best practice for Heads of Internal Audit.
- 4.12 The role of the Chief Internal Auditor to Shetland Islands Council meets the principles set out in the CIPFA guidance.

Resourcing

- 4.13 The majority of audit fieldwork will be undertaken by the in-house Internal Audit team at Shetland Islands Council. There are 2.8 full-time equivalent (FTE) members of staff working in the in-house Internal Audit team.
- 4.14 The Chief Internal Auditor reviewed the current number of staff within Internal Audit and the skills of the team and has concluded that it is adequately resourced and has the necessary skills to carry out its function. Additional resources can be called on from Glasgow City Council’s wider audit team as required.

Internal Audit Outputs in 2019/20

- 4.15 The main output from Internal Audit in 2019/20 will be the Chief Internal Auditor’s Annual Report.
- 4.16 The Annual Report will be based principally on the work undertaken by Internal Audit during the year to complete the audit plan.
- 4.17 The key areas to be covered in 2019/20, and on which the Audit Team will provide assurance, are shown in Appendix 1, together with the main control risks associated with these areas.
An approximate breakdown of planned days per audit category is provided in the chart below:



4.18 The Audit Universe, which details individual planned assurance audits, alongside all the key areas reviewed over the previous three year period, is included at Appendix 2.

Resources

4.19 In 2019/20, 515 days are available to carry out assurance audit work.

5.0 Exempt and/or confidential information:

5.1 None.

6.0 Implications:

6.1 Service Users, Patients and Communities:

The Council must ensure Best Value in the delivery of services. Internal Audit activities provide reassurance to the Council in this regard.

6.2 Human Resources and Organisational Development:

None directly arising from this report.

6.3 Equality, Diversity and Human Rights:	None directly arising from this report.
6.4 Legal:	The Local Authority Accounts (Scotland) Regulations 2014 make it a statutory requirement for a local authority to operate a professional, objective, internal auditing service. Section 95 of the Local Government (Scotland) Act 1973 specifies that all Scottish Councils are required to have in place arrangements for ensuring propriety, regularity and Best Value in their stewardship of public funds. The Internal Audit Plan 2019/20 sets out the planned internal audit activities for 2019/20, which will allow the Council to meet these requirements.
6.5 Finance:	The work of Internal Audit contributes towards effective financial stewardship within Shetland Islands Council. The activities detailed in this report will be undertaken within the 2019/20 approved budget.
6.6 Assets and Property:	None arising directly from this report.
6.7 ICT and new technologies:	None directly arising from this report.
6.8 Environmental:	None directly arising from this report.
6.9 Risk Management:	The Internal Audit Plan 2019/20 takes a risk based approach to the planned audit activities in 2019/20
6.10 Policy and Delegated Authority:	The Audit Committee remit includes agreeing the internal audit plan.
6.11 Previously considered by:	None

Contact Details:

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15 March 2019

Appendices:

Appendix 1 – Shetland Islands Council Internal Audit Plan 2019/20.
Appendix 2 – Shetland Islands Council Audit Universe

END

Shetland Islands Council Internal Audit – Annual Audit Plan 2019/20

Main Audit Outputs - Key System Areas and Control Risks

Financial Governance (Section 95)

1. Treasury Management – work in this area will include assessing controls relating to the treasury function.

Risk – that system controls and processes are not effective, resulting in errors.

2. LEADER – work in this area will include assessing compliance with the requirements of the LEADER.

Risk – the controls in place are not effective, which results in the Council failing to comply with the LEADER requirements.

3. Payroll – reviews in this area will focus on ensuring that the various payroll processes are followed for all employees. A payroll verification exercise will be undertaken across all Council Services.

Risk – incorrect payment of salaries and wages resulting in financial loss for the Council.

Capital Governance

4. Capital Projects – the 2019/20 plan will include assurance work on the governance arrangements for a range of capital projects.

Risk – that governance arrangements for capital projects are inadequate, increasing the risk that projects will be delayed or generate significant budget variances.

Establishments / Income Management

5. Income Management, Collection & Security – this includes a review of controls relating to how income is collected in various service departments. It will examine the security arrangements which are designed to minimise the risk of misappropriation.

Risk – income is not recorded, lost or misappropriated.

Grants activity

6. Grants – the audit plan will include an examination of the controls in place for the administration of various grants that are awarded to the Council.

Risk – grants are not administered appropriately, putting the grant award at risk of being clawed back.

Procurement assurance

7. Procurement – the audits in this area will assess compliance with the Council's Procurement Manual and Standing Orders. This will include a review of the process for managing tender exercises.

Risk – that the appropriate tendering procedures are not followed, increasing the risk that European procurement rules are broken and the Council does not obtain best value.

General compliance

8. Governance – the governance programme covers a range of activities designed to ensure that the Council has, and can provide evidence of, robust governance arrangements. The audit work includes a review of housing repairs, economic development, Members expenses administration, new starts and leavers to the Council and additional payments to staff.

Risk – that the Council does not adequately control its operations leading to its key objectives not being achieved or the inappropriate use of resources.

Performance management assurance

9. Performance Management – audits in this area will review aspects of the Council's performance monitoring regime, including the collation of Statutory Performance Indicators.

Risk – that the Council does not achieve its key objectives due to inadequate or incomplete performance monitoring arrangements.

Information technology and information security

10. Information Technology and Security – audits in this area will test the procedures, processes and arrangements designed to ensure that systems are appropriately controlled and information is protected. Auditors will consider and assess information security issues throughout the course of all audits undertaken as part of the Audit Plan. Specific work will be undertaken to provide assurance over the security arrangements for core applications, compliance with retention arrangements and controls in relation to cybercrime. In addition assurance mapping of the IT landscape will be undertaken.

Risk – that sensitive or confidential data relating to individuals or organisations is lost or accessed without authority, leading to a potential financial loss if the Information Commissioner levies a fine on the Council. There is also a risk that a failure in the Council's IT provision will impact on service delivery.

Transformation

11. Transformation – audits in this area will review the arrangements for implementing the transformation programme to provide assurance over the progress and realisation of benefits where appropriate.

Risk – that the programme is not progressing as expected with expected benefits/savings not realised as required.

SIC Internal Audit Plan 2019/20 – Audit Universe

APPENDIX 2

Assurance Area	Audit Area	2017/18	2018/19	2019/20
General Compliance	Ferry Operations	✓		
	Train Shetland – Short Courses	✓		
	Data Protection, Retention and Destruction		✓	
	Disaster Recovery and Business Continuity		✓	
	Risk Assessment			
	Health and Safety			
	Roads		✓	
	Flexi-time/Annual Leave/TOIL		✓	
	Hostel		✓	
	Personal development plans		✓	
	Travel		✓	
	Economic Development			✓
	Housing repairs			✓
	Starters and Leavers			✓
	Additional Payments			✓
	Members Expenses			✓
Risk Management	Risk Management			✓
Transformation	Transformation/Best Value			✓
Section 95	Payroll	✓		✓
	Pensions	✓		
	Scottish Welfare Fund	✓		
	Revenues recovery		✓	
	Housing Rents		✓	
	Local taxation		✓	
	LEADER	✓	✓	✓
	Credits/hardship – Shetland College	✓	✓	✓

SIC Internal Audit Plan 2019/20 – Audit Universe

Assurance Area	Audit Area	2017/18	2018/19	2019/20
Section 95 (cont.)	IR35		✓	
	Off Island Placements			✓
	Ledger interfaces			✓
Establishment Visits	Establishment Visits	✓	✓	✓
Grant	Grant schemes		✓	
	European Funding Compliance			✓
Procurement	Contracts	✓		
	Procurement compliance			✓
Information Technology	Lair Reservation System	✓		
	Telematics		✓	
	Iphones/lpads		✓	
	Back up systems	✓		
	Service Level Agreements with third parties		✓	
	Stock and Inventory Management	✓		
	IT related business continuity and disaster recovery	✓		
	Network Access	✓		
	Change Management		✓	
	BACS, user access levels		✓	
	Spear Phishing/Cyber Crime			✓
	Core system application reviews			✓
	Document retention and disposal			✓
	IT Assurance Map			✓
Performance	Performance Indicators	✓	✓	✓
Capital Governance	Capital programme Governance			✓

SIC Internal Audit Plan 2019/20 – Audit Universe

Assurance Area	Audit Area	2017/18	2018/19	2019/20
Revenues and Benefits	Digital Workflow			✓



Meeting(s):	Audit Committee	6 May 2019
Report Title:	National Fraud Initiative – Audit Scotland Report	
Reference Number:	F-027-F	
Author / Job Title:	Jamie Manson, Executive Manager – Finance	

1.0 Decisions / Action required:

- 1.1 That the Audit Committee NOTE the contents of the report.

2.0 High Level Summary:

- 2.1 Every two years the Council participates in the National Fraud Initiative (NFI), a series of data matching exercises conducted by Audit Scotland that includes a range of Scottish public bodies, external auditors and the Cabinet Office to identify possible instances of fraud and error.
- 2.2 In July 2018 a national report was published that reviewed the results and findings of the 2016/17 NFI exercise in which a number of recommendations were highlighted as areas where improvements could be made by Local Authorities.
- 2.3 The purpose of this report is to provide an overview of the findings and recommendations made within the national report.
- 2.4 Work on the 2018/19 NFI exercises is currently underway with returned data matches currently being investigated and recorded.

3.0 Corporate Priorities and Joint Working:

- 3.1 The Council is determined to protect itself and the public from fraud and corruption and is committed to the rigorous maintenance of a Strategy for the Prevention and Detection of Fraud and Corruption.
- 3.2 The Council regards the NFI as an important element of this strategy, acting as both a deterrent to potential fraudsters and as a means of detecting instances of potential error and fraud involving the Council.

4.0 Key Issues:

- 4.1 The report presents and discusses the results of the most recent NFI exercise while highlighting the benefits of actively participating in the activities and outlines where participating public bodies could improve their procedural arrangements in relation to contributing to the NFI exercise.
- 4.2 The benefits of the NFI exercise as outlined by the report are that it:

- Acts as a deterrent to potential fraudsters.
- Identifies errors and fraud thus enabling 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.

4.3 The NFI exercises make a significant contribution to the security and transparency of public sector finances by:

- Ensuring that services and benefits are only paid to the correct people.
- Identifying and reducing fraud and error.
- Allowing overpayments to be recovered.
- Enabling penalties to be imposed.

4.4 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.

4.5 Some achievements of the 2016/17 NFI exercise which are noted in the Audit Scotland report include:

- Outcomes across Scotland were £18.6 million, up from 16.8 million in 2014/15.
- This comprised of £16.8 million of outcomes identified directly from the 2016/17 NFI investigation and £1.8 million of late outcomes arising from the 2014/15 NFI exercise.
- The areas which generated the most outcomes from the current exercise were:
 - £6.3 million (34%) occupational pensions stopped or reduced.
 - £4.4 million (24%) council tax discounts removed.
 - £2.6 million (14%) blue badges stopped or flagged for future checks.
 - £2.1 million (11%) benefit payments stopped or reduced.
- While the above outcomes were discovered across Scotland as a whole, the NFI exercise did not result in the discovery of any additional instances of fraud or error within Shetland that had not already been identified by the Council's existing internal controls.

- 4.6 One element of the NFI exercise that cannot be measured directly is the value of the deterrent effect that the planned data matching exercises have on potential fraudsters.
- 4.7 Recommendations made within the report to improve the effectiveness of the NFI include:
- That all participants in the NFI exercise consider:
 - Using the NFI AppCheck point of application service, the flexible matching service and the Equifax Public Sector Gateway service as appropriate when planning counter-fraud activities.
 - Whether it is possible to work more efficiently on the NFI matches by reviewing the guidance section within the NFI secure web application.
 - That 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 2018/19NFI exercise.
 - Where local authorities have identified specific areas where improvements could be made, the public bodies should act on those as soon as possible.
 - That local authorities 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.
- 4.8 Within the Council's Annual Audit Report for 2017/18, it was acknowledged by the external auditors that the Council had fully implemented the recommendations they made in the 2017/18 Audit Report.
- 4.9 The Audit Scotland report and up-to-date feedback from the 2017/18 external audit process is valuable as it enables the Council to recognise how it is performing and what can be improved.
- 4.10 Data for the 2018/19 NFI exercises was submitted by the deadline, and data matches were returned to the Council at the end of January 2019 for checking. The process of investigating and recording these data matches is currently underway with an aim of reviewing the highest quality/priority matches by the end of May 2019.

5.1 None.

6.0 Implications :

6.1 Service Users, Patients and Communities:	The Council must ensure Best Value in the delivery of services. The work of the Audit Committee and improvement opportunities in Audit Scotland and external audit reports contribute to this.
6.2	None.

Human Resources and Organisational Development:	
6.3 Equality, Diversity and Human Rights:	None.
6.4 Legal:	<p>The Council is an active participant in the NFI and uses the means that it has at its disposal to prevent, detect, investigate and pursue activity that is fraudulent, corrupt or of a similar nature to protect public resources.</p> <p>Audit Scotland have updated the Code of Data Matching Practice for the 2018/19 NFI exercise. The Code is now compliant with the General Data Protection Regulation (GDPR) (Regulation (EU) 2016/679 and the subsequent Data Protection Act 2018.</p>
6.5 Finance:	Active participation in the NFI by the Council provides an additional layer of assurance that certain types of fraudulent activities are identified and followed up so that public resources are protected.
6.6 Assets and Property:	None.
6.7 ICT and new technologies:	None.
6.8 Environmental:	None.
6.9 Risk Management:	<p>Risks faced by the Council in relation to fraud, error and corruption are mitigated through having a robust series of internal controls and procedures in place.</p> <p>Ensuring that these internal controls are maintained and kept up to date is the responsibility of the Section 95 officer. These internal controls assist the organisation in managing risk and helps in the attainment of organisational policies, aims and objectives. It ensures that assets are safeguarded and efficient and effective systems and procedures are in place.</p> <p>The NFI exercise has a role within these internal controls as an additional opportunity to potentially identify instances of fraud and error, whilst also acting to reaffirming the effectiveness of existing internal controls within the Council.</p> <p>Potential costs to the Council arising directly from fraud, error and corruption include both financial and social costs. There are also opportunity costs which arise as a result of investigating, correcting and recovering frauds and errors instead of providing</p>

	<p>services. There is also the risk of reputational damage to the Council if it fails to prevent fraud from occurring or is seen to be frequently correcting errors it has made.</p> <p>Internal Controls and procedures in place aim to protect the Council from these risks and are regularly reviewed by the Council's auditors, however failure to deliver effective external engagement and act on recommendations would also increase the risk of the Council working inefficiently.</p>	
6.10 Policy and Delegated Authority:	As outlined in Section 2.6 of the Council's Scheme of Administration and Delegations the Audit Committee has responsibility for providing the Council with reasonable assurance by overseeing and reviewing actions taken on external audit recommendations.	
6.11 Previously considered by:	None.	

Contact Details:

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24/04/19

Appendices:

Appendix 1 – The National Fraud Initiative in Scotland 2016/17

Background Documents:

Strategy for the Prevention and Detection of Fraud and Corruption

END

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.

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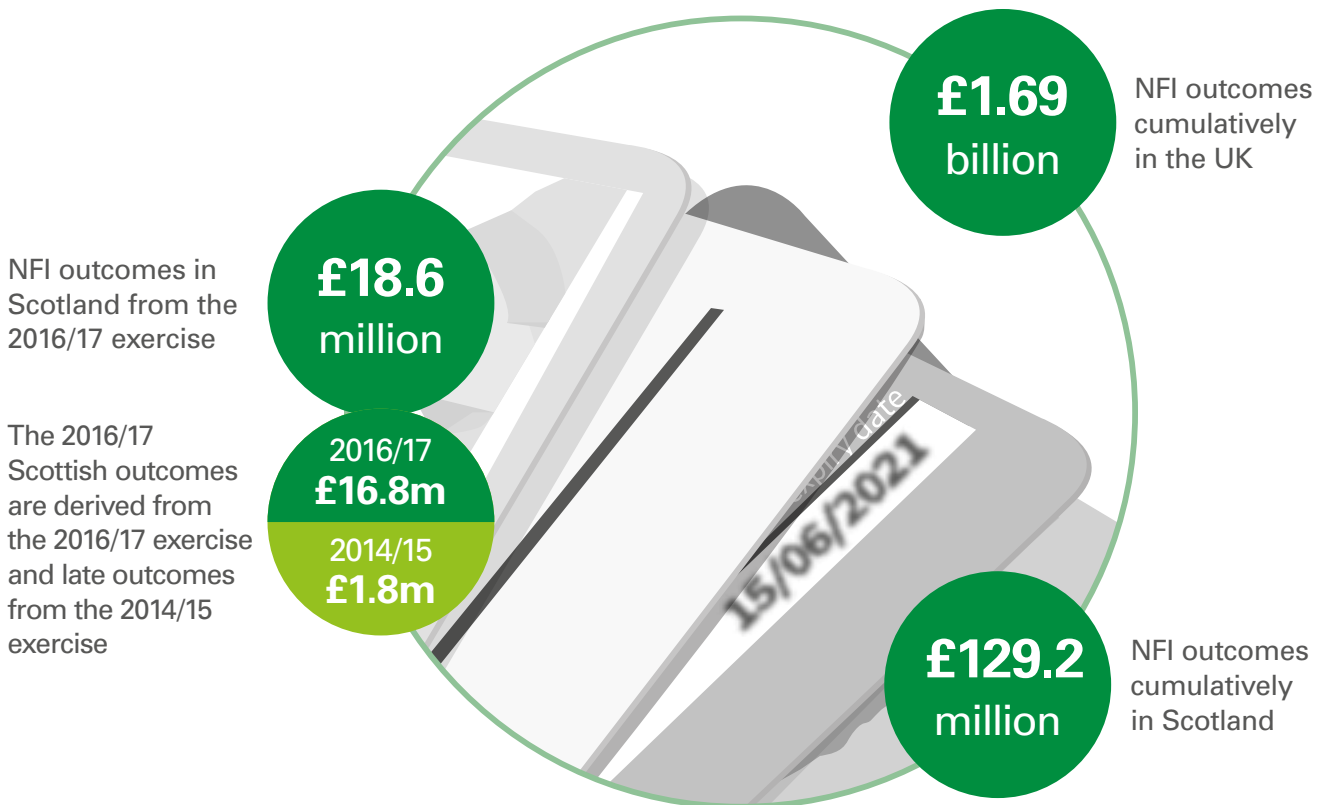
Audit team

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

Links

-  PDF download
-  Web link

Key facts



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

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



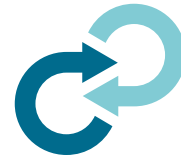
Operates across boundaries and public bodies in different sectors and countries



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

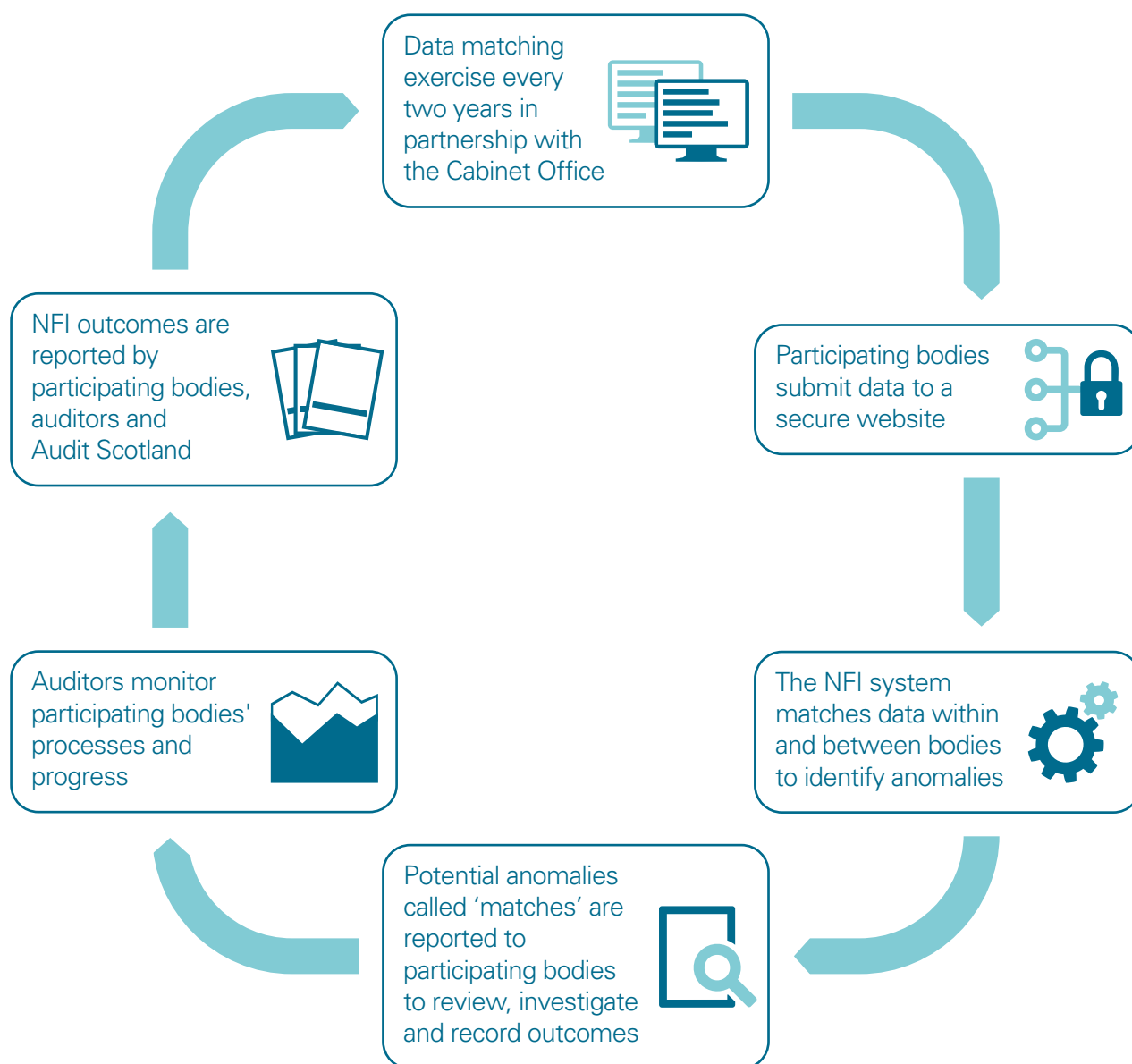
5. Fraud does not recognise organisational or geographic boundaries. Data sharing enables the NFI to use technology to compare information about individuals held by different public bodies, and on different financial systems, that might suggest fraud or error exists. This means public bodies can take 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**

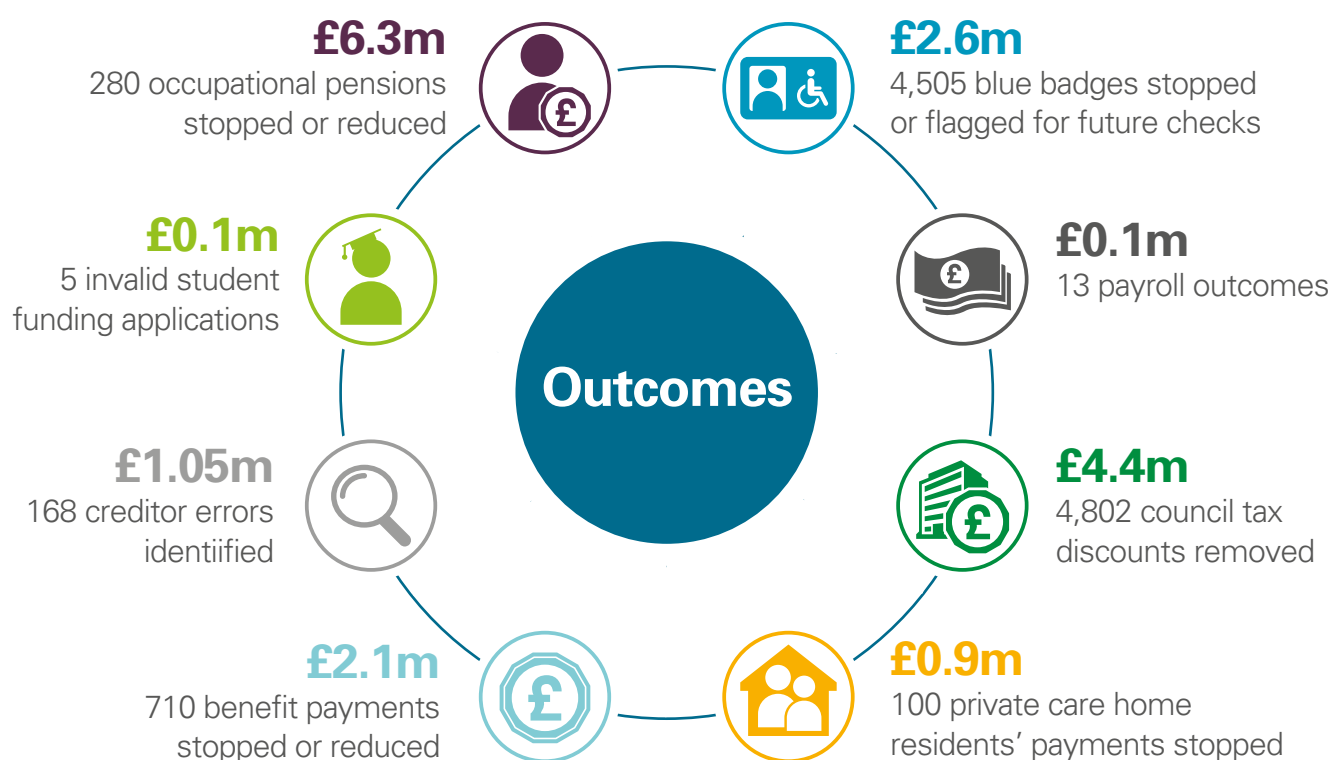
18. Importantly, once overpayments have been identified, public bodies can take appropriate action to recover the money. As at 31 March 2018, public bodies were taking action to recover £4.8 million (£4.6 million was being recovered at the end of the 2014/15 NFI in March 2016).

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



Source: The Cabinet Office NFI secure web application

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

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

NFI outcomes from specific matches

Pensions

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

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

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

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.

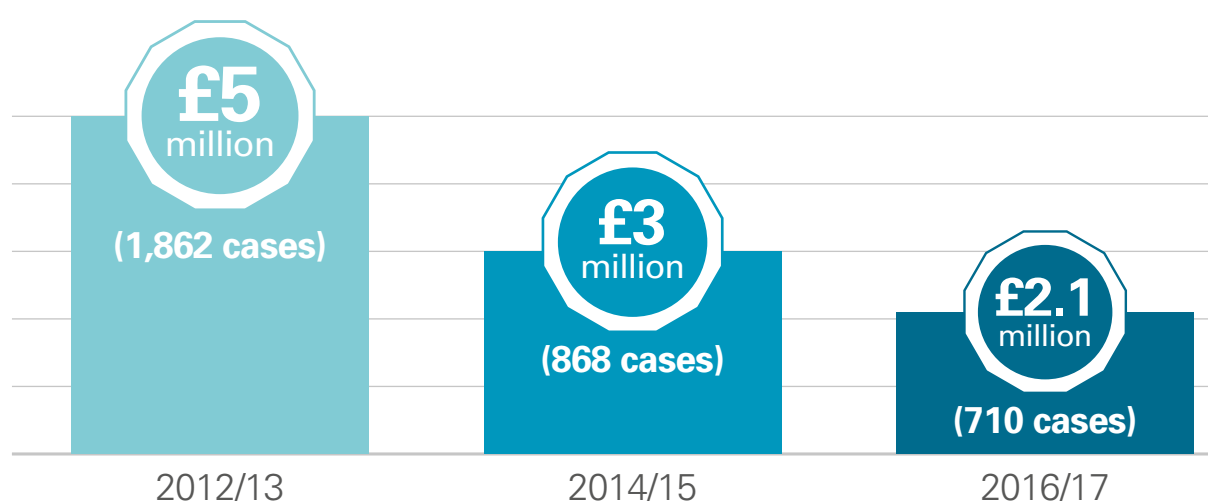
Source: The Moray Council

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.

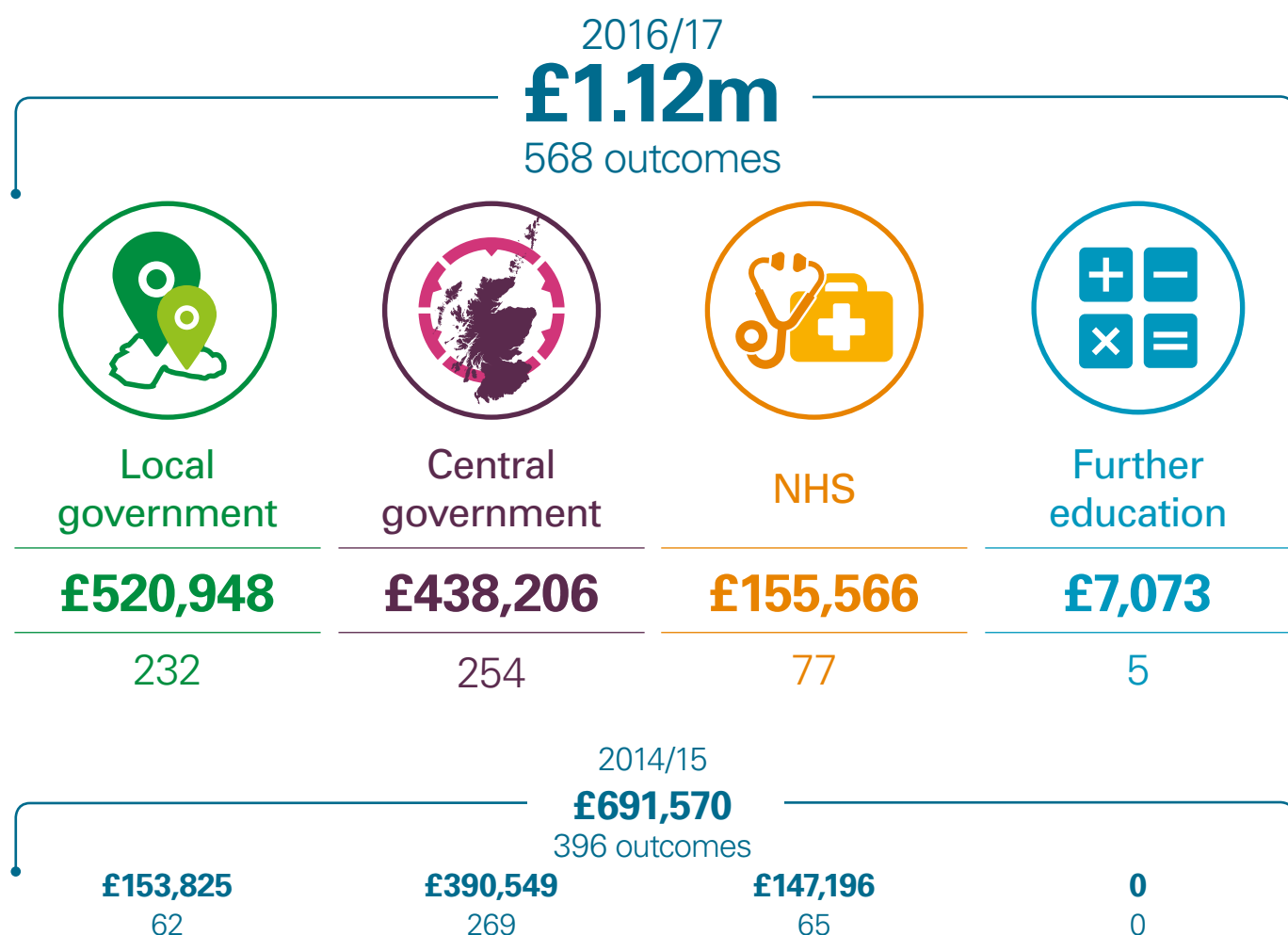
Matches benefiting other public bodies

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

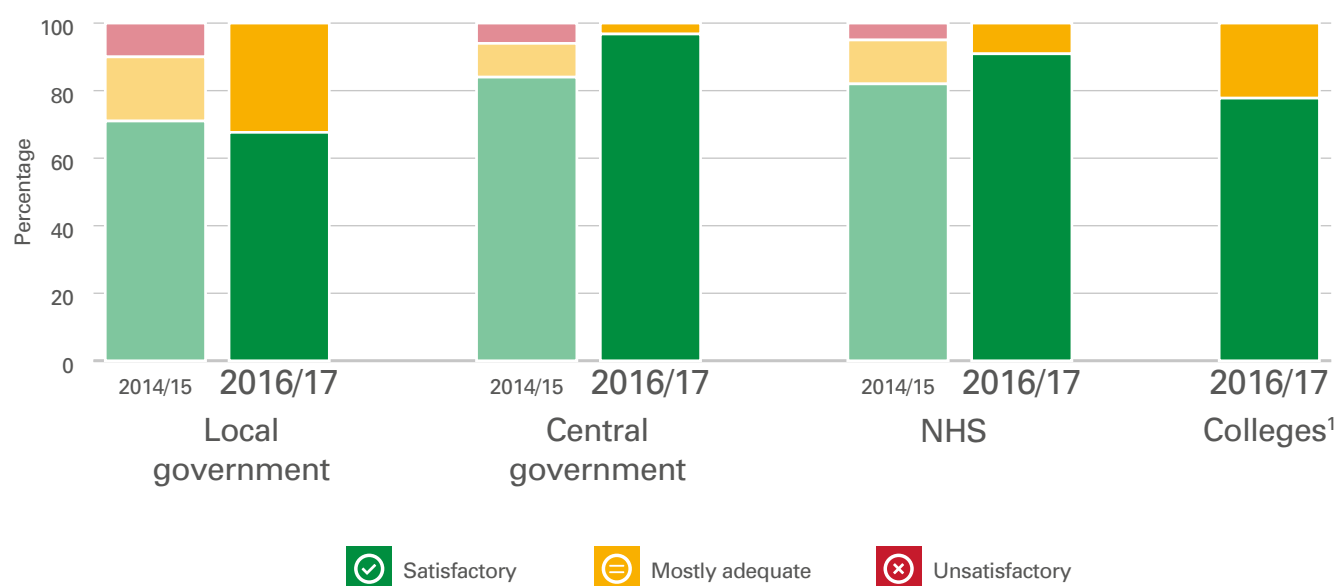
Overall findings

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



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







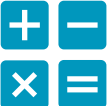

66. Audit Scotland funds the cost of the NFI system and the biennial data matching for Scottish public sector bodies (£189,650 for the 2016/17 exercise). Participating bodies incur costs following up matches and investigating. Participating bodies also incur costs for additional services such as the 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



- 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.

Source: Cabinet Office NFI team

The National Fraud Initiative in Scotland

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