# The Highland Council

| | |
|---|---|
| Agenda Item | **4** |
| Report No | **AC/16/26** |

**Committee:** **Audit Committee**

**Date:** **19 August 2026**

**Report Title:** **Internal Audit Reviews and Progress Report –12/05/2026 – 31/07/2026**

**Report By:** **Strategic Lead (Audit and Risk)**

## 1. Purpose/Executive Summary

1.1 This report provides details of the work undertaken by the Internal Audit section since the last report to Committee in May 2026.

## 2. Recommendations

2.1 Members are asked to:

i. **Consider** and **note** the Final Reports referred to in Section 5.1 of the report.
ii. **Scrutinise** and **note** the current work of the Internal Audit Section outlined at sections 6 and 7, and the status of work in progress detailed at Appendix 1 of the report.

## 3. Implications

3.1 Risk - the risks and any associated system or control weaknesses identified as a result of audit work or corporate fraud investigations will be reviewed and recommendations made for improvement.

3.2 There are no Resource, Legal, Health and Safety or Gaelic implications arising from this report.

## 4. Impacts

4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.

4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.

4.3 This is an update report and therefore an impact assessment is not required.

## 5. Internal Audit Reports

5.1 There have been three reports issued during this period as detailed in the table below.

| Service Cluster | Subject | Audit opinion |
|---|---|---|
| People | Emergency Social Work Services | Substantial Assurance |
| People | Early Years Service | Limited Assurance |
| Corporate | Supplier Bank Mandate Fraud | Limited Assurance |

Each report contains an audit opinion based upon the work performed in respect of the subject under review. The five audit opinions are set out as follows:

(i) Full Assurance: There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
(ii) Substantial Assurance: While there is a generally a sound system, there are minor areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
(iii) Reasonable Assurance: Whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
(iv) Limited Assurance: Weaknesses in the system of controls are such as to put the system objectives at risk, and/ or the level of non-compliance puts the system objectives at risk.
(v) No Assurance: Control is generally weak, leaving the system open to significant error or abuse, and/ or significant non-compliance with basic controls leaves the system open to error or abuse.

## 6. Internal Audit work in progress

6.1 Audits for the 2026/27 audit plan are in progress, and their current status is provided at **Appendix 1**. The Internal Audit Team has continued to make best efforts to ensure timely completion of this audit work.

## 7. Other Work

7.1 The Section has been involved in a variety of other work during the period which is summarised below:

- <u>Audits for other Boards, Committees and Organisations</u>

  Audit work has been undertaken during this period for the Valuation Joint Board, Pensions Board and for High Life Highland which will be reported to the respective Boards/ Committees in due course.

- <u>Attendance at HR & Payroll Programme Board</u>

  Audit representation has been requested on the Board in an independent non-voting capacity. The role being carried out by the Corporate Audit Manager is to act as the “critical friend” to assist in providing assurance in matters relating to internal controls, governance and risk management.

- Attendance at officer meetings for Inverness Green Freeport

  Developing preparatory understanding of arrangements surrounding the role of the Highland Council as Accountable Body for the Inverness Green Freeport. The Green Freeports Framework sets a range of new expectations and assurance requirements including additional internal audit reporting requirements.

- Attendance at officer meetings of the Schools Public Private Partnership (PPP1)
  Audit representation has been requested on the Project Board in preparation for the hand back phase (in an independent non-voting capacity). The role being carried out by the Corporate Audit Manager is to act as the "critical friend" to assist in providing assurance in matters relating to internal controls, governance and risk management.

- Global Internal Audit Standards (GIAS)

  Work continues implementing and embedding the requirements of the GIAS. A full self-assessment and gap analysis has been completed to inform new procedures and processes and to document an evidence base to assist in demonstrating conformance. Members will be aware of the self-assessment completed and provided as Appendix 3 within of the Internal Audit Annual Report 2025/26. Work is now underway to complete the actions identified from the gap analysis and recorded in the action plan.

- Attendance at the Scottish Local Authorities Chief Internal Auditors Group (SLACAIG) meetings

  The Council is a member of SLACAIG with the Strategic Lead (Audit & Risk) attending the quarterly meetings. In addition, there are also two sub-groups for computer audit and investigations which are attended by members of the Corporate Audit Team.

  The Strategic Lead (Audit & Risk) is also a member of the Management Committee and a member of the External Quality Assessment Moderation Panel.

- Update of Fraud Awareness Flyer

  Following the investigation into the bank mandate fraud referred to at 5.1 above, and in the next bullet point below, the Fraud Flyer has been updated and recommunicated to all users of the finance system (CiA). The Flyer is available on the Intranet and provides clear, easy-to-understand guidance on different types of fraud. It outlines employee responsibilities, explains what to do, and what not to do, if fraud is suspected, and includes links and information on how to report concerns.

- Corporate Fraud, Whistleblowing concerns and other investigations activity

  The Single Point of Contact (SPOC) work is an ongoing commitment providing information to Police Scotland, the Department of Work and Pensions and the UK Immigration Enforcement Office. This work assists these organisations in investigating potential crimes and in making our communities safer. An allowance of time for these commitments is made within the Internal Audit Plan each year. We have seen an increase in activity in this area over the last reporting period.

  We have a current commitment of 11 cases. This comprises of several active cases subject to investigation and those where the investigation has been concluded but there is ongoing recovery or has been reported to the Procurator Fiscal.

  Ongoing investigations during this period include:

  - Four ongoing Whistleblowing cases.
  - One Payroll Mandate Fraud.

- Five ongoing investigations, three reported by the Service, two identified by the Corporate Fraud team.
- One Supplier Bank Mandate Fraud – an immediate investigation was carried out at the time of the fraud was reported. A weakness report was prepared and the final report has been issued as referenced at section 5.1 above.

Where active fraud and whistleblowing investigations are in progress, no further information can be provided in order to prevent these being compromised. However, once the investigations have been completed including any associated disciplinary/ legal action where relevant, the control weaknesses reports will be provided to the Audit Committee to scrutinise.

Designation: Strategic Lead (Audit and Risk)

Date: 20 July 2026

Authors: Donna Sutherland, Strategic Lead (Audit and Risk)
Jason Thurlbeck, Corporate Audit Manager

Background Papers: N/A

Appendices:
Appendix 1 – 2026/27 Internal Audits in progress

**Appendix 1**

## Internal Audit Plan 2026/27

**Audits in progress:**

| Service Cluster | Audit Area | Priority | Audit Days | Current Status | Planned Committee Reporting Date |
|---|---|---|---|---|---|
| Corporate | Payroll | Medium | 30 | Draft Report issued | August 2026 |
| People | Additional Support for Learning | Medium | 30 | Substantially complete | August 2026 |
| Corporate | IT Infrastructure | High | 30 | Substantially complete | November 2026 |
| Place | Ferries | Medium | 30 | Substantially complete | November 2026 |
| Place | Roads Operations and Maintenance | High | 30 | Planning Complete | November 2026 |
| Place | Property Capital Projects | High | 30 | Fieldwork in progress | November 2026 |
| Corporate | Legal Services | Medium | 30 | Fieldwork in progress | November 2026 |
| Corporate | Review of Exit Packages | n/a | n/a | Fieldwork in progress | November 2026 |

**Audits to be allocated:**

| Service Cluster | Audit Area | Priority | Audit Days | Current Status | Planned Committee Reporting Date |
|---|---|---|---|---|---|
| Corporate | Strategic Improvement | Medium | 30 | | |
| Corporate | Insurance | Medium | 30 | | |
| Corporate | Data Protection | High | 30 | | |
| Place | Inverness and Cromarty Firth Green Freeport | High | 30 | | |
| Corporate | Human Resources – Work Force Planning | Medium | 30 | | |
| Place | Building Maintenance | Medium | 30 | | |
| Place | Economy & Regeneration | Medium | 30 | | |
| Place | Housing Development | Medium | 30 | | |
| Corporate | Risk Management | Medium | 30 | | |
| People | Family Teams - Whole Family Wellbeing Fund | Medium | 30 | | |
| People | Family Teams - Self Directed Support | Medium | 30 | | |
| People | Secondary Schools - Employability Services | Medium | 30 | | |

| Service Cluster | Audit Area | Priority | Audit Days | Current Status | Planned Committee Reporting Date |
|---|---|---|---|---|---|
| Place | Environmental Health | Medium | 30 | | |
| People | Fostering and Adoption - Families First | Medium | 30 | | |
| Corporate | Debtors | Medium | 30 | | |
| Place | Harbours | Medium | 30 | | |
| **Reserves** | | | | | |
| People | Family Teams - Child Plans | Medium | 30 | | |
| Place | Street Lighting and Communications | Medium | 30 | | |
| Corporate | Governance of Arms-Length External Organisations | Medium | 30 | | |

* Once the Terms of Reference has been prepared, this will detail the planned Committee reporting date.

Delivering for the future | Audit Scotland

# Internal Audit Final Report

## People Cluster

## Emergency Social Work Services

| Description | Priority | No. |
|---|---|---|
| Major issues that managers need to address as a matter of urgency. | High | 0 |
| Important issues that managers should address and will benefit the Organisation if implemented. | Medium | 6 |
| Minor issues that are not critical but managers should address. | Low | 0 |

**Audit Opinion**

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Substantial Assurance** can be given in that while there is generally a sound system, there are minor areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

**Distribution:**
Assistant Chief Executive - People
Chief Officer – Health & Social Care
Transition Head of Children and Justice
Strategic Lead (Care and Support)
Emergency Standby Co-ordinator
Audit Scotland

**Draft Date:** 23/06/26
**Final Date:** 30/06/26

## 1. Introduction

1.1 The Council's Emergency Social Work Services (ESWS) team provide a service pan Highland in terms of all services (i.e. for both children and adults) for both Highland Council and NHS Highland. The team is made up of 5.5 FTE and 0.5 of a management post and operates such that one professional member of staff is on duty and one on call. The team responded to 6,585 calls in 2024/25 (58% relating to adults, 42% to children). Work can extend to child and adult protection including county lines work and appropriate adult input and also includes dealing with care at home cover and mental health act work. All permanent team members are qualified mental health officers.

1.2 The audit covered the resilience of service delivery, partnership arrangements, timeliness of records used by the ESWS team in responding to calls and the data security of the call logs maintained by the team.

## 2. Main Findings

2.1 *Resilience of Service Delivery*

This audit objective was substantially achieved. Effective processes were in place to enable service delivery to continue in the event of staff absences. The ESWS Team were aware of wellbeing support options available to them, and survey responses from each team member highlighted that they felt well supported in their role. However, formal succession planning had not been carried out for the ESWS Team (See Action Plan M1). This could result in delays in replacing staff who leave the team with an impact on service delivery, and loss of knowledge from experienced team members.

2.2 *Partnership Arrangements*

This audit objective was partially achieved. The nature of work for the ESWS Team is protection, whether adult or children and legislation places a responsibility for agencies to work together. Partnership arrangements with NHS Highland were under review at the time of the audit, and the version of the Partnership Agreement in place was signed off by the Council and NHS Board in March 2021 and received Ministerial sign off in February 2022. While the Partnership Agreement evidenced Highland Council's responsibility to provide an out of hours social work service, it did not prescribe how this should be provided and references within the Partnership Agreement were to Out of Hours Social Work, rather than emergency Social Work. Different operating structures in different area NHS Care at Home Teams in the North and West Areas result in significant volumes of non-emergency calls to ESWS (See Action Plan M2). Handling non-emergency calls such as arranging care at home cover could impact on capacity to deal with emergency calls.

There were no formal meetings with other Social Work Teams or partner agencies. However, as the Co-ordinator is a member of the Senior Management Team, she is able to inform practice developments across the Cluster. The Emergency Standby Co-ordinator provided details of a number of ways in which she liaised with other teams to highlight and address issues and improve the visibility of the ESWS team both within Highland Council and with partner agencies.

There were no performance indicators for the ESWS Team, however the number of calls received broken down between adult & children was included in the Chief Social Work Officer's annual report along with a text narrative explaining any change from the previous year (See Action Plan M3). In the absence of a defined performance framework, senior management and the Chief Social Work Officer may have limited assurance over how effectively the Emergency Social Work Service is meeting statutory duties, managing risk, and responding to demand.

As the ESWS are often engaged with individuals who are distressed and/or angry about a decision made, they inform individuals about the complaints procedure and how to access it. No complaints were received in 2024/25 or 2025/26 in respect of the Emergency Social Work Service Team. Further, positive feedback regarding support and advice has been received (via emails).

The 2 dates with highest call volumes during the period examined (January – October 2025) related to dates where storms affected the Highland Council area. Call levels were more than treble the

average call volume for the period examined, and 50% higher than the next highest call volume. Previously ESWS had not been included in corporate preparations around storm events, but this has changed recently.

For the 10 most frequent clients recorded on the ESWS call log there was evidence of inter-agency liaison and increased support arrangements where considered appropriate. The majority of calls related to absconding from the children's residential home where the client lived. Some residential units had a protocol that they had to notify Social Work when a client absconded. ESWS had requested that residential units email the allocated Social Worker (in a daytime team) as there was not generally a need for an out of hours social work assessment. There would be no impact on client safety as ESWS were only recording the absconding and were not taking action unless intervention was required. Analysis of the call log showed that 441 of the 5177 (8.5%) calls detailed on the log in the period examined related to absconding (See Action Plan M4). Responding to calls not requiring an emergency social work assessment or intervention reduces capacity to respond to other emergency calls.

2.3 *Timeliness of Client Records*

This audit objective was partially achieved. The ESWS Team Handbook detailed the processes for recording out of hours calls and notifying other social work teams. Considerations around data sharing practices with other agencies were outlined in the Partnership Agreement with NHS Highland and within Child Protection procedures. These were in line with guidance from the Information Commissioner's Office guidance on information sharing for safeguarding purposes.

ESWS Team members highlighted instances where key information was not available to ESWS, and 1 daytime social work team manager highlighted an example where their team were not notified of an ESWS intervention (See Action Plan M5). The other team managers who responded stated that they were satisfied that they were appropriately notified by ESWS. Improving the availability of information could better assist appropriate decision making and reduce the likelihood of adverse consequences. Audit testing highlighted two examples of a potential lack of client information being available in CareFirst for the ESWS Team. Where client information is not readily available in CareFirst there is a risk that calls to ESWS could take longer to resolve, and that decision making may be hindered, with the risk of poorer outcomes for the client. Records examined as part of the sample test were updated promptly and accurately after each event by the ESWS Team with notification of their involvement communicated to the relevant daytime Social Work team.

2.4 *Data Security*

This audit objective was substantially achieved. Access to the ESWS SharePoint site where team documents including the call log were held was appropriate and limited to authorised personnel. Appropriate processes were in place to review and, where required, remove access to the ESWS SharePoint site. Each team member self-assessed their understanding of their responsibilities in relation to information management as 5 (on a scale of 1-5, scored 1 as low, 5 being best). Version control and audit logs were enabled on SharePoint to track changes and access to ESWS documents.

However, mandatory training on Information Management was only completed by 1/6 team members, and Cybersecurity Awareness by 2/6 Team Members. In the majority of cases the training had previously been undertaken but not refreshed within the last year. Only 1/6 team members had not previously completed either training course (See Action Plan M6).

## 3. Conclusion

3.1 The audit found that there were generally effective processes in place for the provision of the Emergency Social Work Service. Team members reported feeling well supported in their role, which was important for the continuity of service delivery given the nature of their role. Effective data security was in place for files created and held by the team.

The main issues highlighted by the audit were around the lack of succession planning, the availability of relevant case file data to enable ESWS to carry out their role, and the use of ESWS to deal with calls that were not emergencies. There were also no

performance indicators to evidence how well the ESWS team were delivering the service.

The recommendations within this report will help to improve the sustainability of the service, reduce the number of non-emergency calls and improve the consistency of data availability to enable ESWS to carry out their role effectively.

## 4. Action Plan

| Ref | Priority | Finding | Recommendation | Management Response | Implementation | |
|---|---|---|---|---|---|---|
| | | | | | **Responsible Officer** | **Target Date** |
| M1 | Medium | Formal succession planning had not been carried out for the ESWS Team. This could hinder ongoing service delivery as the provision of ESWS is a statutory requirement. | A succession planning exercise should be carried out using the Council's Succession Planning guidance and toolkit. | Succession planning exercise to be completed. | Emergency Standby Co-ordinator | 01/08/26 |
| M2 | Medium | Different operating structures in different area NHS Care at Home Teams in the North and West areas resulted in significant call volumes to ESWS. Receiving non-emergency calls reduces the ability to respond to emergency calls. | Discussions with NHS Highland should continue with a view to NHS Highland being responsible for handling non-emergency calls in relation to Care at Home provision in the North and West Areas. | CSWO to advise Chief Officer in NHSH that they must circulate Adult Social Care contact numbers and manager details to care at home staff in North and West areas stating that all out of hour issues are their responsibility. Contact with ESWS should be for emergency situations as they arise. Situation will be monitored. | Chief Officer – Health & Social Care | 01/08/26 |
| M3 | Medium | There were no performance indicators for the ESWS Team. Therefore, it may be difficult to gain assurance over the effectiveness of ongoing service provision. | Management should develop and implement a small set of proportionate performance indicators for the Emergency Social Work Service. These could focus on activity, responsiveness, decision-making and outcomes, and should be monitored regularly to support oversight, service planning and resourcing and continuous improvement. | To discuss with PRMS business partner and agree indicators. | Chief Officer – Health & Social Care | 01/08/26 |
| M4 | Medium | Some residential units had a protocol that they had to notify Social Work when a client absconded. Receiving non- | Residential Units should be instructed that notifications of absconding should be made to the relevant daytime Social | Work is ongoing in this area - some units are aware that they should only contact us if they require a social work | Strategic Lead (Care and Support) | 01/10/26 |

| Ref | Priority | Finding | Recommendation | Management Response | Implementation | |
|---|---|---|---|---|---|---|
| | | | | | **Responsible Officer** | **Target Date** |
| | | emergency calls reduces the ability to respond to emergency calls. | Work team unless there is a need for an out of hours social work assessment or intervention. | intervention. Protocol to be written and introduced for all residential houses to ensure consistency of practice. Multi-agency Missing Children Guidance will be promoted in July/August, however some units have this included in their own protocol. | | |
| M5 | Medium | ESWS Team members highlighted instances where key information was not available to ESWS, and on 1 occasion daytime teams were not notified of an ESWS intervention. Access to up to date and accurate information is required for Social Workers to best ensure appropriate action and decision making. | Discussions should be held between ESWS and daytime social work teams to develop a consensus on the key information that should be available to ESWS and where that will be held within CareFirst. | The Team Manager highlights issues with recording with the relevant Practice Leads & Children's Service Managers when they are identified. The Team Manager has also attended multiple team meetings with daytime teams, which will be revisited. | Emergency Standby Co-ordinator | 01/10/26 |
| M6 | Medium | Mandatory training on Information Management was only completed by 1/6 team members, and Cybersecurity Awareness by 2/6 Team Members. A failure to complete mandatory training reduces the Highland Council's ability to demonstrate compliance with legislation and best practice. | All staff should be instructed to complete the training annually, with a process introduced where the Team Manager identifies and addresses delays in completion. | Team to be instructed to complete mandatory training and then monitored by Team Manager. | Emergency Standby Co-ordinator | 01/08/26 |

# Internal Audit Final Report

People Cluster

Early Years Service

| Description | Priority | No. |
|---|---|---|
| Major issues that managers need to address as a matter of urgency. | High | 3 |
| Important issues that managers should address and will benefit the Organisation if implemented. | Medium | 7 |
| Minor issues that are not critical but managers should address. | Low | 0 |

**Audit Opinion**

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Limited Assurance** can be given in that weaknesses in the system of controls are such as to put the system objectives at risk, and/ or the level of non-compliance puts the system objectives at risk.

**Distribution:**
Assistant Chief Executive, People
Chief Officer, Education (Primary)
Chief Officer, Integrated People Services
Senior Manager, Early Years
Area Quality Improvement Manager
Business Support Manager, Corporate Service
Strategic lead, Resources
Strategic Lead, Operations

**Draft Date:** 10/07/2026
**Final Date:** 30/07/2026
**Reissued Date:** 05/08/2026

## 1. Introduction

1.1. The Early Years team function is to be the guarantors of quality for Early Learning and Childcare (ELC), which is all nursery provision across the Highlands. The Children and Young People (Scotland) Act 2014 sets out Local Authorities' obligations to provide ELC. This legislation and subsequent revisions stipulate that 1140 of funded hours of ELC per year will be provided to 3, 4 and 5 year olds and some 2 year olds whose parents meet specific criteria.

1.2. The Council's Early Years Service delivers ELC via 220 registered settings comprising of 157 Local Authority, 44 Private, Voluntary and Independent (PVI) providers and 19 commissioned childminders. The PVI providers and childminders are paid dependent on how many eligible 2 and 3-5 year olds they have enrolled who have applied for funded hours.

1.3. The 2025/26 budget for Early Years was £38.m, £25m for Local Authority nurseries, £10.1m being paid to PVI providers and the remainder for management, support and other services.

1.4. Where a child attends a Local Authority setting for more than 1140 hours, their parent/guardian must pay for any additional hours (flexible childcare service). The income budget for the flexible childcare service in 2025/26 was £1,016,709 (note this covers early years and P1-7 children who attend out with normal school hours). The provision of 1140 hours of ELC is a statutory requirement whereas additional flexible childcare is not. The Council does not provide additional flexible childcare in all its settings, in 2025/26 flexible childcare income was recorded in CiA against 76 settings (separate cost centres).

1.5. SEEMiS is the Management Information System used by schools for pupil data. National development work had been underway for several years to introduce a SEEMiS Early Years module to support the administration of the 1,140 hours of funded ELC. However, the module was not delivered, resulting in a collective decision by all Scottish local authorities to pause further early years development and review the suitability of SEEMiS.

1.6. Following this review, it was decided at the start of 2026 to move away from the use of SEEMiS. Scoping work is currently being undertaken to procure a new national management information system, which is expected to include functionality to support administration of the 1,140 funded ELC hours for both local authorities and private, voluntary and independent (PVI) partner providers. The new system may also include functionality to support charging arrangements for wraparound childcare. An update on the position was reported to the Education Committee in June 2026.

1.7. The expectation was that SEEMiS Early Years would have enabled LA and PVI partners to record funded hours, ensuring that each child's full 1,140 hour funded entitlement could be monitored. This would have enabled funded placements to be tracked across different providers, helping ensure that no child received more than their allocated 1,140 funded hours. The system would also have supported the administration and billing of additional childcare hours provided outside the funded entitlement. This provides some mitigation in terms of the systems that the Education Service is currently using as there was no active development of these as the expectation was that SEEMiS Early Years would deliver improvement in this area as described.

1.8. The audit reviewed the systems and processes for commissioning PVI providers and the payment of funded hours and separately examined the flexible childcare service.

## 2. Main Findings

*2.1 There is a robust commissioning framework in place to ensure that PVI providers of Early Learning and Childcare (ELC) comply with both Council policies and external ELC regulatory requirements.*

This objective was partially achieved. The Early Years Service had a formal commissioning process for PVI nurseries and childminders. This process was documented and included an application form and visit to prospective PVIs' sites by Early Years staff and a visit checklist plus follow up quality assurance visits. Review of a sample of PVIs confirmed that applications were retained. However, in some instances documents forming part of

the onboarding assessment process were not held in their expected location. In addition, the application procedure and supporting documents did not clearly evidence all documents reviewed as part of the due diligence for commissioning (See Action Plan M1).

PVIs submitted an annual declaration confirming their agreement to the terms of service under which they were commissioned. They also provided up to date evidence, including proof of insurance cover, a staff list demonstrating registration with Scottish Social Services Council, and recent financial accounts (or a tax return for smaller providers). There was evidence these declarations and supporting documents were provided on time. However, this annual process created potential gaps in assurance where a PVI's circumstances changed between renewal points. For example, insurance policies could expire. Whilst there were regular programmes of visiting and working with all providers on the quality of education in settings there was no systematic inspection regime in place to verify that providers remained compliant with all key policies and procedures, for example fire evacuation (See Action Plan M1).

Although financial accounts were submitted by PVIs annually, the Early Years Service indicated that additional training or support from Finance staff would be beneficial to enable staff to effectively interpret and scrutinise this information in order to assess PVIs' financial viability (See Action Plan M2).

The commissioning process had previously not followed the Council's formal procurement processes. However, the Service was now working with the Commercial and Procurement Shared Service to create an Early Years framework agreement in line with other Councils.

In reviewing the services provided we found one exception where the Service was paying a parent, who then paid a nanny for childcare. This was described by the Early Years Service as part of a trial of more flexible childcare arrangements, within the Person-Centred Solutions workstream of the Council's Delivery Plan. This seeks to develop flexible, place-based childcare provision that responds to the needs of local communities. However, there were several concerns. There was limited evidence of due diligence on the nanny, aside from an unsigned application and an email confirming a satisfactory visit, which took place nine months after the first payment. In addition, paying the parent rather than the childcare provider does not align with the Council's usual approach to paying for services (See action plan M3).

2.2 *The Early Years Service has accurate data on child enrolment for funded ELC hours in order to provide satisfactory returns to the Scottish Government and associated agencies.*

This objective was achieved in that the Service confirmed the census information had been submitted on time in the correct format (evidence of this was requested but not provided). Discussions with the Service outlined checking took place to ensure the data was accurate with no single individual responsible for all stages of the process.

2.3 *Payments to PVI providers of ELC are correct and made in accordance with the Council's Financial Regulations.*

This objective was partially achieved. There was evidence of checking by Early Years staff to ensure payments were made correctly to providers and a sample of payments agreed to the enrolment forms and claims submitted by PVIs. The Service was able to demonstrate that it undertook various checks to minimise risk of overpayment.

Independent spot checks with parents of children attending the PVIs receiving payments was last carried out in March 2024. These were not carried out more recently due to staffing pressures. (See action plan M4).

The process was not effectively supported by an appropriate software system to aid administration, management and oversight. Instead, it relied heavily on Early Years staff carrying out time-consuming manual processes, including workarounds

and the use of multiple spreadsheets. In addition, unique reference numbers were not consistently used for children accessing early years services. These limitations increased the risks of errors and made it more difficult to cross check enrolment data for accuracy. (See action plan M5)

2.4 *There are adequate systems and processes to collect all income due for additional ELC provision (flexible childcare service).*

This objective was not achieved as the flexible childcare service lacked effective controls. Weaknesses in systems, processes, and governance meant assurance could not be provided over the accuracy or completeness of income.

The Early Years Service was aware of weaknesses in this part of the service and was actively working on making improvements via numerous procedural initiatives started by operational staff to help improve day to day administration of the service.

A senior management driven best value review of service costs and viability was underway (including benchmarking practice with other local authorities). This was being progressed as part of the Medium Term Financial Plan 2026/27 to 2028/29, considered at Council on 5 March 2026, where new saving proposals were agreed to improve value for money through service review processes. This involved critical review and benchmarking of Local Financial Returns, other data returns and performance metrics such as the Local Benchmarking Framework, which aims to identify and inform the delivery of service efficiencies.

Strategy, governance and business model

Although improvement work was underway there was no defined strategy or defined business model to inform the provision of flexible childcare services. Income was collected in arrears, contrary to the expectations of the Council's Corporate Charging Policy. The flexible childcare service budget had been set based on a historic position rather than the known demand or enrolment data. There was an opportunity to improve financial oversight by developing a comprehensive understanding of the full costs of the flexible childcare service, both overall and by individual setting. Increasing transparency would support the Early Years Service to better assess viability of flexible childcare provision. (See action plan M6).

Database weaknesses

The database used to administer the flexible childcare service served as the primary system of record for the administration and monitoring of all services provided, as well as the reconciliation of income received in respect of those services. This information was held out with the Finance system (CiA). This database was not fit for purpose and had numerous limitations. It could not produce key reports or manage data effectively. Reporting was inaccurate for example wrongly showing 146 payees having a payment date in the future. Staff relied on manual workarounds and multiple spreadsheets, to try and maintain accurate enrolment, billing and income records which were complex, inefficient and led to inconsistencies. This made it difficult to reconcile enrolment, billing, and payments. Generating parent statements was time consuming and placed additional strain on the system. (See action plan H2 and H3).

Process and control weaknesses

Procedures were not standardised or up to date, and use of the database varied across schools and areas. Roles and responsibilities had not been recently reviewed, with some tasks (e.g. debt recovery) not well aligned with staff skillsets for Early Years staff.

Key controls were weak. For example, Early Years staff and sampling of settings confirmed that only around half of parents had signed costing agreements setting out terms and conditions and sums owed (work was underway to complete this for the new academic year i.e. August 2026). Frequent manual changes to billing data indicated poor data quality and a lack of clear rules. Errors and outdated information were also identified in the system (See action plan H3).

Income collection and debt management

Income was not always collected fully or on time. According to the database total debt stood at £358,756 as of March 2026, including a significant amount of historic debt. At least £102,823 of the above total was over 5 years old relating to payees no longer using the service. Debt was recorded in the database and not consistently recorded in the Council's ledger. As a result, there was no assurance that the database amounts were complete or accurate. This was contrary to the Council's Financial Regulations. The Service was not fully using corporate debt recovery processes, instead managing arrangements locally. In some cases, very low repayment plans were agreed. Childcare places were rarely withdrawn for non-payment, and records of such actions were not accurate (See action plan H1 and H3).

Payments

Multiple payment methods created complexity when reconciling payment information from the ledger and bank statement and subsequently uploading payment information to the database.

Reconciliations were hindered by parents routinely paying with irregular and varied online payments instead of regular fixed direct debits. The use of online payments was intended for parents to aid clearance of outstanding balances.

The database had records showing a considerable number of payees had made overpayments which may require refunds (as of March 2026 total credit balance stood at £138,830). However approximately £6,000 of these could not be allocated to a payee on the database due to insufficient information being held. Also, for some payees refunds could not be made (c.£7,800) as this related to tax free childcare accounts and details for these accounts were not held centrally, impeding the refund process (See action plan H1).

Staff capacity

Staff capacity was acknowledged as a key issue with many Early Years staff having competing responsibilities within schools, limiting the time available to manage enrolment, billing, and income. Some recent improvements in pursuing historic debt and managing current payee billing had been supported by temporary staffing resources, raising concerns about sustainability once these end (See action plan M7).

Database supplier arrangements and data security

There was a lack of evidence provided of a formal contract or service agreement with the database system provider. It was unclear where data was stored or how it was secured. There was reliance on a single person in the Early Years service as the only point of contact with the database system provider should issues arise. Reports on who could use the database showed overall access as appropriate although there was a user not identified via the Council's staff list, who had a personal email address against their account and no details were provided on when user access had last been reviewed (See action plan H2)**.**

Information governance

Excess historic data on payees was being retained, both in the database system and on SharePoint. There were no clear processes for archiving or deleting data, creating a risk of non-compliance with data protection and retention policies. (See action plan M3).

2.5 Additional observation on service risk

The Early Years Service had not assessed risks and thus had not input to the service risk register in line with the Council's risk management policy and guidance. (See action plan M7).

## 3. Conclusion

3.1 The audit identified a number of strengths within the Early Years Service, including established commissioning arrangements, ongoing work with the Commercial and Procurement Shared Service to create an Early Years framework agreement aligned with practice in other Councils, and the timely submission of statutory census returns. Staff demonstrated a strong commitment to maintaining service delivery and had implemented compensating controls and manual processes where system limitations existed. There were some controls to ensure accuracy of payments to PVIs although there was scope to strengthen these.

However, control weaknesses were identified across governance, systems, processes and income management acting contrary to the Council's Financial Regulations and other corporate policies. In particular, the flexible childcare service lacked a clear strategy and business model, robust financial controls, fit-for-purpose systems and effective debt management arrangements. Heavy reliance on manual processes and local workarounds increased the risk of error and reduced management oversight, while weaknesses in data quality and record keeping limited the ability to provide assurance over the completeness and accuracy of income. The Early Years Service was aware of these matters and was progressing work to address them both at managerial and operational level. However, there was scope to build on this work further.

There were opportunities to strengthen the control environment by formalising procedures, improving monitoring arrangements, introducing more effective system support, strengthening debt recovery processes and ensuring that these comply with Financial Regulations, improving data governance, and developing a clearer understanding of the flexible childcare service costs.

Addressing these issues would improve assurance, reduce operational risk and support the long-term sustainability of both commissioned Early Learning and Childcare provision and the flexible childcare service.

## 4. Action Plan

| Ref | Priority | Finding | Recommendation | Management Response | Implementation | |
|---|---|---|---|---|---|---|
| | | | | | **Responsible Officer** | **Target Date** |
| H1 | High | Several control weaknesses were identified with the systems and process for the flexible childcare service with regard to income and debt management: | The income collection and debt management arrangements for the Flexible Childcare Service should be reviewed as a priority to strengthen current practices and ensure full compliance with the Council's Financial Regulations, Corporate Charging Policy, and Corporate Debt Management Policy. The review should also ensure that CiA is used consistently for the administration, processing, and recording of all financial transactions relating to services provided, supporting accurate financial management, auditability, and effective debt recovery. In particular: | The Early Years Service will work with Finance and Business Support colleagues to ensure a new process can be agreed and implemented that ensures practice is within the Financial Regulations of the THC. | Chief Officer, Primary Education and Early Years/Area Quality Improvement Manager | 31/12/26 |
| | | Multiple payment methods leading to increased complexity and uncertainty over income collection. | The Early Years service should review payment methods consulting Income and Recovery on the optimal methods. | See first point above | Chief Officer, Primary Education and Early Years/Area Quality Improvement Manager | 31/12/26 |
| | | There was difficulty reconciling flexible childcare service provision enrolment records and billing data with manual workarounds held locally. | Enrolment records for flexible childcare service provision and billing processes need to be reviewed to ensure that the Early Years service can reconcile all enrolment and billing data. | A new system will be investigated to support the new robust process. The new system should allow for payment in advance. | Senior Manager, Early Years | 30/04/27 |

| Ref | Priority | Finding | Recommendation | Management Response | Implementation | |
|---|---|---|---|---|---|---|
| | | | | | **Responsible Officer** | **Target Date** |
| | | Debt recording and recovery not undertaken in accordance with Council policy. Debt was recorded on a database out with CiA which was not in accordance with the Council's Financial Regulations. | Where an invoice is required, this should be raised on CiA. This will ensure that all outstanding debt is recorded and recovered in accordance with the Council's debt recovery arrangements. | See first point above | Chief Officer, Primary Education and Early Years/Area Quality Improvement Manager | 31/12/26 |
| | | A considerable amount of the historic debt was over 5 years old, and recorded out with the Council's ledger. | Outstanding debt should be reviewed and the Corporate Debt Management Policy applied. | See first point above | Chief Officer, Primary Education and Early Years/Area Quality Improvement Manager | 31/12/26 |
| | | The database records showed a considerable number of payees had made overpayments which may require refunds (as of March 2026 total credit balance stood at £138,830). There was approximately £6,000 of refunds which had not been allocated to payees. | Service usage, billing and payments need to be reconciled and then a formal process set up to ensure all valid refunds can be accurately made to payees where the flexible childcare service is no longer required. Once historic refunds have been addressed new processes should look to minimise the need for making refunds. | Early Years Service have confirmed they are awaiting the return of BACS forms from payees in order to refund these amounts. | Senior Manager, Early Years | 31/10/26 |
| | | Approximately £7,800 of refunds had not been processed due to a problem with tax free childcare accounts. | A formal standardised process should be set up to ensure refunds can be made to tax free childcare accounts where a payee is entitled to a refund. | The Early Years Service is currently working with Finance to resolve this. | Senior Manager, Early Years | 31/10/26 |

| Ref | Priority | Finding | Recommendation | Management Response | Implementation | |
|---|---|---|---|---|---|---|
| | | | | | **Responsible Officer** | **Target Date** |
| H2 | High | The audit identified concerns over the database used for the flexible childcare service:<br><br>Lack of clarity over the formal relationship with the database provider and no current assurance on security of data held. | The arrangements for using the database should be reviewed including:<br><br>Formalising contractual arrangements with the database provider and obtain assurance over data security, backup and recovery. | The Early Years Service will work in partnership with the Business Solutions Team and ICT services ensure compliance in relation to data security. | Senior Manager, Early Years | 31/12/26 |
| | | The database used to administer the service had a number of significant limitations which hindered efficient operation. | Consideration whether it is fit for purpose. This review should identify required improvements to ensure the necessary functionality, data management, and reporting capabilities required by the service. | Covered by responses at H1 | Chief Officer, Education and Early Years/Area Quality Improvement Manager | 30/04/27 |
| | | User access to the database had not been reviewed. | Users' access rights to the database to ensure that these are current and appropriate. Thereafter a programme of regular access reviews should be established. | Covered by responses at H1 | Chief Officer, Education and Early Years/Area Quality Improvement Manager | 30/04/27 |
| H3 | High | A number of control weaknesses for the operation of the flexible childcare service were identified: | The operation of the flexible childcare income process should be comprehensively reviewed including the following: | The Early Years Service will ensure that current guidance is refreshed, and robust procedures are in place to ensure they are sufficiently scrutinised and audited to ensure compliance. | Chief Officer, Primary Education and Early Years/Area Quality Improvement Manager | 31/10/26 |
| | | There was a lack of service policy and standard procedures. Roles and responsibilities were unclear and not always appropriate (e.g. | The development of a service policy and standard operating procedures supported by a review of roles and | Within the guidance there will be clear descriptions of roles and responsibilities to ensure accountability at all levels. | Chief Officer, Primary Education and Early Years/Area | 31/10/26 |

| Ref | Priority | Finding | Recommendation | Management Response | Implementation | |
|---|---|---|---|---|---|---|
| | | | | | **Responsible Officer** | **Target Date** |
| | | for debt collection) and there were concerns over staff capacity and reliance on fixed term resource. | responsibilities. Including that the Council's Debt Recovery Team should be responsible for undertaking recovery actions. | | Quality Improvement Manager | |
| | | There was absence of formal agreements with all payees. | All Service users should sign a costing agreement which should set out the payments that will be made. | Covered by the above responses | Chief Officer, Primary Education and Early Years/Area Quality Improvement Manager | 31/10/26 |
| | | Services were rarely withdrawn in the event of non-payment. | The need to establish and consistently apply a documented process for the withdrawal of services where payees fail to comply with agreed payment arrangements. | Covered by the above responses | Chief Officer, Primary Education and Early Years/Area Quality Improvement Manager | 31/10/26 |
| | | Data was being held unnecessarily across the database and SharePoint with no review and archiving process in place. | The review of all data held (on the database and SharePoint), archiving and deleting in line with corporate retention schedules. Information should be stored to make future archiving a straightforward regular process. | Covered by the response to M8 | Senior Manager, Early Years | 31/12/26 |

| Ref | Priority | Finding | Recommendation | Management Response | Implementation | |
|---|---|---|---|---|---|---|
| | | | | | **Responsible Officer** | **Target Date** |
| M1 | Medium | A commissioning checklist and visit checklist were held but these did not fully list all the primary evidence the Early Years service used to check suitability of a provider. | The visit checklist should be updated to list all documents examined as part the commissioning process. | The visit checklist will be reviewed and updated to ensure that it provides a comprehensive record of all documentation examined as part of the commissioning process. This will strengthen the audit trail and provide greater assurance that all required evidence has been considered during commissioning activities. | Senior Manager, Early Years | 31/10/26 |
| | | Inspections of and annual returns from PVIs were not comprehensive. | Regular inspections should include examination of key policies and procedures to ensure they are up to date and have been tested. | Moving on from using the national procurement system for the first time (Public Contracts Scotland) and as part of the new policy and guidance a robust system of contract management will be in place including a calendar of key tasks and responsibilities across the Early Years team. | Chief Officer, Primary Education and Early Years/Area Quality Improvement Manager | 31/12/26 |
| M2 | Medium | The Early Years service had not had training to scrutinise financial returns from PVIs to assess ongoing viability. | Training and financial support should be provided to the Early Years service on how to assess providers financial viability. Details of the checks undertaken should be recorded and retained. | The Early Years Service will liaise with Finance to ensure appropriate levels of support. | Chief Officer, Primary Education and Early Years/Area Quality Improvement Manager | 31/10/26 |

| Ref | Priority | Finding | Recommendation | Management Response | Implementation | |
|---|---|---|---|---|---|---|
| | | | | | Responsible Officer | Target Date |
| M3 | Medium | There was no clear protocol and process established for alternative methods of delivering early learning childcare. This could lead to inconsistent decision-making, inadequate due diligence and an inability to demonstrate that funded hours are used appropriately and consistently. | The Early Years service should define a protocol and procedure for delivering alternative ways of providing funded childcare. | The Early Years Service will build on effective custom and practice to develop and implement a formal operational framework for alternative Early Learning and Childcare (ELC) delivery models. The framework will set out clear eligibility criteria, approval and governance processes, risk assessment and due diligence requirements, record-keeping expectations, and ongoing monitoring and review arrangements.<br>This work will be supported through the governance structure of the Education & Learning Service as well as the Council's delivery plan, within the Person-Centred Solutions workstream, which seeks to develop flexible, place-based childcare provision that responds to the needs of local communities. | Chief Officer, Primary Education and Early Years/Area Quality Improvement Manager | 31/10/26 |
| M4 | Medium | Independent spot checks of parents and PVIs were not taking place to check children were actually attending the claimed for settings. | Spot checks to verify correct enrolment at private providers should regularly take place and the results of these recorded with any adjustments to payments subsequently timeously undertaken. | Learning from spot checks will be incorporated into monthly team meetings, minuted and actioned as necessary. Improved recording of this will also strengthen the scrutiny and quality assurance. | Senior Manager, Early Years | 31/08/26 |

| Ref | Priority | Finding | Recommendation | Management Response | Implementation | |
|---|---|---|---|---|---|---|
| | | | | | **Responsible Officer** | **Target Date** |
| M5 | Medium | The process for paying funded hours to private providers was not supported by an appropriate software system to aid administration, management and oversight. The processes were highly dependent on Early Years staff to implement very time consuming practices with manual workarounds and multiple spreadsheets. | The service should review arrangements with their Digital Business Partner to determine whether improvements can be made to the current systems and information management arrangements. | The Early Years Service will liaise with ICT colleagues who have knowledge and expertise with technology. | Senior Manager, Early Years with assistance from Strategic Lead (Resources) | 31/10/26 |
| | | There was a lack of unique reference numbers being used for any children accessing early years services which increased risks of errors and made cross checking for accurate enrolment difficult. | All children using early years services should have unique reference identification which is used across all systems. | The Early Years Service will take advice and support from Business Solutions regarding creating unique identifiers for children that can be used across all the systems. This will require updates and amendments to the database system. | Senior Manager, Early Years | 31/10/26 |
| M6 | Medium | The flexible childcare service did not have a formal strategy or defined business model to support service delivery and decision-making. | The Early Years service should develop a formal strategy and business model for the flexible childcare service, setting out its objectives, operating principles, governance arrangements, and measures of success. | The Early Years Service will build existing effective custom and practice to formalise a Flexible Childcare Strategy and Business Model to support delivery of innovative childcare solutions in rural and island communities and to meet the needs of children. | Senior Manager, Early Years | 31/12/26 |
| | | | | Within associated guidance relating to extended and flexible Early Learning and Childcare (ELC) and School Age Childcare (SACC) services there will be clear process maps and timelines to ensure all team members fully understand and can adhere to | Senior Manager, Early Years | 31/12/26 |

| Ref | Priority | Finding | Recommendation | Management Response | Implementation | |
|---|---|---|---|---|---|---|
| | | | | | **Responsible Officer** | **Target Date** |
| | | | | the content as well as allowing for greater levels of transparency and clarity for stakeholders. | | |
| | | The costs of delivering the flexible childcare service were not fully analysed. | The Early Years Service should build on its existing review work to ensure there is full cost of flexible childcare service delivery is set out to support the assessment of the financial viability, sustainability, and value for money of the service. | The Early Years Service will ensure sustainability and value for money is balanced with the need to provide flexible childcare and this will be clearly translated into policy and guidance. | Chief Officer, Primary Education and Early Years/Area Quality Improvement Manager | 31/12/26 |
| | | The flexible childcare service had not been subject to a comprehensive internal appraisal for some time although the Chief Officer was progressing work in this area. | The service should benchmark its flexible childcare arrangements, systems, and processes against those of other local authorities to identify opportunities for improvement and inform future service development. | As part of ongoing work related to Best Value, work commenced in April 2026 to investigate all aspects of finance and budgets associated with Early Year, this work is being undertaken in collaboration with 3 other local Authorities our supporting benchmarking processes. | Chief Officer, Primary Education and Early Years | 30/09/26 |
| M7 | Medium | The Early Years service did not have a service risk register and had not assessed risks in line with the Council's risk management policy and guidance. | The Early Years service should conduct a risk assessment and create a service risk register in accordance with the Council's risk management policy and guidance. | The Education and Learning Service will incorporate ELC risk into the overall service risk register. | Senior Manager, Early Years with assistance from Strategic Lead, Operations (Education) | 30/09/26 |

# Control Weaknesses Report

## Corporate

## Supplier Bank Mandate Fraud

| Description | Priority | No. |
|---|---|---|
| Major issues that managers need to address as a matter of urgency. | High | 4 |
| Important issues that managers should address and will benefit the Organisation if implemented. | Medium | 2 |
| Minor issues that are not critical but managers should address. | Low | 0 |

**Audit Opinion**

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Limited Assurance** can be given in that Weaknesses in the system of controls are such as to put the system objectives at risk, and/ or the level of non-compliance puts the system objectives at risk.

**Distribution:**
Assistant Chief Executive - Corporate
Assistant Chief Executive - Place
CO Revenues and Commercialisation
CO Facilities, Fleet & Transport
CO Legal and Corporate Governance
Strategic Lead (Corporate Support) Revenues and Commercialisation
Integrated Transport Manager
Business Support Operations Manager
Creditors Team Leader

**Report Ref:** IF.2.6.26
**Draft Date:** 25/06/26
**Final Date:** 31/07/26

## 1. Introduction

1.1 A suspected fraud was reported to the Corporate Fraud Team on the 9 June 2026. The Fraud was identified when the supplier contacted the service having not received payment relating to their June remittance advice. The supplier also noted that the bank details recorded on the remittance advice were incorrect.

The Corporate Fraud Team undertook an immediate investigation to:

- Coordinate any immediate mitigating actions
- Establish the timeline of events
- Identify the method and nature of the fraud.

As part of the investigation, the internal control framework relating to creditor supplier bank detail changes was reviewed to identify any control weaknesses.

## 2. Main Findings

2.1 *Summary of Fraud*

A supplier's email account appears to have been accessed by a fraudster. This enabled the fraudster to access emails issuing invoices (pdf attachments) from the supplier to the Highland Council for payment. The fraudster used a disguised email address to present fraudulent supplier emails (including formats and signatures) to reissue supplier invoices with amended fraudulent bank details. The fraudster requested payment to the fraudulent bank account and followed up this change to ensure payment. The approach used was sophisticated and not easy to detect.

An initial fraudulent invoice was submitted but not paid, as the original invoice had already been settled. This was not identified as fraudulent at the point of submission. Subsequently, two further fraudulent invoices were submitted, resulting in payment being diverted from the supplier's legitimate bank account to a fraudulent account. The total amount paid was £13,319.36 on the 05/06/26. These fraudulent invoices amended an earlier legitimate invoice submitted by the supplier.

Immediate action was taken to suspend the supplier account to prevent any further payments. A report was made to the Highland Council's bank, and they have stated that they will contact the bank that erroneously received the funds to try and recover the monies. The fraud has also been reported to Audit Scotland and Police Scotland.

2.2 Control weaknesses identified

This fraud was sophisticated and not easily identifiable; however, several control weaknesses were identified that could reduce the likelihood of reoccurrence. The following provides a high level summary of where improvements in processes and procedures would be beneficial.

I. There were indicators (e.g. altered emails, revised invoices and bank change requests, as well as repeated follow-ups) that may have suggested fraudulent activity. Enhancing fraud awareness, encouraging professional scepticism and providing targeted refresher training would better equip staff involved in invoice processing to identify such 'red flags' at an early stage and help prevent fraudulent payments. (See Recommendation H1).

II. Poor data protection practices were identified, whereby the supplier's bank details were shared externally via email. Due to the circumstances, we established that this disclosure did not result in any additional harm but could strengthen a fraudster's ability to perpetrate further fraud. (See Recommendation H2).

III. The absence of formal, documented procedures governing supplier bank detail changes increases the risk of inconsistent application of key controls. The introduction of robust procedures would strengthen staff understanding and ensure controls are consistently applied, including clear segregation of duties and independent supervisory review to confirm both the accuracy of changes and the legitimacy of the request. (See Recommendation H3).

IV. Documentation provided to support a request for bank detail changes was relied upon without independent verification. A robust process requiring independent

validation should be applied, including contacting the supplier using trusted contact details held on record (not those provided within the request) and requesting the provision of documentation from the supplier to vouch the change. Effective operation of this key control could have prevented this fraud. (See Recommendation H4).

V. A software tool was available to assist Creditors staff in verifying payee name and address details against bank information. However, the tool was found to be difficult to use and prone to generating false negatives where address data did not exactly match. The use of a reliable and user-friendly verification tool would strengthen controls and improve the effectiveness of bank detail validation processes. (See Recommendation M1).

VI. At the time of the incident, monitoring of changes to creditor standing data relied on adherence to manual processes, to enable supervisory oversight of changes. Although an audit log report had since been introduced, providing improved visibility of user amendments, its effectiveness depends on consistent review and timely follow-up of exceptions to identify and address instances of user non-compliance. (See Recommendation M2).

## 3. Conclusion

This incident represents a sophisticated bank mandate fraud, initiated from a likely compromise of a supplier's email account. The fraud further exploited weaknesses within the Council's creditor control framework. While the fraud was not straightforward to detect, the investigation identified areas of risk surrounding:

- Fraud awareness
- Lack of formal procedures
- Reliance on unverified documentation
- Independent verification of bank detail changes
- Limited audit trail and supervisory oversight.

Swift and appropriate action was taken once the fraud was identified, including account suspension, bank notification, internal reporting to the Corporate Fraud Team and escalation to external authorities.

However, the case highlights a critical need to improve staff awareness, strengthen preventative controls and enhance system oversight.

Unfortunately, bank mandate fraud remains a significant and evolving risk across the public sector, and this incident demonstrates that even well-established processes can be vulnerable where controls are inconsistently applied or insufficiently robust.

Implementing the recommendations within this report will significantly reduce the likelihood of recurrence and strengthen the Council's resilience to similar fraud risks.

## 4. Action Plan

| Ref | Priority | Finding | Recommendation | Management Response | Implementation | |
|---|---|---|---|---|---|---|
| | | | | | Responsible Officer | Target Date |
| H1 | High | Fraud awareness training requires improvement to better equip staff involved in processing invoices to identify early 'red flags' which could help prevent fraudulent payments. | Fraud awareness training should be enhanced for all staff involved in processing invoices, with a particular focus on recognising common 'red flags' associated with bank mandate fraud, such as changes to bank details, email anomalies, and urgent or unusual requests. Strengthening staff awareness in this area will improve early identification of suspicious activity and help prevent fraudulent payments. | Anonymised details of the fraud will be developed into a case study for training purposes. The training will be recorded and made available on Traineasy with relevant staff being required to watch it. | Business Support Operations Manager | 30/09/26 |
| H2 | High | The supplier's bank details were provided via email to the fraudster. In this particular case a data breach occurred but no additional harm resulted as the fraudster already had access to this information. | All CiA Users should be communicated with to reinforce data protection practice by issuing clear guidance to prohibit the sharing of supplier bank details or screenshots of financial system information via email. This communication should emphasise appropriate handling of sensitive/ personal data, highlight the risks associated with external disclosure, and set out expected behaviours when responding to supplier queries. Ongoing reminders and awareness updates should be delivered through the CiA User Email Group to ensure consistent compliance with data protection requirements. | Agreed. Communication to be coordinated by the Senior Complaints & Information Officer. This was issued on 23/07/26. | Chief Officer Legal and Corporate Governance | Completed |

| Ref | Priority | Finding | Recommendation | Management Response | Implementation | |
|---|---|---|---|---|---|---|
| | | | | | Responsible Officer | Target Date |
| H3 | High | Whilst staff detailed the process for changing supplier bank details, this was not formally documented. As a result, staff relied on training which increases the risk that key controls or processes are not applied consistently. | Formal, documented procedures should be developed and implemented to govern the process for changes to supplier bank details. These procedures should incorporate key controls and clearly define roles and responsibilities and enforce appropriate segregation of duties. All changes should be subject to independent supervisory review to confirm the accuracy of the amendment and to verify the legitimacy of the underlying request. Compliance with these procedures should be mandatory and routinely monitored to ensure consistent application of key controls. | A formal documented procedure will be made available to the Creditors Team in the recommended form. Procedural compliance will be regularly monitored.<br>This has now been completed. | Creditors Team Leader | Completed |
| H4 | High | Fraudulent documentation was provided to support a request for bank detail changes and was relied upon without independent verification. This was contrary to the stated process referred to at H3. | A robust independent verification control should be implemented for all supplier bank detail change requests. Documentation provided in support of such changes must not be relied upon in isolation. Instead, suppliers should be contacted using trusted contact details held on record (not those included in the change request) and required to provide appropriate confirmation to validate the change. Compliance with this control should be mandatory and evidenced, as its effective operation is critical in | The Creditors Team will be mandated to comply with the procedure (noted at H3 above) and compliance will be monitored. | Creditors Team Leader | Completed |

| Ref | Priority | Finding | Recommendation | Management Response | Implementation | |
|---|---|---|---|---|---|---|
| | | | | | **Responsible Officer** | **Target Date** |
| | | | preventing payment diversion fraud. | | | |
| M1 | Medium | A software tool was available to support Creditors staff in verifying the payee's name and address against the bank details provided. However, it was noted that the tool is difficult to use and can generate false negatives where address criteria do not exactly match. | A more reliable and user-friendly verification method should be implemented to further strengthen controls and improve the robustness of bank detail verification processes. | The existing software tool will be evaluated to determine whether the difficulties are human or software related. Following the evaluation either i) a plain English user note will be made available to the Creditors team or ii) alternatives will be explored including a CiA based solution. | Creditors Team Leader | 30/09/26 |
| M2 | Medium | A new audit log report had been introduced to provide the Creditors Team Leader with greater visibility of all user amendments to standing data. However, this report requires consistent review and timely follow-up of any exceptions to identify instances of user non-compliance. | The Creditors Team Leader, and in their absence, the Creditors Technicians, should review the audit log report on a daily basis and follow up on any exceptions to identify instances of non-compliance with established procedures by users. | Agreed and now implemented. | Creditors Team Leader | Completed |