



Northern Ireland Audit Office

# Internal Fraud in Ordnance Survey of Northern Ireland

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

HC187, Session 2006-07, 15 March 2007





Northern Ireland Audit Office

Report by the Comptroller and Auditor General  
for Northern Ireland

*Ordered by the House of Commons*

*to be printed 13 March 2007*

# Internal Fraud in Ordnance Survey of Northern Ireland

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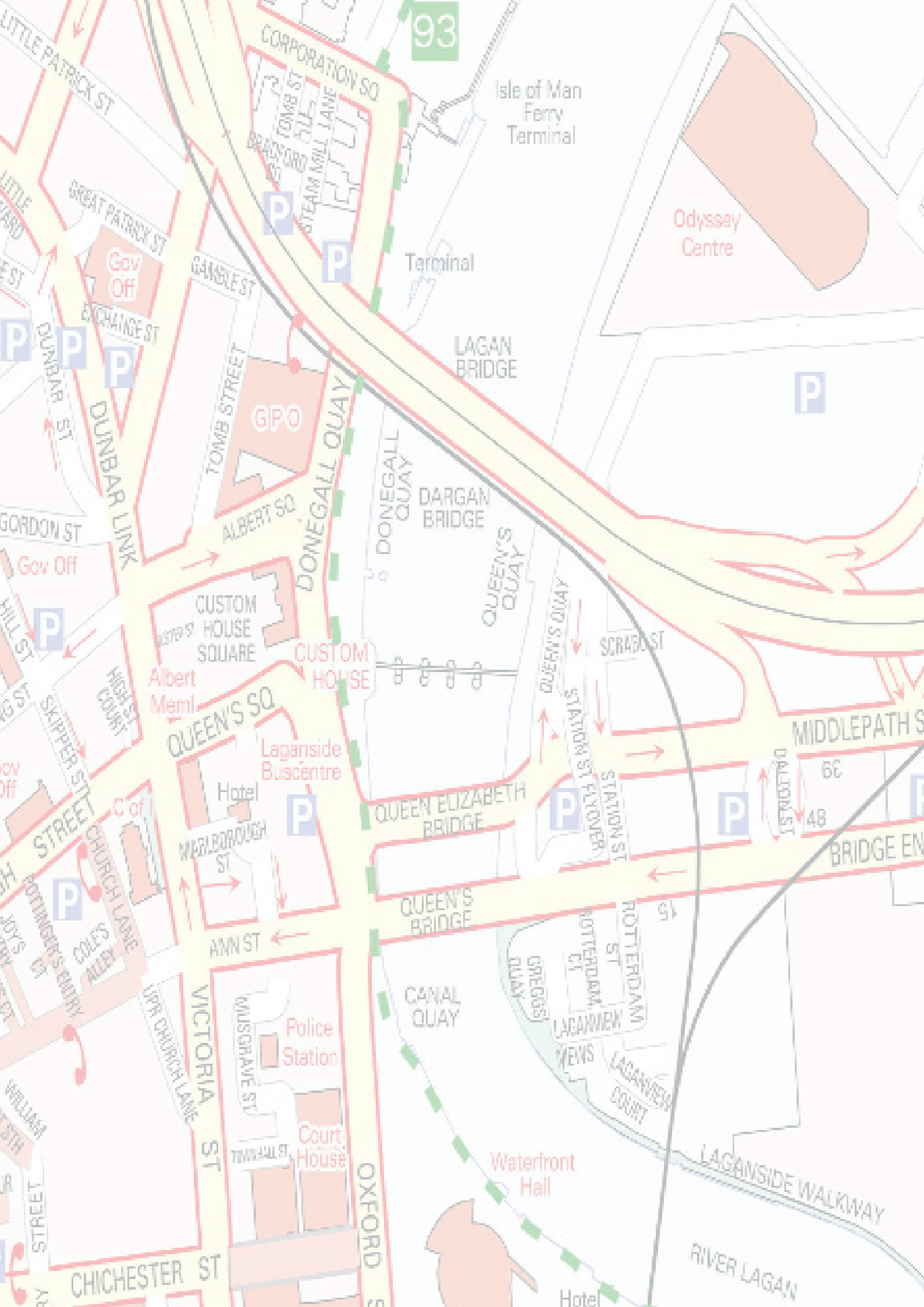
*J M Dowdall CB*  
Comptroller and Auditor General

Northern Ireland Audit Office  
13 March 2007

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# Internal Fraud in Ordnance Survey of Northern Ireland

## Introduction and background

1. Ordnance Survey of Northern Ireland (the Agency) is an executive agency within the Department of Culture, Arts and Leisure (the Department) with responsibility for the supply of mapping and geographic information services for Northern Ireland. The Agency employs 160 staff at its headquarters, Colby House in Belfast, and regional offices at Omagh, Enniskillen, Portadown and Ballymoney. In 2005-2006 it cost approximately £8.5 million to run, and in the same period it generated an income of £7.7 million from the sale and licensing of its products.

2. In August 2003, an internal fraud was uncovered within the Accounts Branch and a subsequent investigation found that the fraudster, Norman Steenson, a supervisor, had perpetrated the fraud over a five-year period between 1998 and 2003, defrauding the Agency of £70,690. Norman Steenson was formally charged by the Police Service of Northern Ireland (the Police) with stealing cash and falsifying records. On 20 January 2006, he pleaded guilty to the charges at Belfast Crown Court and on 7 April 2006 he was sentenced to twelve months imprisonment, suspended for two years.

3. The Department told us that the fraud occurred during a period when the Agency was experiencing rapid growth in receipts. It stated that management in the Agency were aware of this and took a number of steps to address it, including commissioning of a specific audit of cash and payment handling by Internal Audit in 1999. It also stated that since the fraud was discovered, the Agency has reviewed and tightened its procedures, including acting on the findings of the investigations following the fraud, to ensure that such an event cannot occur again.

4. However, this was not the first internal fraud to be perpetrated against the Agency. In 1991, the Agency uncovered an internal fraud in its Map Shop, which had been perpetrated between 1988 and 1991 and during which period the fraudster was estimated to have stolen £3,200 in cash. The officer was prosecuted, pleaded guilty and was sentenced to community service. She repaid

£2,500 of the monies stolen, which the Agency accepted as full restitution, and was dismissed on 14 June 1991. An Internal Audit investigation identified the cursory nature of the supervisory review and other control environment weaknesses as contributing factors to the fraud. In response the Agency undertook a review of Map Shop sales and introduced controls to prevent further fraud within the Map Shop.

5. This report deals with the circumstances surrounding the subsequent fraud undertaken by Norman Steenson; the action taken to identify and correct the systems failures; and the action taken to investigate the fraud, impose sanctions and seek redress. A timeline showing the key events and dates is set out at Appendix 1.

## How the fraud was committed

6. Norman Steenson was a long serving officer. He joined the Agency in September 1974 and in June 1993 was transferred to Accounts Branch. A Mapping and Charting Officer, his main duties included supervising and training staff, credit control, bank reconciliations and general administration. A diagram at Appendix 2 sets out the structure, main roles and responsibilities of Accounts Branch at the time Norman Steenson started perpetrating his fraud.

7. Norman Steenson perpetrated the fraud in the following manner:

- all the Agency's incoming post was passed each morning to Accounts Branch for processing. Norman Steenson's normal work pattern was to arrive in Accounts Branch between 7:30 and 8:00am and, without the presence of other staff, open the incoming post. He removed cheques from the incoming post which had been received from customers in respect of products and services. It was not part of normal procedures to record these cheques in the post register;
- the Agency Map Shop, located within Colby House, allows the public to purchase map products. At the end of each day the takings, made up of cash

and cheques, were counted and placed in the Map Shop safe. The following morning, the Map Shop takings were brought to Accounts Branch at around 8.00am. Norman Steenson would sign for receipt of the takings but, rather than place the takings in the Accounts Branch safe, would retain them in his drawer. The Department told us that Norman Steenson had a genuine reason to access the Map Shop takings, as he had a duty to manage the paperwork associated with credit card slips which were contained in the takings bag. It is at this time he would withdraw cash from the Map Shop takings and replace it with cheques to the equivalent value which he had stolen from the incoming post earlier;

- Norman Steenson then passed the takings to a junior member of Accounts Branch staff to prepare a lodgement for the bank. Because the Map Shop's record of its takings did not differentiate between cash and cheques, and therefore the takings still agreed to the total from the Map Shop, there was no apparent discrepancy in respect of the takings;
  - the cheques which Norman Steenson removed from the Agency's incoming post were in settlement of outstanding customer debts. To clear the outstanding debts on the accounting system, Norman Steenson created fictitious credit notes. As credit controller he was able to raise credit notes without attracting attention.
8. Norman Steenson perpetrated his fraudulent activity for over five years and during that period stole £70,690 (Figure 1).

**Figure 1: Analysis of Money Stolen**

| Year                  | £             |
|-----------------------|---------------|
| 1998-99               | 3,888         |
| 1999-00               | 8,693         |
| 2000-01               | 14,921        |
| 2001-02               | 16,544        |
| 2002-03               | 21,278        |
| April to August 2003  | <u>5,366</u>  |
| <b>Total Net Loss</b> | <b>70,690</b> |

Source: The Agency

## How the fraud was discovered

9. The fraud was recognised and formally reported to the Chief Executive on 8 August 2003. However, the process that led to the discovery of the fraud dated back to the third week of June 2003. A member of Accounts Branch staff, who had been temporarily seconded from the Department to help the Agency reduce its level of outstanding debt, reported to the Finance Manager that some debtors had contacted the Agency concerning debts which they considered had already been settled by cheque and those cheques had been cashed. At this stage the Finance Manager was not suspicious of a fraud because of the possibility of accounts mis-postings or delays in postings. Norman Steenson went off on sick leave from 8 July 2003 and it was during this period that further enquiries by Agency staff confirmed the existence of financial irregularities. Specific instances of debtor complaints showed that customer cheques had been lodged to the Agency bank account but were not recorded in Accounts Branch records. In light of these findings, the Finance Manager undertook a specific follow-up investigation which revealed a potential cash discrepancy of £5,619.51 in bank lodgements for the period April to July 2003.

10. When the fraud was recognised and reported on 8 August, the Finance Manager contacted Norman Steenson (who was still on sick leave) to query whether he was able to offer any explanation for the cash discrepancies. At this stage, Norman Steenson was not suspected of having perpetrated the fraud. However, later that day, he phoned the Finance Manager and admitted fraudulent activity. Norman Steenson also indicated that he carried out the fraud alone and no subsequent evidence has been uncovered to implicate any other staff. Further details are provided at Appendix 1.

11. The Department of Finance and Personnel (DFP) requires departments to notify it and the Comptroller and Auditor General of all suspected or proven frauds as soon as they are recognised. The Department and Agency complied fully with DFP's requirement and notified the Comptroller and Auditor General on 11 August 2003. Additionally, the Northern Ireland Audit Office (NIAO) received regular updates on the investigation through the Agency's Audit and Risk Committee.

## The underlying control weaknesses

12. On discovery of the fraud, Internal Audit undertook a range of investigation and review activities, and produced a number of reports on the fraud:

- October 2003 Internal Audit Fraud Investigation Interim Report;
- March 2004 Internal Audit Follow-up Report on Control Recommendations; and
- July 2004 Internal Audit Report on Suspected Fraud within Accounts Branch.

The July 2004 Internal Audit report identified three areas of weakness - security of assets; segregation of duties; and management checks. In December 2004, a report by a consultant<sup>1</sup> to establish whether disciplinary action was required, also commented on the lack of written financial procedures. The main weaknesses identified and our analysis of their impact on the control environment are set out in Figure 2.

## How the Agency responded when it discovered the fraud

13. The Agency had in place an anti-fraud policy and a fraud response plan (issued in October 2002) and responded immediately to the fraud in line with these documents. A summary of the key points covered in the policy and fraud response plan is set out at Appendix 3.

14. As soon as the fraud was suspected, on 8 August 2003, the Department's Internal Audit was contacted and a meeting was arranged with the Chief Executive and other senior managers for that same day.

## Action taken to investigate the fraud

15. The Chief Executive established, with Departmental approval, a Case Management Group on 11 August 2003. This met on ten occasions during the first year to oversee the investigation. The membership of the group included the Agency's Chief Executive and Corporate Services Director together with Internal Audit. Representatives from the Police and Departmental Solicitors also attended meetings as required by the Group.

16. The Agency formally notified the Police of suspected fraud on 11th August 2003. The Police launched an investigation and agreed an investigation strategy with the Agency in which roles and responsibilities were clearly defined. While the Police were in charge of the investigation, Internal Audit provided a support role gathering and analysing all available sources of data. The investigation worked backwards from the date of the discovery of the fraud to October 1997, the earliest date for which bank details were available. In the period October 1997 to September 1998 no fraudulent activity was uncovered.

## Action taken to tighten the control environment

17. In October 2003, Internal Audit reported that it had taken immediate action to identify control weaknesses within the Agency's receipts system and made recommendations to the Chief Executive for interim measures to provide assurance that no further losses would be incurred. The Chief Executive immediately introduced these control measures including: changes to the receipt and lodgement of cash takings from the Map Shop; revised post procedures; and the temporary employment of a qualified accountant on 25 August 2003 to oversee and review operations within Accounts Branch.

18. The temporary accountant, with assistance from Internal Audit, completed a review of financial procedures in November 2003. The review identified control weaknesses and made recommendations for improvement. Based on this work Internal Audit agreed an implementation plan with the Agency's Chief Executive. This included Internal Audit facilitating workshops with Accounts Branch and Map Shop staff to consult upon perceived control weaknesses and discuss the proposed recommendations for improvement, as set out in the November 2003 report.

19. A compliance audit by Internal Audit was performed during March 2004 to establish if the agreed controls had been implemented and were operating as intended. The report confirmed that positive action had been taken on 77 per cent of significant recommendations including:

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1. A former Director of Personnel in the Department for Regional Development, now retired.

**Figure 2: Impact of Control Weaknesses on the Control Environment**

| <b>Control Weaknesses</b>   | <b>Impact on Control Environment</b>  |
|---|---|
| One member of staff (normally Norman Steenson) opened the post alone.   | Norman Steenson was able to remove cheques from post without detection.   |
| In line with guidance, no record was kept of cheques received in the post, i.e. payor details and amount.   | The Agency was not aware that the cheques stolen by Norman Steenson had been received.  |
| Accounts Branch staff signed for receipt of Map Shop takings without counting them and recording the value.   | This allowed Norman Steenson to blame discrepancies on either Map Shop or Accounts Branch errors.   |
| The Map Shop receipt did not differentiate the takings between cash and cheques.  | These weaknesses gave Norman Steenson the opportunity to steal cash by substituting customer cheques received, to mask the theft of cash.   |
| Norman Steenson normally handled all receipts prior to lodgement.   |   |
| Money received by Accounts Branch was not always directly placed in the safe but was regularly held in Norman Steenson's desk drawer, until it was passed to another officer for bank lodgement purposes.   |   |
| Lodgements were not checked to original source documentation of cash received held by the Map Shop. It was normal practice for postal receipts to be handled by Norman Steenson.  |   |
| There was a delay in the time between the receipt of cheques in Accounts Branch and the entering of those cheques onto the Agency's cashbook and customer accounts.   | The Agency had no evidence of the receipt of cheques and provided Norman Steenson with the opportunity to steal them without detection. It also allowed Norman Steenson to use the delay as a plausible defence when addressing customer queries on stolen cheques. |
| Within Accounts Branch individual members of staff, including Norman Steenson, had physical access to cash and could also amend accounting records, specifically details held on customer accounts.   | Raising a customer credit note or generating a general journal entry allowed Norman Steenson to remove customer debts recorded in their account.  |
| Management authorised credit notes without checking their validity.   | This practice allowed Norman Steenson to create fictitious credit notes to amend customer accounts to the value of the stolen cheques.  |
| For the majority of the fraud period, there was no financial procedures manual setting out segregation of duties and control procedures. The first stage of a manual recording existing working routines was completed in November 2002 although this does not appear to have been circulated to all staff. | The absence of a manual made it easier for Norman Steenson to bypass controls unchallenged. The availability of a financial procedures manual may have empowered staff to insist on the proper procedures being carried out.  |
| In Norman Steenson's capacity as credit controller, he was in a position to allay customer concerns about statements they had received in relation to outstanding debts that they had already paid.   | Norman Steenson was able to hide a growing problem without suspicions being raised.   |

- post opening and recording duties are carried out by two staff independent from Accounts Branch;
- daily record sheets are kept detailing monetary items received;
- the supervisor completes a ten per cent monthly check on postal receipts to ensure they have been entered onto the cashbook spreadsheet;
- the Finance Manager performs a ten per cent validation check on credit notes raised, ensuring both the validity of transactions and that proper processes have been followed;
- the writing and posting of a general journal is formalised through completion of a journal entry proforma; and
- Map Shop lodgements sheets are prepared within the Map Shop and undergo a supervisory check before being placed in a cash bag with a tamper-proof seal.

The Department told us that all recommendations have now been implemented.

20. No fraud awareness training had ever been provided to Agency staff prior to Norman Steenson's fraud. This training was provided by consultants for all Agency staff graded at Staff Officer level and above in February 2004. Staff from the Map Shop and Accounts Branch who dealt with cash/cheque transactions also attended.

## Disciplinary action

21. Norman Steenson was suspended from duty from 15 August 2003, one week after the discovery was made. His pay was withheld along with Statutory Sick Pay which he had been receiving at the time of his suspension from work. He pleaded guilty to the charges laid at Belfast Crown Court on 20 January 2006 and on 7 April he received a 12 month custodial sentence which was suspended for two years. He was dismissed from the Agency on 23 May 2006 on the grounds of gross misconduct.

## Supervisory negligence

22. The Agency commissioned an investigation (see paragraph 12) to establish if disciplinary action was warranted in relation to the action or inaction of staff who had responsibility within Accounts Branch prior to discovery of the fraud. This review found that the Finance Manager *"relied too much on the integrity and honesty of Steenson"* and concluded that *"management oversight was clearly not operating to the extent it should have been and this may have given Steenson the confidence to continue with his activities over a prolonged period"*<sup>2</sup>.

23. As a result of the consultant's report, the Chief Executive concluded in February 2005 that the Finance Manager *"failed to properly supervise Norman Steenson and this resulted in him falling short to a significant extent of the standard expected in his role as Finance Manager"*. The Finance Manager received a written reprimand which was to remain on his record for a period of three years.

24. The review also found that the accountant (see paragraphs 32 and 33) had identified concerns in October 2002 but these were not followed up when the accountant left the Agency. The concerns raised related to customer queries over outstanding debts that they claimed to have settled by cheque (these were the same type of queries which ultimately led to discovery of the fraud some ten months later). The review concluded that the accountant must take some responsibility for the failure to pass on concerns to the Finance Manager before leaving the Agency in December 2002. A qualified accountant should have recognised the queries from customers in respect of payments as potential fraud indicators. However, the review did not recommend formal disciplinary action but that the matter should be drawn to the attention of the accountant.

## Action to effect restitution

25. Norman Steenson did not promise to make voluntary restitution<sup>3</sup> to the Agency in respect of the

2. Extract from report by consultant - 'Preliminary Investigation Report in Relation to Possible Disciplinary Action within OSNI [the Agency] - December 2004'.

3. Restitution can be effected in a number of ways:

- the fraudster may voluntarily make full restitution to the victim;
- as part of the criminal process, the prosecution may also request that the Court impose a restitution or compensation order covering all or part of the victim's losses as part of the sentence; and/or
- where full recovery has not been achieved through a confiscation or compensation order, the victim will continue to seek recovery through the civil process.

monies that he had stolen. However, as part of its normal procedures, the Police obtained an order freezing Norman Steenson's assets pending the issue of a possible confiscation order by the sentencing Judge. On 27 June 2006 the sentencing Judge directed that Norman Steenson should pay £30,000 compensation<sup>4</sup> to the Agency within 12 months. In the event of a default, Norman Steenson will have to serve nine months imprisonment. We asked the Department if the £30,000 has been paid by Norman Steenson and were told that no payment has been made but Norman Steenson has requested early payment of his pension lump sum prior to reaching the age of 60.

26. In addition to restitution in cases of internal fraud, the Agency may also pursue 'forfeiture of pension rights'. Benefits under the Civil Service Pension Scheme are paid at the discretion of DFP, which has power to withhold these in certain circumstances. We asked the Department what action, if any, it has taken to pursue this matter. The Department told us that forfeiture of pension rights was considered but not pursued on legal advice. It added that, following discussions with the Departmental Solicitors Office, civil action to recover the balance of £40,690 has been initiated. Norman Steenson was served

with a writ on 4 January 2007. The Department has told us that it intends to take all appropriate action to recover the balance of money defrauded.

## The provision of Internal Audit services

27. Internal Audit is responsible primarily for providing the Accounting Officer with an independent and objective opinion on risk management, control and governance by measuring and evaluating their effectiveness in achieving the organisation's agreed objectives.

28. Three different departmental Internal Audit Units and one private sector consultancy firm provided internal audit assurance to the Agency's Accounting Officer over the period of the fraud. Between April 2000 and January 2001 there was a gap in the delivery of internal audit services. We asked the Department to explain this gap and they told us that following devolution they had to negotiate with other Departments to acquire appropriate internal audit services. Figure 3 sets out the position between 1992 and 2003, prior to the discovery of the fraud.

**Figure 3: Internal Audit Services provided to the Agency**

| Provider of Internal Audit Services | Period   | Reports Issued         |
|-------------------------------------|--|------------------------|
| Department of the Environment       | 1992 to December 1999  | May 1998 and June 1999 |
| Department for Regional Development | December 1999 to April 2000  | June 2000              |
| No Internal Audit coverage          | April 2000 to January 2001   |                        |
| Department of Education             | January 2001 onwards.<br>Function contracted out to Deloitte & Touche for three years between January 2002 and 2005. | June 2002 and May 2003 |

Source: Department of Education Internal Audit.

Note: Details of the scope of each Internal Audit examination is set out in Appendix 1.

4. The Judge issued a Confiscation Order for Norman Steenson to pay £30,000 within 12 months and further ordered a compensation payment of that £30,000 to the Agency, payable within 12 months. Norman Steenson is liable for one payment of £30,000 which will discharge both the Confiscation and Compensation Orders.

29. When the Chief Executive took up his position in 1999 he requested specific audits in the areas of the Agency that handled cash and payments. This, along with subsequent internal audit reports, provided assurance that the systems of internal control within the Agency were considered to have operated effectively. In fact, a number of these controls were later identified in the fraud investigation as not working effectively. Examples are:

- an analysis of daily takings and the total takings are provided to Accounts Branch with the takings (May 1998 report);
- two members of staff open post and separate cheques from other mail (May 1998 and June 1999 reports); and
- all monies received are stored in the safe (June 2000).

## Potential indicators of fraud

30. One of the most surprising aspects of this fraud is that it continued undetected over such a long period of time, with the amount of money stolen increasing year on year. Throughout the period of the fraud there were a number of incidents which, in our opinion, should have alerted management to the possibility of fraudulent activity.

## The Finance Manager

31. The Finance Manager was aware that Norman Steenson opened the incoming post on his own. He spoke to Norman Steenson on at least four occasions instructing him not to open the post, as this was an inefficient and ineffective use of his time. On at least two occasions the Finance Manager personally removed incoming post from his desk for junior staff to open. Despite this instruction, the Department told us that Norman Steenson provided justifiable explanations and persisted in opening the post.

## The Agency Accountant

32. During October 2002, when Norman Steenson was absent from the office, the Agency's accountant received three or four telephone queries from customers about statements they had received concerning outstanding debts which they insisted had already been paid by

cheque. The issue was discussed with Norman Steenson who indicated that the problem was probably caused through confusion with income from the Map Shop. To help understand procedures in the Map Shop, the accountant wrote to the Map Shop Manager on 7 November 2002 asking him to explain procedures in relation to cheque payments for map sales.

33. The accountant transferred from the Agency a few weeks after sending this minute, before the query had been followed up, without drawing it to the attention of the Finance Manager.

## Other Accounts Branch staff

34. A new member of staff joined the Agency in December 2002 as a secondee from the Department. His job was to help Norman Steenson reduce the level of long-term debts. The Department stated that the ongoing reduction of debtor balances (see paragraph 9) allowed a greater focus on the smaller balances, which was where the fraud was being committed.

35. When interviewed as part of the independent disciplinary investigation (see paragraph 22), the new member of staff said that *"it was his opinion that by February 2003 there was sufficient evidence of cheques being received in the post, yet the debts to which those cheques related [were] continuing to appear on debtors lists, for this to warrant further investigation. He acknowledged that he did not suspect fraud at that stage but felt something was clearly wrong with the systems."* However, despite raising these concerns with the Finance Manager, they were not addressed at that time.

36. It was several months later, when Norman Steenson was absent from work on extended sick leave, that the financial irregularities were finally investigated (see paragraph 9). Following discussions with staff about further customer queries, the Finance Manager asked for a list of customers who claimed they had paid the Agency but where the debtors' ledger still listed them as having outstanding debts.

## NIAO Comment

37. We welcome the prompt manner in which the Agency responded when the fraud was recognised. It informed Internal Audit and NIAO, engaged the Police, established a Case Management Group, commissioned a number of reviews and sought restitution. The investigation that was undertaken resulted in a successful criminal prosecution.

38. We also recognise that action was taken by the Chief Executive, upon his appointment in 1999, to obtain assurance regarding the systems of internal control operating in the areas of the Agency handling cash and payments.

39. However, Norman Steenson was not particularly sophisticated in perpetrating his fraudulent activity. It was the absence of, or the non-compliance with, basic controls that permitted the fraud to persist. These included the failure to secure segregation of duties; placing excessive responsibility and trust in a single individual; lack of basic security controls for cash and cheque receipts; and the lack of supervisory checks by senior management.

40. The Department told us that, because a small team operated in Accounts Branch, some of its members 'multi-tasked'. It assured us that, given this situation, the Agency has tightened its controls and procedures in line with the recommendations of the reviews following the discovery of the fraud. We do not accept that the existence of a small multi-tasking team obviates the need for management to operate tight controls particularly in a cash-handling environment. We are surprised that the Agency accepted Norman Steenson's explanations and allowed him to continue to operate outside its own systems of control and procedures in post opening. In our view this demonstrates a serious lack of awareness by Agency staff to the indicators of fraud and the need to maintain a tight control environment.

41. The lack of compliance with, or the absence of, system controls is particularly surprising given the previous fraud within the Agency's Map Shop. Indeed, it was a failure to implement a basic control in this part of the

Agency (the provision to Accounts Branch of an analysis of daily takings and the total takings) which gave Norman Steenson the opportunity to effect his fraudulent activity. We would have expected the Agency to have been particularly vigilant and to have operated a more robust control environment in all its cash-handling functions.

42. In this context, we are surprised that only 77 per cent of significant recommendations had been implemented by the Agency at March 2004, some seven months after Norman Steenson's fraud had been discovered. This does not give the impression that the Agency operates a zero tolerance to fraud. Prompt and comprehensive implementation of agreed recommendations should be a high priority in cases such as this. The Department told us that all recommendations are now fully implemented.

43. There were a number of indicators over the life of the fraud that should have been recognised by management in the Agency, particularly those who have a financial management background - the opening of post by an individual; the storing of cheques in desk pedestals; cheques, which had been seen by staff, not recorded on the accounts system; and the recurrent customer queries on debts which customers claimed had already been settled.

44. The Department told us that the Agency placed a high degree of reliance on the ongoing positive reports from internal and external audit. This suggests to us a basic lack of understanding of the role and process of audit. Management always has the primary responsibility to develop, implement and regularly test its control environment and should not rely solely on an annual audit process to discharge that responsibility. Indeed, we note that the Agency's Fraud Policy Statement states that all managers are responsible for identifying the risks to which systems and procedures are exposed; developing and maintaining effective controls to prevent and detect fraud; and ensuring that these controls are complied with<sup>5</sup>.

45. Although DFP issued guidance on managing fraud in January 1998, we note that the Agency did not introduce a fraud policy until October 2002, nor had it

5. OSNI [Agency] Fraud Policy Statement October 2002.

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provided fraud awareness training to its staff. This is particularly surprising in the light of the previous fraud which should have prompted earlier action. Activities and policies of this nature help to embed an anti-fraud culture and it is important that departments and agencies implement central guidance promptly.

46. Furthermore, whistleblowing legislation, the Public Interest Disclosure (Northern Ireland) Order 1998, was enacted on 31 October 1999. Despite this, the Agency did not introduce a whistleblowing policy until February 2003. The implementation of such a policy can be particularly helpful for those at more junior grades, who may not be familiar with the avenues available to them should they have suspicions about the actions of their colleagues. In this context it is most disappointing that concerns raised by a member of staff with the Finance Manager (paragraph 35) were not thoroughly investigated. The Department told us that an uneasy working relationship existed between the member of staff raising the concerns and the Finance Manager and this may have delayed the discovery of the alleged fraud by up to a couple of months. The Agency accepts that more prompt action should have been taken by the Finance Manager and have assured the Department that, as all relevant staff have now received appropriate training, it is confident that such an event would not occur again.

47. However NIAO considers that, had the full range of anti-fraud measures been in place and the indicators acted on appropriately and expeditiously, this fraud could have been prevented or, at least, identified much earlier during its five-year life.

# APPENDICES



## Appendix 1

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### Timeline for the Agency Fraud

|                          |  |
|--------------------------|--|
| September 1974           | Norman Steenson joined the Department of the Environment as an Ordnance Survey Assistant.  |
| April 1991               | Fraud was discovered in the Map Shop (see paragraph 4).  |
| June 1993                | Norman Steenson was transferred to Accounts Branch within the Agency.  |
| November 1994            | The Finance Manager joined the Agency as an accountant at Deputy Principal grade. He was promoted to Principal Officer grade on 9 November 2002.   |
| January 1997             | Registry functions relocated to Accounts Branch. This included the receipt and recording of monies in the cash book. Norman Steenson was made responsible for the registry functions.  |
| 1998                     | Norman Steenson started perpetrating his fraud.  |
| May 1998                 | Internal Audit Examination - Review of Financial Management and Customer Service.  |
| 1999                     | <p>A new Chief Executive of the Agency was appointed. At the time of his appointment he requested extra audits in areas that handled cash and payments, as he wanted additional assurance in these areas.</p> <p>The work of the Finance Manager, prior to 1999, had been mainly ‘number crunching’ and during that period he was much closer to the day-to-day operation of Accounts Branch. After 1999, he became more involved in the higher level business planning and budgeting processes. He stated that it was difficult to juggle both roles because of the demands on his time. Following an external review of the Branch’s workload by DFP, another accountant’s post was created in January 2002.</p> |
| June 1999                | Internal Audit Examination - A Review of Human Resources Management, the Information Management System and Financial Transactions.   |
| June 2000                | Internal Audit Examination - A Review of the Adequacy and Effectiveness of Internal Controls over the Systems of Corporate Governance, Financial Management, Computer Security and Data Integrity.   |
| April 2000 -January 2001 | No Internal Audit coverage   |
| January 2002             | A qualified accountant joined the Agency.  |

|                      |  |
|----------------------|--|
| February 2002        | Internal Audit Examination - A Review of Credit and Debt Management, Management of Assets, Travel and Subsistence.   |
| October 2002         | The accountant appointed in January 2002 received three or four phone queries from customers complaining that they had received statements for outstanding payments which had already been made. Norman Steenson was absent from the Office but on his return, when asked by the accountant, he indicated that the problem had probably been caused through confusion with map sales income.   |
| 7 November 2002      | <p>During one of Norman Steenson's absences, a member of Accounts Branch staff approached the accountant about the level of customer queries. The queries related to outstanding debts which customers believed they had paid.</p> <p>The accountant wrote to the Map Shop Manager, to ask for an explanation of the procedure in relation to cheque payments for map sales.</p>   |
| December 2002        | <p>The accountant left the Agency. The query to the Map Shop Manager was not pursued. The Map Shop Manager indicated that he recalled discussing the memo with the accountant but had not responded formally in writing.</p> <p>The accountant did not inform the Finance Manager of the outstanding query to the Map Shop Manager.</p> <p>The first stage of the Financial Procedures Manual was completed by the accountant prior to leaving. This stage covered the Agency's standard processing routines.</p> <p>A new member of staff arrived in Accounts Branch on temporary secondment with responsibility for reducing the level of long-term debts within the Agency.</p> |
| February 2003        | Internal Audit Examination - A Review of the System of Internal Controls over Income and Receipts.   |
| May 2003             | The accountant returned to the Agency on promotion to the grade of Deputy Principal.   |
| June 2003            | The Finance Manager personally removed post from Norman Steenson's desk for junior staff to open, as he considered that post opening was an inefficient and costly use of Norman Steenson's time.  |
| June 2003 (3rd week) | The member of staff with responsibility for reducing the level of long-term debts raised concerns with the Finance Manager about debtors who had told him that they had already paid their debts but these debts were still on the debtors' ledger. The member of staff also mentioned that, in some cases, customer cheques had been cashed. The Finance Manager asked him to investigate further.  |

## Appendix 1 (continued)

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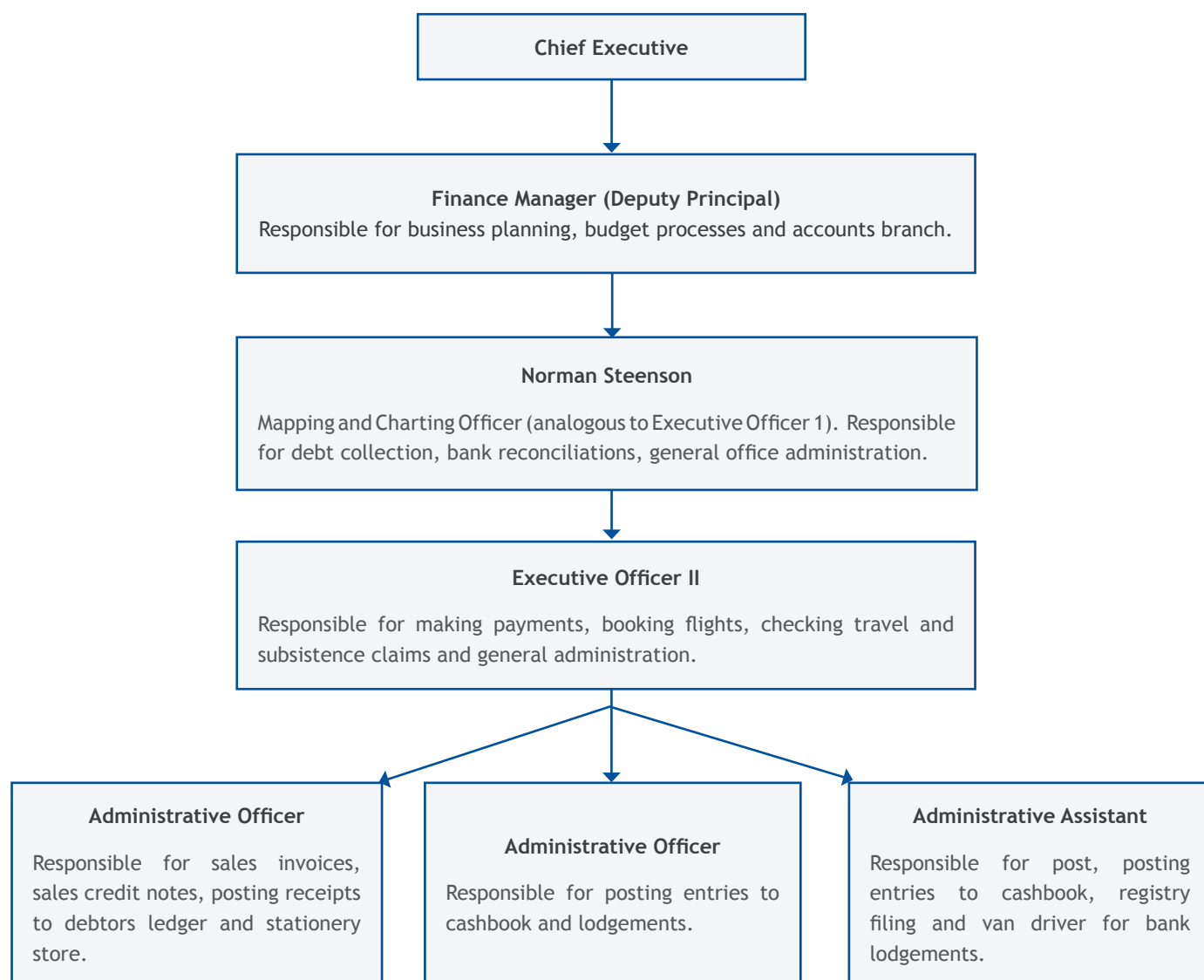
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| 8 July 2003      | <p>Norman Steenson on sick leave.</p> <p>The Finance Manager was shown some faxed bank statements where the queried cheques had been cleared through the customer's account. As he was taking holiday leave, he asked the accountant to pursue this matter and search for receipts for the cheques.</p>  |
| July/August 2003 | <p>The accountant became aware that something was wrong. The member of staff working on long-term debts had been maintaining good records of cheques received. Some of these related to debts still not cleared from customers' accounts.</p>  |
| 7 August 2003    | <p>The member of staff working on long-term debts presented the Finance Manager with a list of customers' accounts that were still causing problems. The Finance Manager conducted his own investigation and his suspicions were raised.</p> <p>The Finance Manager phoned Norman Steenson at home and asked him if he knew of any obscure lodgement batches or errors that would cause debtor cheques to be mixed in with the Map Shop lodgements.</p> <p>The Finance Manager spoke to the Agency's Chief Executive to raise his concerns. He then carried out a further preliminary investigation and identified a potential cash discrepancy of £5,619.51 in the period between 11 April and 9 July 2003.</p> |
| 8 August 2003    | <p>The Finance Manager formally notified the Chief Executive that there was suspected financial irregularity in the Accounts Branch.</p> <p>Internal Audit was contacted by the Agency's Chief Executive and a meeting took place later the same day. During this meeting the Finance Manager left to take a call from Norman Steenson - during this call Norman Steenson admitted taking the money.</p> <p>Immediate steps were taken by Internal Audit to secure all likely sources of evidence.</p>   |
| 11 August 2003   | <p>The Chief Executive established a Case Management Group to oversee the fraud investigation.</p>   |
| 15 August 2003   | <p>Norman Steenson was suspended without pay.</p>  |
| 20 August 2003   | <p>Norman Steenson was arrested and interviewed by the Police.</p>   |
| 28 October 2003  | <p>Fraud Investigation Interim Report outlined progress of investigation in relation to the fraud.</p>   |
| November 2003    | <p>Review by temporary accountant, with assistance from Internal Audit, of financial procedures in Accounts Branch.</p>  |

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|-----------------|--|
| February 2004   | Fraud awareness training was provided for all Agency staff graded at Staff Officer level and above, as well as for staff who deal with cash and cheque transactions from the Map Shop and Accounts Branch.   |
| March 2004      | Internal Audit Follow-Up Report on Control Recommendations to establish the level of implementation.   |
| July 2004       | Final Internal Audit Report on Suspected Fraud within Accounts Branch.   |
| September 2004  | Chief Executive's 'Interim Report on the Fraud at the Agency'.   |
| December 2004   | 'Preliminary Investigation Report in Relation to Possible Disciplinary Action within OSNI' [the Agency] completed by consultant.   |
| 20 January 2006 | Norman Steenson pleaded guilty to charges at Belfast Crown Court.  |
| 7 April 2006    | Norman Steenson was sentenced to 12 months imprisonment which was suspended for 2 years.   |
| 27 June 2006    | At the compensation by confiscation hearing the Judge issued a Confiscation Order for Norman Steenson to pay £30,000 within 12 months. In the event of a default, Norman Steenson would have to serve a nine month prison sentence. The Judge further ordered a compensation payment of £30,000 to the Agency payable within 12 months. One payment of £30,000 will discharge both the Confiscation and Compensation Orders. |

## Appendix 2

### Staffing structure and responsibilities of Accounts Branch in 1998 at the time Norman Steenson began committing fraud



### Anti-fraud Policy and Fraud Response Plan

The Agency issued its Anti-fraud Policy and Fraud Response Plan in October 2002 and circulated it to its work areas including Accounts Branch. The Policy and Fraud Response Plan provides a good framework of procedures for the handling and investigation of suspected fraud. The key points covered in the Policy and Fraud Response Plan are as follows:

- the need to ensure that vigorous and prompt investigations are carried out;
- the need to take appropriate legal and/or disciplinary action against the perpetrators of fraud;
- the need to take disciplinary action against supervisors where supervisory failures have contributed to the fraud;
- the investigation will be conducted by officers independent of the area under investigation and will include an officer trained in investigative techniques;
- the Police Service of Northern Ireland should be notified once there is a prima facie case of fraud; and
- all frauds must be reported in writing to the Head of Internal Audit.

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