
Report to Resources and Audit Committee

Date of Meeting: 01 May 2014

Subject: Internal Audit and Fraud Annual Report

Report by: Internal Audit and Fraud Team Leader

1.0 Purpose

- 1.1. This report provides the annual Internal Audit opinion on the Council's internal control environment as required by Clackmannanshire Council Financial Regulations and Performance Standard 2450 of the Public Sector Internal Audit Standards (PSIAS). The report also outlines internal audit and counter fraud work undertaken in the year which presents the progress made by the Internal Audit and Fraud Team.
- 1.2. A "reasonable" assurance opinion has been provided in the report which has been arrived at following consideration of audit work carried out in line with the annual plan and other sources of assurance including progress on audit recommendations and Internal Audit and Fraud team involvement in Annual Governance Statement Assurance processes. We previously provided "reasonable" assurance for 2012/13.
- 1.3. In line with best practice the report will be used by Clackmannanshire Council to inform its Annual Governance Statement.

2.0 Recommendations

- 2.1. The Committee is asked to note, comment on and challenge the report and the opinion contained within.

3.0 Considerations

- 3.1. In December 2011, following an options appraisal, the Council approved the restructure of the audit team into an integrated Audit and Fraud Team. The integrated in-house Internal Audit and Fraud Service now comprises one team providing both the Council's internal audit and corporate and benefit fraud arrangements. There is still some ongoing uncertainty around the creation of the Single Fraud Investigation Service (SFIS) and the potential impact on the service. Developments are being kept under review. This however presents an opportunity to further develop and strengthen corporate counter-fraud activity.

- 3.2. It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system.
- 3.3. To form an opinion on the Council's control environment, Internal Audit prepares an Annual Plan which sets out the audits which will be completed during the financial year. The audits in this plan are selected with a view to determining whether the risks facing the key corporate and service objectives are being adequately managed and financial and non financial controls are operating effectively. We will work with External Audit to consider the level of reliance they can place on our work in the future. The 2013/14 Annual Internal Audit and Fraud Plan was recommended to full Council for approval by the Resources and Audit Committee on 2 May 2013.

4.0 Conclusion

- 4.1 This report provides the Internal Audit annual opinion on the operation of the Council's internal control environment. This year's assessment provides a "reasonable" assurance opinion. Further detail and the annual internal audit opinion are included in the attached report, which includes at Appendix B a definition of Assurance Assessments.

5.0 Sustainability Implications

- 5.1 There are no sustainability implications.

6.0 Resource Implications

- 6.1 *Financial Details:* Not applicable.

- 6.2 *Staffing:* Not applicable

7.0 Exempt Reports

- 7.1 Is this report exempt? Yes (please detail the reasons for exemption below) No

8.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

- (1) **Our Priorities** (Please double click on the check box)

- The area has a positive image and attracts people and businesses
- Our communities are more cohesive and inclusive
- People are better skilled, trained and ready for learning and employment
- Our communities are safer
- Vulnerable people and families are supported

- Substance misuse and its effects are reduced
- Health is improving and health inequalities are reducing
- The environment is protected and enhanced for all
- The Council is effective, efficient and recognised for excellence

(2) Council Policies (Please detail)

Financial Regulations.

9.0 Equalities Impact

- 9.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations? Yes No

10.0 Legality

- 10.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes

11.0 Appendices

- 11.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

Appendix 1 - Internal Audit and Fraud Annual Report (which includes an appendix A on Internal Audits Completed in 2013/14 and appendix B defining Assurance Assessments)


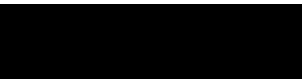
12.0 Background Papers

- 12.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)
 Yes (please list the documents below) No

Author(s)

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Approved by

NAME	DESIGNATION	SIGNATURE
Julie Burnett	Senior Support Services Manager	
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INTERNAL AUDIT AND FRAUD

ANNUAL REPORT

APRIL 2013 TO MARCH 2014

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1. INTRODUCTION

- 1.1 The purpose of this report is to provide an independent assurance statement on the effectiveness of the financial and non financial internal controls operating within Clackmannanshire Council in the period April 2013 to March 2014.
- 1.2 The provision of an Annual Report by the Internal Audit and Fraud Team Leader is required under the Council's Financial Regulations (s.24.2) and by Performance Standard 2450 of the Public Sector Internal Audit Standards (PSIAS). The purpose, authority and responsibility of Internal Audit is formally defined in the Internal Audit Charter which is appended to the Financial Regulations. We will work with External Audit to consider the level of reliance they can place on our work in the future.
- 1.3 It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. PSIAS requires that the annual internal audit opinion must conclude on the overall effectiveness of the organisation's framework of governance, risk management and control in a report that incorporates;
- The opinion;
 - A summary of the work that supports the opinion; and
 - A statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.
- 1.4 This report has been prepared in line with the above requirements.

2. AUDIT OPINION

- 2.1 To form an opinion on the Council's control environment, Internal Audit prepares an Annual Plan which incorporates the audits to be completed during the financial year. The audits in this plan are selected with a view to determining whether the risks facing the key corporate and service objectives are being adequately managed and financial and non financial controls are operating.

Basis of Assurance

- 2.2 I am able to provide **reasonable** assurance upon the adequacy and effectiveness of Clackmannanshire Council's framework of governance, risk management and control in the year to 31 March 2014. Internal Audit did identify a number of significant weaknesses, particularly within the Information Governance- Document Management and the Adult Care-Commissioning of Care and Corporate Appointees reviews. However I am satisfied that appropriate action has been identified by management to deal with issues.
- 2.3 This Audit Opinion has been compiled to be consistent with the format used for the Council's Annual Governance Statement. It therefore presents the opinion of the Council's Internal Audit Team Leader for consideration.
- 2.4 In forming my opinion on the Council's control environment, I have relied on different sources, including:
- The audit work undertaken by the Internal Audit and Fraud Team during the year to 31 March 2014,
 - Progress made by management in the implementation of Internal Audit recommendations,
 - Reports issued by the Council's external auditors, Deloitte LLP and other review agencies,
 - My involvement in the Annual Governance Statement assurance process led by the Governance Manager.
- 2.5 Internal Audit completed 17 reviews during 2013/14, with final or draft reports issued before the end of the financial year. I am content, therefore, that the breadth and depth of coverage is sufficient to allow me to provide a balanced opinion on the overall adequacy of the Council's control environment.
- 2.6 As Members are aware, Internal Audit use a set of Assurance

Categories to provide an opinion on the adequacy of arrangements for risk management, governance, and control. A summary of these is set out at Appendix B.

Iain Burns

01 MAY 2014

**Internal Audit and Fraud Team
Leader,
Clackmannanshire Council**

Date

3. OVERVIEW OF 2013-14

3.1 Internal Audit and Fraud's Annual Plan for 2013/14 was recommended to full Council for approval by the Resources and Audit Committee on 2 May 2013. The Plan comprised 17 audits together with time allocated for follow up work; input in to the Annual Governance Statement assurance process; contingency work; and the National Fraud Initiative. The Plan also included fraud detection and other fraud work. Further to this the Plan also included two audits (Information Governance and Annual Assurance Report) for the Assessors which will be reported separately to the Valuation Joint Board. A total of 178 weeks were included within the Annual Plan.

Assurance

3.2 Of the 17 audits planned, all have been completed, with 5 draft and 12 final reports issued to management. These audits form the basis of the Internal Audit opinion. Details of internal audit activity undertaken during 2013-14 is summarised in Appendix A.

3.3 It should be noted that for the 12 final reports issued to date, Internal Audit provided significant assurance for 6 reviews and reasonable assurance for 5. Significant assurance was provided for Business Continuity Planning (BCP) & Disaster Recovery (DR), Funding Applications including European Funds, Schools PPP/PFI Contract Monitoring, Roads Management- Road Costing System, Payroll & HR and Fixed Asset Register. Reasonable assurance was provided for Welfare Reform, Corporate & Public Performance Reporting, Council Tax and Follow Up of ALEOs. Limited assurance was provided for Information Governance- Document Management and Adult Care- Commissioning of Care and Corporate Appointees, and appropriate action has been identified by management to deal with issues. For the 5 draft reports issued there are no issues arising that would affect the overall assurance opinion provided.

3.4 During the year progress on implementation of agreed recommendations from previous reviews was followed up on a quarterly basis. Progress has been made on implementing and addressing recommendations from previous reports. Within Action Plans from previous Internal Audit Reports, there were 29 recommendations arising from 10 reports, which were still in progress of implementation by 31 March 2014. Over the year 54 recommendations have been implemented, with 18 no longer applicable. Recommendations are considered no longer applicable if they cover issues that have either been superseded by other events and are therefore dropped (2 in total) or have been carried forward in reviews as part of the 2014/15 plan (16 in total). In future target dates for implementation of agreed

management action will be included within progress reports with monitoring of implementation being added to Covalent and performance reporting.

Contingency

- 3.5 The internal audit and fraud plan includes contingency time to undertake reactive and audit advice work. This work is commissioned by management in response to specific concerns or circumstances. This work does not result in formal reports. In 2013/14 work undertaken has included providing advice on handling credit and debit card transactions, providing assurance on June 2013 Equal Pay Settlements, commenting on Financial Regulations re-draft and review actions taken in response to Audit Scotland Housing Benefit Action Plan.

Governance

- 3.6 The Internal Audit and Fraud Team have contributed to the Annual Governance Statement assurance process through reviewing service action plans. Further to this the Internal Audit and Fraud Team Leader sat on various Governance Panels which involved contributing to reviewing and challenging evidence provided by services in support of their assurance statements.

Fraud

- 3.7 The National Fraud Initiative 2012/13 (NFI) commenced in the second quarter of 2012/13 with data being exported to Audit Scotland between October and December 2012. Matches were made available in February 2013 and investigations are currently ongoing. A final report will be presented to Resources and Audit Committee on conclusion of the exercise which will summarise the outcome of investigations.
- 3.8 Fraud detection and recovery has involved the Internal Audit and Fraud Team examining over 131 cases of suspected fraud in relation to Housing Benefit and Council Tax. Of the new referrals, 39 cases were rejected for full investigation for varying reasons e.g. cost / benefit of conducting a full investigation, age / health of suspect etc. 133 cases have been closed to 31 March 2014 with 51 live cases at that date. The value of the fraud uncovered is £133,742 (2012/13 - £167,596) and the average value on a case-by-case basis equates to £1006. Most cases result in repayment however there have been 10 cautions issued, 21 administrative penalties and 10 prosecutions. This total of 41 compares with 61 from the previous year.

- 3.9 The Internal Audit and Fraud Team have identified a small number of high value fraudulent benefit claims and where the amount of falsely claimed benefit exceeds £30,000. In such cases the normal course of action is to sanction the perpetrator and in common with the Department For Works and Pensions policies, cases of such value are referred for consideration under the proceeds of crime act with a view to obtaining a confiscation order and asset recovery. These frauds involve not only council funds, but the wider public purse. Any action taken under proceeds of crime legislation is pursued by the Crown Office. The audit and fraud team have also assisted with internal investigations and continue to promote their specialist skills and knowledge to the wider council.

4. QUALITY ASSURANCE AND PERFORMANCE

- 4.1 All Local Authority Internal Audit teams are required to operate in accordance with the Public Sector Internal Audit Standards (PSIAS). The PSIAS formalise standards to be achieved in relation to, for example, independence, staffing and training, audit strategy and planning, reporting and performance and quality and effectiveness.
- 4.2 Significant development work was identified and undertaken in 2013/14. This included re-designing the audit process including moving to an electronic audit package. This ensured that individual audit reviews focused more clearly on the key risks associated with the areas under review. As a result working papers and the format of our reports was revised to accommodate these changes.
- 4.3 The Internal Audit and Fraud Team has also undertaken a self assessment against the PSIAS during 2013/14 with the aim of identifying further development work required. A Quality Improvement Plan has been drafted which identifies a number of areas for improvement including updating the Audit Charter, reviewing and updating the Internal Audit Manual and giving consideration to how independent assurance over the fraud function will be provided.

4.4 Internal Audit measures its performance against a set of *three* Key Performance Indicators (KPI). Performance against each of these for 2013/14 is set out in the table below.

Key Performance Indicator	Target (%)	Actual (%)
1. % of Internal Audit and Fraud annual plan completed.	100	100
2. Draft reports issued in line with target date	60	55
3. Audits completed within budget %.	80	75
4. Actual days as % of planned days.	95	86

4.5 While the overall plan has been delivered there is room for improvement in relation to performance against target dates and budgets for individual reviews. The draft Quality Improvement Plan mentioned above also identifies improved performance monitoring and reporting throughout the year to facilitate better performance.

APPENDIX A - INTERNAL AUDITS COMPLETED IN 2012/13

Audit	Audit Weeks	Annual Plan	Service	Progress
Governance				
Annual Assurance Report	8	2012-13	Corporate	Completed
Assurance				
Information Governance- Document Management.	5	2013-14	Corporate and Governance	Final Report Issued
Business Continuity Planning (BCP) & Disaster Recovery (DR)	5	2013-14	Corporate and Emergency Planning Unit	Final Report Issued
Welfare Reform	6	2013-14	Corporate	Final Report Issued
Procurement	6	2013-14	Corporate & Services to Communities- Facilities Management	Draft Report Issued
Corporate and Public Performance Reporting	6	2013-14	Corporate & Customer Services	Final Report Issued
Shared Services- jointly managed Services with Stirling Council	6	2013-14	Corporate	Draft Report Issued
Adult Care- Commissioning of Care and Corporate Appointees	4	2013-14	Social Services	Final Report Issued
Funding applications including European Funds	6	2013-14	Services To community- Economic Development	Final Report Issued
Schools PPP/PFI Contract Monitoring	6	2013-14	Services to Communities- FM	Final Report Issued
Roads Management- Road Costing System.	6	2013-14	Services to Communities - Roads & Transportation	Final Report Issued
ICT Asset Management Plan	5	2013-14	ICT Service	Draft Report Issued

Audit	Audit Weeks	Annual Plan	Service	Progress
Devolved School Management	6	2013-14	Education	Draft Report Issued
Payroll and HR	6	2013-14	Corporate & Revenues & Payments	Final Report Issued
Fixed Asset Register	5	2013-14	Corporate Finance & Services to Communities-FM	Final Report Issued
Council Tax	4	2013-14	Corporate Services-Revenues	Final Report Issued
ALEOs	1	2013-14	Corporate and across selected services	Final Report Issued
Review of Savings and Efficiencies	4	2013-14	Corporate and across a selection of services	Draft Report Issued
Fraud				
Fraud Detection and Recovery	54	2013-14	Audit and Fraud	Ongoing
National Fraud initiative- Phase Two	6	2013-14	All Services submitting data	Completed
Data matching	4	2013-14	All Services	Ongoing
Fraud Awareness and Training	5	2013-14	Corporate and all services	Ongoing
Other				
Follow Up	4	2013-14	All Services	Completed

Assurance	Definitions
Significant Assurance	There is an adequate and effective system of risk management, control and governance to address risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
Reasonable Assurance	Business objectives are likely to be achieved. However, improvements are required to enhance the adequacy/effectiveness of risk management, control and governance.
Limited Assurance	There is considerable risk that the system will fail to meet its objectives. Significant improvements are required to improve the adequacy and effectiveness of risk management, control and governance.
No Assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or abuse is unacceptable. Significant improvements are required.