
Report to Resources and Audit Committee

Date of Meeting: 3 December 2015

Subject: Internal Audit and Fraud Progress Report

Report by: Internal Audit and Fraud Team Leader

1.0 Purpose

- 1.1. This report provides an update on work completed from the Internal Audit and Fraud Annual Plan 2015/16 which was recommended to full Council for approval by the Resources and Audit Committee on 26 February 2015.
- 1.2. The report also provides an update on the progress of implementation of recommendations to 31 October 2015 by Officers from previous Internal Audit Reports.

2.0 Recommendations

- 2.1. The Committee is asked to note, comment on and challenge the report and progress made on the Internal Audit and Fraud Annual Plan 2015/16.

3.0 Considerations

Progress Against 2015/16 Plan

- 3.1. Progress against plan is continuing with 74% of reviews either completed or in progress as we approach the final quarter. The team is well on track to completing the plan within target.
- 3.2. Progress on completion of the Assurance element of the Annual Plan 2015/16, is summarised in the table below, with more detail being provided in **Appendix A**.

Status of Audits		%
To be Commenced	5	26%
Onsite/On going	5	26%
Draft Report Issued	3	16%
Final Report Issued	6	32%
Total	19	100%

3.3. To provide members with more information on progress of the plans we have provided terms of reference for audits that are currently ongoing or are due to start in the near future and have been agreed. These are provided at **Appendix B** and cover the following reviews;

- Capital Project Management
- Cash Collection and Handling

Final Reports- Assurance

3.4. The following reports from the 2015/16 plan are provided for:-

- Creditor Management (**Appendix C**)
- Progress of the New Financial System Project (**Appendix D**)

Fraud

3.5. Responsibility for investigating housing benefit fraud was transferred to the Department for Work and Pensions on 30 October 2015. One member of staff transferred at the same time. Up to this point the team had received 36 referrals for 2015/16 with over 23 investigations commenced up to the end of October. In that time investigations have identified over £31,394 of overpayments with 6 sanctions issued. 12 Live cases have been transferred to DWP.

3.6. All cases have proceeded in line with the Clackmannanshire Council Benefit Fraud Sanctions and Penalties Policy and the Corporate Prosecutions Policy. The number of weeks allocated to Fraud and Error Prevention and Detection in the annual plan has been amended to take account of the transfer of responsibilities and staff.

Progress of Follow Up

3.7. Within Action Plans from previous Internal Audit Reports, there were 48 recommendations arising from 20 reports which were due for implementation by 31 October 2015. This covers all previous reports where there is at least one recommendation to be implemented. Of these, 19 recommendations have been implemented and 29 are in progress.

3.8. The progress made by Officers on these recommendations is summarised in **Appendix E** and where not sufficiently implemented, progress to date and revised completion dates have been agreed. More detailed reporting of progress on implementation of agreed management actions resulting from internal audit reports is now being provided via service performance reports. We will review how we present summary information and consider what improvements can be made.

Conclusion

- 3.9. Work is progressing well on reviews from the 2015/16 plan, with six final reports and four draft reports being issued and a further four reviews currently in progress. Approaching the end of the third quarter 74% of the annual plan is either completed or at an advanced stage. Further progress has been made on implementing and addressing recommendations from previous reports.
- 3.10. Responsibility for investigating housing benefit fraud was transferred to the Department for Work and Pensions on 30 October 2015. The number of weeks allocated to Fraud and Error Prevention and Detection in the annual plan has been amended to take account of the transfer of responsibilities and staff.
- 3.11. Members are asked to note the report and progress made.

4.0 Sustainability Implications

- 4.1. There are no sustainability implications.

5.0 Resource Implications

5.1. *Financial Details*

- 5.2. The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate. No ☒
- 5.3. Finance has been consulted and have agreed the financial implications as set out in the report. Yes ☒

6.0 Exempt Reports

- 6.1. Is this report exempt? Yes ☐ (please detail the reasons for exemption below) No ☒

7.0 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 | <input type="checkbox"/> |
| Our communities are more cohesive and inclusive | <input type="checkbox"/> |
| People are better skilled, trained and ready for learning and employment | <input type="checkbox"/> |
| Our communities are safer | <input type="checkbox"/> |
| Vulnerable people and families are supported | <input type="checkbox"/> |
| Substance misuse and its effects are reduced | <input type="checkbox"/> |

Health is improving and health inequalities are reducing	<input type="checkbox"/>
The environment is protected and enhanced for all	<input type="checkbox"/>
The Council is effective, efficient and recognised for excellence	<input checked="" type="checkbox"/>

(2) **Council Policies** (Please detail)

Financial Regulations.

8.0 Equalities Impact

8.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?
N/A

9.0 Legality

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

10.0 Appendices

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

Appendix A - Progress on 2015/16 Internal Audit and Fraud Annual Plan

Appendix B - Terms of Reference

Appendix C - Creditor Management

Appendix D - Progress of the New Financial System Project

Appendix E - Progress Of Follow Up Of Internal Audit Reports

11.0 Background Papers

11.1 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
Stephen Coulter	Head of Resources and Governance	Signed: S Coulter
Nikki Bridle	Depute Chief Executive	Signed: N Bridle

Audit	Audit Weeks	Annual Plan	Service	Progress
Governance				
Annual Assurance Report	8	2015-16	Corporate	To Be Commenced
Assurance				
Compliance with IT Security Policies	5	2015-16	Corporate	Draft Report Issued
Capital Project Management	5	2015-16	Resources and Governance/ Corporate	Ongoing
Workforce Planning	5	2015-16	Corporate	To Be Commenced
Shared Services	6	2015-16	Social Services Education	Ongoing
Health and Social Care Integration	5	2015-16	Social services	Ongoing
Administration of Blue Badges	4	2015-16	Development and Environmental	Final Report Issued
iTrent	5	2015-16	Resources and Governance	To Be Commenced
Debt Recovery	4	2015-16	Housing and Community Services	Final Report Issued
ICT Asset Management Plan and IT Contract Management	5	2015-16	Resources and Governance	To Be Commenced
Information Governance	4	2015-16	Corporate	To Be Commenced
Progress of the New Financial System Project	4	2015-16	Resources and Governance	Second Interim Draft Issued
Cash Collection and Handling	4	2015-16	Corporate	Draft Report Issued
Creditor Management	4	2015-16	Resources and Governance	Final Report Issued
Fleet Management	4	2015-16	Development and Environmental	To Be Commenced

PROGRESS ON APPROVED INTERNAL AUDIT ANNUAL PLAN 2015/16
APPENDIX A

Audit	Audit Weeks	Annual Plan	Service	Progress
Travel and Subsistence	4	2015-16	Corporate	Final Report Issued
Consultancies and Agency Workers	5	2015-16	Corporate	Final Report Issued
Mobile Phone Usage	2	2015-16	IT/Corporate	Final Report Issued
Leisure Income	5	2015-16	Strategy and Customer Services	Ongoing
Delegated Financial Approval Authority	4	2015-16	Corporate and Housing and Community Services	Ongoing
Fraud				
Fraud and Error Prevention and Detection	40	2015-16	Internal Audit and Fraud	Ongoing
National Fraud initiative	6	2015-16	All Services submitting data	Ongoing
Fraud Awareness and Training	3	2015-16	All services	Ongoing
Other				
Follow Up	4	2015-16	All Services	Ongoing

**INTERNAL AUDIT TERMS OF REFERENCE****SERVICE: Resources and Governance /
Corporate****AUDIT AREA: Capital Project Management****AUDIT YEAR: 2015/2016****INTRODUCTION AND SCOPE**

The General Services Capital Budget for 2014-2020 and the Housing Capital Budget for 2014-2018 were approved by the Council in February 2015. The General Services Capital Budget indicates that over the period to 2019/20, there is a total of £56.794m for capital investment. The Council's currently approved projects account for £49.742m of this sum, leaving £7.052m available for investment in new projects. The Housing Capital Programme for 15/16 is £13m.

Given the level of investment and the potential impact on core Council objectives it is imperative that Capital Projects are effectively managed to ensure they are sustainable and maximise investment potential.

The scope of our audit is to focus on the arrangements for managing approved projects of the General Services and Housing Capital Programme. The arrangements for assessing, prioritising and approving capital bids to be included in the Capital Programme is out with the scope of this review.

RISKS

The following risks could prevent the achievement of Capital Project Management objectives:.

- Capital Project Management policies and procedures and roles and responsibilities are insufficient, poorly defined or unclear leading to failure to actively manage and monitor the capital projects.
- Failure to robustly manage and monitor projects resulting in material overspend, project slippage and / or lack of delivery; and
- Failure to implement clear and effective management information systems (for officers and elected members), leading to absence of robust monitoring and challenge of project progress against targets.

AUDIT OBJECTIVE: Our audit work will be designed to evaluate whether appropriate systems are in place and operating effectively to mitigate the risks identified above.

**INTERNAL AUDIT TERMS OF REFERENCE****SERVICE:** Corporate**AUDIT AREA:** Cash Collection & Handling**AUDIT YEAR:** 2015/2016**INTRODUCTION AND SCOPE**

The Council's Financial Regulations dictate the high level controls that should be applied to Income and Cash Security including imprests and these include:

- All income received by an officer will immediately be acknowledged by the issue of an official receipt.
- All money received by an officer on behalf of the Council must be paid in full and without delay into an official nominated bank account.
- When cash is held, risk management and insurance implications must always be considered.
- Access to safes or similar receptacles should be limited and a register of keyholders maintained.
- Formal records of the imprests must be retained in the Service concerned for inspection.
- Imprests cannot be used for the reimbursement of staff travel, subsistence, or associated expenditure.

In undertaking the audit, we will review all cash handling including payments received by debit cards and cheques and imprest payments across Clackmannanshire Council. We will not be including Leisure Income in this review as this will be audited in a separate review planned for later in the year.

The scope of the audit will focus on the arrangements in place to manage the risks relating to cash collection, recording and security management.

RISKS

The following risks could prevent the achievement of the objectives of the cash collection and handling systems, or result from the non-achievement of the objectives, and have been identified as within scope for this audit;

- Inadequate cash recording arrangements leads to loss
- Physical cash security arrangements do not properly safeguard against loss or theft
- Floats/imprests are not properly maintained
- Customer payment details are not properly protected.

AUDIT OBJECTIVE: Our audit work will be designed to evaluate whether appropriate systems are in place and operating effectively to mitigate the risks identified above.

1. INTRODUCTION

1.1 This report details the findings of the Internal Audit review of the arrangements for Creditors Management. The review forms part of the Internal Audit and Fraud Plan for 2015/16, which was recommended to full Council for approval by the Resources and Audit Committee on 26 February 2015.

1.2 The purchase ledger is a sub ledger of the general ledger in which purchases are recorded. The Creditor Accounts records all the transactions for the one supplier including purchase invoices, purchase credit notes and payments.

1.3 In 2014/15 Clackmannanshire Council recorded expenditure of c£60m to 1,967 creditors through 26,425 transactions in the purchase ledger. Given the high level of expenditure and number of transactions there is a requirement for robust controls to be in place to mitigate the risk of inaccurate, onerous or inappropriate payments.

2. SCOPE AND OBJECTIVES

2.1 The scope of the audit included a review of the key controls in place for the maintenance of the creditors ledger including access and authorisation, segregation of duties and compliance with the Council's Policies and Procedures.

2.2 Internal Audit, in conjunction with the Acting Chief Accountant, identified the key risks relating to the audit. We found weaknesses in relation to controls over supplier set-up, management and invoice input and payment. A considerable number of these weaknesses are inherent within the current Creditors System and we have received assurance that they will be addressed by the new Finance System due to be implemented in April 2016. We are placing a degree of reliance on development of new systems and therefore we can provide overall **reasonable** assurance that risks are being addressed and adequately mitigated.

Key Risk	Assurance Assessment
Inadequate controls over supplier set-up, management, maintenance and invoice processing.	Limited
Fraud or error resulting from fictitious or duplicate invoices and/or suppliers.	Limited
Supplier invoices are not paid accurately or in a timely manner.	Reasonable
Inadequate management information systems, leading to inefficiency and loss of control.	Reasonable

3. FINDINGS

3.1 At the time of this review a project to implement a replacement finance system which includes the Purchase Ledger (PL) was being progressed with a new system due to be implemented by April 2016. System specific findings identified as part of this review are detailed in paragraphs 3.2 to 3.4 and will be summarised in Finding 5.1 and should be taken into account within development and testing of the new system rather than necessarily taking immediate action.

3.2 In undertaking the review we were advised that only a limited number of Officers have the delegated authority to carry out supplier maintenance in the PL. In practice we identified 106 out of 492 users who have access rights that allow them to carry out supplier maintenance. This arises due to the way that user permissions have been set up and the lack of ability of the system to restrict user permissions. (Finding 5.1)

3.3 There is no audit log of changes to supplier details retained due to system limitations therefore it is not possible to identify who has made any changes and as a result we cannot identify and carry out testing of any changes made. We are unable to identify what changes have been made. (Finding 5.1)

3.4 Creditors staff can change supplier credit terms in order to make prompt payments but unless manually changed back this becomes the suppliers default credit terms and future payments will be made in line with these terms. (Finding 5.7)

3.5 We can only provide limited assurance relating to the adequacy of the controls over supplier set-up, management and maintenance. The Councils Financial Regulations define the controls to be implemented in relation to approval and payment of invoices. Accountancy Services have also developed comprehensive procedures for supplier maintenance and payment processing.

3.6 Through testing a sample of new suppliers set up we found the following issues:

- No independent verification checks undertaken with established supplier contact details on the validity of supplier requests for bank account changes. Senior Management were advised of this at the time of this review and procedures to do this have now been implemented.
- Testing highlighted supplier documentation relating to new suppliers is not being retained separately. Management have advised that new suppliers first invoices are being saved electronically and marked as new, however this has not been tested as part of this review. (Finding 5.2)
- There is no audit log of changes to supplier details retained. We have been advised that this is due to system limitations therefore it is not possible to carry out testing of any changes made.
- Advised system limitations mean that independent checks cannot be carried out to ensure all changes to suppliers are appropriate. (Finding 5.2)
- In total there are over 55,000 suppliers on the Finance System. Approx 50,000 supplier accounts have not been active since 1/4/14. 556 of these suppliers have been set up on the system with multiple accounts. One of the main reasons for the large number of suppliers being set up is that the system does not allow more than one address to be set up per supplier. (Finding 5.1)
- We tested a sample of 23 suppliers that had multiple account entries on the system. We found instances of duplicate accounts with the same name and address details and most of the repetition related to historical accounts with most suppliers having only one or two accounts that were active in the last 12 months. Data matching analysis between supplier and Council Payroll found no instances where trade creditors had the same bank details as any employees. We did find that employees had been set up as creditors but this was to pay refunds.

3.7 We can only provide limited assurance that fraud or error resulting from fictitious or duplicate invoices and/or suppliers is being managed. An accountant independent of the payment process carries out reasonableness checks of all payments input by the Creditors Section prior to payment using the due

payments report. However, as stated in 3.2 above a significant number of users have system access which allows them to set up and change suppliers and process invoices and this increases the risk of fictitious suppliers and invoices being set up.

3.8 Some services process payments outwith the Creditors section. Property Contracts, Land Services, Adult Care, Education Maintenance Allowances and Residential care invoices are processed using service specific systems that are then interfaced into the purchase ledger. Fleet Services, Roads Services, Catering, Fostering Payments, and Schools input their own invoices directly into the purchase ledger. The review found that Catering Services do not log their invoices when they receive them and do not carry out any reconciliation between input and payment files. (Finding 5.3) All other services log invoices and have appropriate reconciliation between input and payment files.

3.9 For all other services the Creditors Section are responsible for inputting Service checked and authorised invoices to the finance system for payment. The Finance System has an automatic check of suppliers invoice numbers that flags up if the same supplier invoice number has been input for payment previously which helps to ensure that invoices are not paid twice. The Creditors Section also reconcile invoices input to system reports prior to payment.

3.10 The main payment run is carried out weekly with payment made by BACS or cheque. We found adequate controls in the process relating to reconciling BACS totals to system totals and appropriate segregation of duties between officers responsible for setting up and authorising BACS payments. Our audit found that a remittance advice for every BACS transaction (approx 250 per week) was printed and posted out to the related supplier and the requirement and efficiency of such a practice should be considered. (Finding 5.4) The Officers responsible for processing BACS payments receive no confirmation from the Services that invoices input for BACS payments are accurate. This has been tested by reviewing the processes in place within services mentioned at paragraph 3.8 above.

3.11 The arrangements in place for daily payments and emergency payments were reviewed. In general daily payments are input by Creditors upon receipt of an appropriately authorised daily payment voucher. Daily payments require the suppliers credit terms to be set to immediate in order for the payment to be made in the next weekly payment run. CHAPS payments are same day payments and are processed by Treasury Management Staff upon receipt of an authorised daily payment voucher. Through testing a sample of 9 CHAPS payments we found 1 payment that had been authorised by an officer with apparently insufficient authority. Through further checking of the authorised signatory request forms we found that the authorising officer did in fact have sufficient authority and the authorised signatory database was not up to date. Internal Audit will be reviewing the Authorised signatory database as part of the Delegated Financial Authority Review in the 2015/16 Audit Plan. We also found 1 payment did not have a completed daily payment voucher. (Finding 5.5)

3.12 We can provide reasonable assurance that supplier invoices are paid accurately and on time. We tested a sample of recent invoices and found that in general they were accurately recorded and the correct amount was being paid.

3.13 The Society of Local Authority Chief Executives (SOLACE) Local Government Performance benchmarking includes a performance indicator relating to the number of invoices paid within 30 days. For 13/14 Clackmannanshire Council performance in this indicator was 80% compared to a Scottish Average of 92%. For 14/15 Clackmannanshire's performance increased slightly to 82% (At the time of this review the 14/15 Scottish Average Information was not available). We reviewed the indicator calculation and a sample of 39 invoices that took the longest to be paid in 14/15 to ensure that they were accurate and we identified the following issues:

- For all Invoices the invoice date and not date received is recorded on the system and used to calculate the time taken to pay the invoice. Sometimes the invoice is dated in excess of 30 days in the past. This is not in line with SOLACE Guidance. Through testing we found that 9 out of 39 invoices were recorded as not being paid on time due to the system recording the invoice date as the start measure rather than the actual date received.
- Services are not always date stamping invoices upon receipt making it difficult to identify when the invoice was actually received.

- Services do not include Purchase Card Transactions in their calculations. This is not in line with SOLACE Guidance.
- For 2 out of 39 invoices tested relevant Services had not passed invoices on for processing within 30 days of receipt.
- At the time of this review there had been no targeted action taken on areas where invoice processing performance is below target. (Finding 5.6)

3.14 Following our analysis of the invoices processed in 14/15 it was found that approximately 10% or 3,000 of them were for a value of less than £20. Management should consider the cost of processing invoices and encourage suppliers to aggregate their invoices before billing the Council. Council has no choice but to pay low value invoices if a legal liability (i.e. goods / services have been ordered and obtained) exists.

3.15 Supplier credit terms can be changed by users and if immediate payments are required then this will become the suppliers default credit terms. Supplier credit terms are dictated by supplier terms on invoice and not Councils Standard Credit Terms. Approx 86% of 55,000 suppliers set up with immediate credit terms. There are legitimate reasons for some payments to be set up as immediate e.g. Suppliers purchased from through Purchase Card and Employee payroll payments, however this is only a small percentage. Of the 55,000 suppliers we found only 5,000 that had been paid since 1/4/15 (70% immediate) (Finding 5.7)

3.16 Credit notes are refunds and are deducted off any outstanding amounts due to the related supplier. If there is insufficient amounts due or no new invoices are due then credit notes will remain unpaid. At the time of this review outstanding credit notes some dating back over 10 years amounted to approx £60k have been identified by management. Management have recently introduced a process to recover these payments and monitor and recover future credit notes.

3.17 We can provide reasonable assurance that management information relating to Creditors is adequate. The Purchase Ledger (PL) feeds into the General Ledger. GL information is used to produce monthly outturns which includes expenditure on supplies and services. The monthly outturns are discussed with budget holders at monthly meetings.

3.18 An annual extract of all transactions is taken from the Purchase Ledger and this is used to provide returns to the Scottish Government and to provide expenditure and supplier information that is then available to the general public via the Councils website.

3.19 Improvements in end user reporting / interrogation relating to level of expenditure per supplier will be integrated into the new Finance System due to be implemented in April 2016. (Finding 5.1)

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

4. RECOMMENDATIONS

4.1 A summary of the recommendations raised from this audit is included in a Management Action Plan. Management comments, the date for implementation and Responsible Officer have been reflected within the Action Plan.

4.2 The Management Action Plan contains the following priority of recommendations.

Priority Assessments	Number
Priority 1	-
Priority 2	3
Priority 3	3
Priority 4	1

MANAGEMENT ACTION PLAN

Ref	Finding	Risk	Priority	Agreed Management Action	Responsible Officer	Target Date
5.1	<p>The following system related issues were identified that weaken the control arrangements in place for Creditors Management:</p> <ul style="list-style-type: none"> - User permissions not restricted to ensure that only a limited number of officers can set up and change supplier details. There is also inadequate segregation of duties in relation to users having access permissions to set up suppliers and input invoices. - No specific record on system relating to changes of supplier details. - Over 55,000 suppliers on system with over 500 duplicate supplier names. Approx 50,000 suppliers accounts have not been active since 1/4/14. Lack of end user reporting relating to areas of expenditure and expenditure per supplier. 	Inadequate controls over supplier set-up, management, maintenance and invoice input and payment not addressed by new Finance System.	2	<p>Implementation of the new accounting system is planned to:</p> <ul style="list-style-type: none"> • enforce appropriate access controls and user permissions; • Log and report changes to suppliers; • Include migration of data which has been cleansed of duplicate and inactive suppliers; • Accommodate the same supplier with different address under the same supplier reference. 	Chief Accountant & Procurement Manager	April 2016

CREDITORS MANAGEMENT

APPENDIX C

Ref	Finding	Risk	Priority	Agreed Management Action	Responsible Officer	Target Date
5.2	<p>The following process issues were identified in relation to Supplier Maintenance:</p> <p>Testing highlighted supplier documentation relating to new suppliers is not being retained separately from the invoice.</p> <p>System limitations mean that independent checks cannot be carried out to ensure all changes to suppliers are appropriate</p>	Inadequate controls over supplier set-up, management, maintenance and invoice input and payment.	3	<p>For the new system logical access controls will be established to restrict access to relevant staff only and to enforce segregation of duties.</p> <p>Independent verification of changes to suppliers has now been implemented.</p>	Chief Accountant	April 2016
5.3	The review found that Catering Services do not log their invoices when they receive them and do not carry out any reconciliation between input and payment files.	Inadequate controls over supplier set-up, management, maintenance and invoice input and payment.	2	We are working with Catering Services to ensure that appropriate invoice logging and agreement to payments through reconciliations is carried out.	Asset Manager	November 2015
5.4	Remittance advice for every BACS transaction (approx 250 per week) was printed and posted out to the related supplier and the requirement and cost implications of such a practice should be considered.	Inefficient processing of invoices.	4	The new system will enable remittance advices to be transmitted electronically reducing paper and postage costs.	Chief Accountant	April 2016
5.5	A CHAPS payment had been processed without the recognised request form and therefore it was difficult to ascertain whether there was an appropriate reason and adequate authorisation for the payment.	Inefficient processing of invoices.	3	We are satisfied that this payment was valid. Relevant staff have been reminded to fully check CHAPS authorisation and that relevant supporting documentation is always retained and filed.	Chief Accountant	October 2015

CREDITORS MANAGEMENT

APPENDIX C

Ref	Finding	Risk	Priority	Agreed Management Action	Responsible Officer	Target Date
5.6	<p>For all Invoices the invoice date and not date received is recorded on the system and used to calculate the time taken to pay the invoice.</p> <p>Services are not always date stamping invoices upon receipt making it difficult to identify when the invoice was actually received.</p> <p>For 2 out 39 invoices tested Services were holding onto invoices for excess of 30 days</p> <p>At the time of this review there had been no targeted action taken on areas where invoice processing performance is delayed</p>	<p>Supplier invoices are not paid in a timely manner.</p> <p>Actual performance is being under reported.</p>	2	<p>New system will record the receipt date and use this as the start measure for this calculation.</p> <p>Accountancy will work with Service Departments to encourage better invoice payment performance.</p>	Chief Accountant	December 2015
5.7	<p>Some suppliers Credit Terms dictated by suppliers which is not in line Financial Regulations and Contract Standing Orders . Council terms and conditions should apply unless there are good business reasons for doing so.</p>	<p>Potential loss of interest on positive cash flow balances.</p> <p>Lack of efficiencies relating to number of payments being made.</p>	3	<p>Normal Council terms and conditions include a commitment to pay within 30 days. The new Finance System will more readily facilitate changing supplier payment terms in order to better align them with underlying contract provisions. Supplier credit terms will be reviewed to ensure that the Council is meeting its social responsibility obligations.</p>	Chief Accountant and Procurement Manager	April 2016

1. INTRODUCTION

1.1 This report details the position of the New Finance System Project as at November 2015. The review forms part of the Internal Audit and Fraud Plan for 2015/16, which was recommended to full Council for approval by the Resources and Audit Committee on 26 February 2015.

1.2 The Funding for the replacement Finance System Project was agreed at a Special Council Meeting in February 2013. In November 2014 a dedicated Project Manager was employed to oversee the implementation of the new Finance System. In June 2015 the Project Manager left employment with the Council but this post has since been filled.

1.3 In discussion with Senior Finance staff it was agreed that assurance needs to be provided on the progress being made of the implementation of the project. This review will consider progress of the project throughout 2015/16 to provide independent assurance to the Resources and Audit Committee that risks are being mitigated. Interim reports will be provided as the project moves forward with a final report provided at the end. This report is the second interim report.

2. SCOPE AND OBJECTIVES

2.1 The scope of the audit is to regularly review controls in place and the progress of the New Financial System Project.

2.2 Internal Audit, in conjunction with the Project Manager and Project Senior Responsible Officer, identified the key risks relating to the audit. In our opinion there is a good control environment operating in relation to progressing the New Finance System Project. We can provide overall **significant** assurance that risks are being adequately mitigated.

Key Risk	Assurance Assessment
Project Management roles and responsibilities, documentation and system development specification are poorly defined or unclear leading to lack of ownership and failure to actively manage and monitor the project.	Significant
The progress of the contract is not monitored or progressed in line with agreed targets.	Significant
Inadequate consultation with stakeholders.	Significant
Changes to the contract are not managed and result in additional costs.	Significant
Procurement of the new system is not in line with contract standing orders.	Significant
Inadequate testing prior to sign off of new system resulting in requirements not being met and additional costs.	Reasonable

3. FINDINGS

3.1 Audit reviews undertaken recently, including Budget Management, General Ledger, Treasury Management, Debt Recovery and Creditors Management, have highlighted a number of control weaknesses in the current Finance System. Weaknesses identified include reliance on paper based systems, poor access controls, high level of manual intervention required, limited reporting and limited systems integration. It is expected that all these issues will be addressed by the new Finance System. The Finance System is an overarching system that should integrate with all Service Delivery Systems across the Council. Its successful implementation is critical to Council Service Management and the Council being able to achieve its objectives in an efficient and sustainable manner.

3.2 The initial phase of this project from November 2014 to July 2015 involved identifying the extent of the current system and the requirements and scope of the proposed new system. The aim of the project is to introduce a new integrated business solution across all Clackmannanshire Council's sites that streamlines business processes and enables end users to operate more effectively. A System Supplier has been selected through a tender exercise and a system implementation Project Initiation Document (PID) has been agreed and signed off by the Project Senior Responsible Officer and the Supplier on 6/10/15. At the time of this review (November 2015) the project progress was in line with the project plan. The New Finance System is due to be implemented in April 2016.

3.3 We can provide significant assurance that project management roles and responsibilities, documentation and system development specification are well defined and up to date. The following key project management documents have been approved and are up to date: Project Initiation Document (PID), Project Plan, Project Specification, Risks Issues and Changes Logs.

3.4 The Key Project documents detail project management roles and responsibilities. For example the approved PID identifies which officers hold the key project roles (Project Sponsor, Senior Responsible Officer, Project Manager) and also defines what the key project roles and responsibilities are. The PID also defines what the Key Project Groups' (Project Board, Project Team, Work Team) remit and membership. Our previous report highlighted that changes to key Project personnel have not been formally recorded in an updated Project Initiation Document. This has since been rectified and in particular two officers have been formally identified as having Project Management responsibilities. The changes made to key staff have been updated in the PID and the Roles and Responsibilities Project Document.

3.5 The Project Board is a key project group with responsibility for leading, reviewing and endorsing the PID and associated Project Plan. Thereafter the Project Board will review the progress of the Project and the associated service budget. We found the membership and frequency of the meetings to be adequate and in line with the PID. The Project Operational Group comprises representatives from key Project Services and is involved in the Project oversight and control. The Group can also include other key stakeholders that have special interest in the outcome of the Project. The Project Team comprises staff chosen to work on the Project and will include Project Champion From the Services selected by the Project Operational Group. Team member roles will vary depending on the phase of the project.

3.6 We can provide significant assurance that the contract is being monitored and is progressing within agreed targets. The Project Plan was approved by the Project Board and defines the stages of the project, associated tasks and target timeframes and milestones. The Project Managers are responsible for the day to day monitoring of the Project Plan and ensuring milestones are achieved. The Project Manager and the System Supplier prepares a regular Project Progress report which details the status of the Project and progress against Project Plan milestones and this is reported to project members and stakeholders.

3.7 We can provide significant assurance that there is adequate consultation with stakeholders. Key stakeholders are part of the Key Project Groups as described in Paragraph 3.4 above. Key stakeholders were directly involved in the development of the Project Specification and Project Plan and are also directly involved in the system implementation phase. A formal communications strategy is currently being updated to include a list of key stakeholders identified through stakeholder mapping and also defines the communication requirements of the project.

3.8 We can provide significant assurance that changes to the contract are identified and managed. Risk , Issues and Change Logs have been developed and will be utilised as part of the project and discussed at Project Board Meetings. At the time of this stage of the review the system supplier has been selected and the subsequent system implementation is being managed through the PID, Project Plan and Solution Design Document.

3.9 We can provide significant assurance that the procurement of the new system is in line with the contract standing orders. Project Board and CMT decided that the use of an established framework agreement would be utilised in order to select a supplier for the new finance system. Suppliers on the framework were invited to tender based on the system specifications. The returned tenders and system demonstrations were evaluated on a price and quality weighting criteria based on system specifications. The Procurement Manager has taken an active role in all stages of the procurement

3.10 We can provide reasonable assurance that there is adequate testing and sign off arrangements in the Project Plan. At the time of this review system configuration tasks are being completed with more detailed key user training and testing cycles due to be undertaken in January 2016. Detailed training testing plans have been developed for this purpose.

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

4. RECOMMENDATIONS

4.1 A robust control environment was identified during this review and as a result no findings have been reported and no further management action is required.

PROGRESS OF FOLLOW UP OF INTERNAL AUDIT REPORTS

APPENDIX E

Report Title	Priority				Number of Recommendations	Recommendations			
	1	2	3	4		Implemented	In Progress	Not Applicable Now	Implementation on Target? (* New Dates Agreed)
Council Tax	-	-	1	-	1	1	-	-	
Procurement - Purchase Cards	-	3	4	-	7	2	5	-	Y*
Administration of Blue Badges	-	1	2	-	3	3	-	-	
Adult Care Commissioning of Care	-	-	1	-	1	-	1	-	Y*
Risk Management Arrangements	-	1	1	-	2	2	-	-	
Income Collection & Cash Receipting	-	-	1	-	1	-	1	-	Y*
Savings and Efficiencies - Overtime	-	2	6	-	8	6	2	-	Y*
Absence Management	-	-	1	-	1	-	1	-	Y*
Treasury Management	-	-	-	1	1	-	1	-	Y*
Budget Management & Monitoring	-	2	2	-	4	-	4	-	Y*
Housing Benefit & Council Tax Reduction Scheme	-	1	2	-	3	-	3	-	Y*
JALG Decision Making		2	1	-	3	2	1	-	Y*
Business Continuity and Planning	-	1	-	-	1	-	1	-	Y*
Consultancies and Agency Workers	-	1	1	-	2	-	2	-	Y*
Debt Recovery	-	-	2	-	2	-	2	-	Y*
General Ledger	-	1	1	-	2	2	-	-	
Health and Safety	-	1	-	-	1	1	-	-	
Information Governance	-	1	-	-	1	-	1	-	Y*
Progress of the new Financial System	-	-	1	-	1	-	1	-	Y*
Travel and Subsistence	-	2	1	-	3	-	3	-	Y*
TOTAL	-	19	28	1	48	19	29	-	29

