
Report to Audit and Finance Committee

Date of Meeting: 15 September 2016

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 2014/15.
- 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. 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.
- 3.2. 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. The 2015/16 Annual Internal Audit and Fraud Plan was recommended to full Council for approval by the Resources and Audit Committee on 26 February 2015.

3.3. We were able to provide an improved overall assurance level in relation to Information Governance which was a targeted follow up review following previously only having provided limited assurance. We also provided significant assurance on the progress of the New Financial System Project through undertaking stage reviews as the project progressed. These examples demonstrate not only the contribution to improving control regimes that is being encouraged by Internal Audit and Fraud work but also the willingness of services to open themselves up to scrutiny and address control issues.

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? N/A

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 2015/16 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)

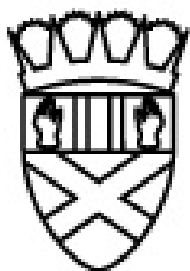
Yes (please list the documents below) No

Author(s)

NAME	DESIGNATION	TEL NO / EXTENSION
Iain Burns	Internal Audit and Fraud Team Leader	226231

Approved by

NAME	DESIGNATION	SIGNATURE
Stephen Coulter	Head of Resources and Governance	
Nikki Bridle	Depute Chief Executive	



Clackmannanshire Council

www.clacksweb.org.uk

INTERNAL AUDIT AND FRAUD

ANNUAL REPORT

APRIL 2015 TO MARCH 2016

INDEX	Page
1. INTRODUCTION	2
2. AUDIT OPINION	3
3. OVERVIEW OF 2015/16	4
4. QUALITY ASSURANCE AND PERFORMANCE	6
 APPENDIX	
A. AUDITS COMPLETED IN 2015/16	8
B. ASSURANCE ASSESSMENTS	10

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 2015 to March 2016.
- 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.
- 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;
 - 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 2016. We have provided overall significant or reasonable assurance for all final reports presented to Committee. In relation to final draft reports issued we are raising concerns around ICT Asset Management and have limited assurance around this. We have in some reports provided limited assurance against single specific risks but still provided an overall positive assurance. Control weaknesses were identified in relation to best value arrangements for the iTrent project, creditor systems, travel and subsistence rules and guidance and approval of consultancy and agency workers. 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 2016,
- 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 19 reviews during 2015/16, 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

Date: April 2016

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

3. OVERVIEW OF 2015-16

3.1 Internal Audit and Fraud's Annual Plan for 2015/16 was recommended to full Council for approval by the Resources and Audit Committee on 26 February 2015. The Plan comprised 19 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 (Register of Electors- Postal & Proxy Vote Application and Annual Assurance Report) for the Assessors which will be reported separately to the Valuation Joint Board. A total of 172 weeks were included within the Annual Plan.

Assurance

3.2 Of the 19 audits planned, all have been completed, with 14 final and 5 draft reports issued to management. These audits form the basis of the Internal Audit opinion. Details of internal audit activity undertaken during 2015-16 is summarised in Appendix A.

3.3 It should be noted that for the final reports issued to date, Internal Audit provided significant assurance for 4 reviews and reasonable assurance for 10. Significant assurance was provided for Administration of Blue Badges, Progress of the New Financial System, Cash Collection & Handling and Leisure Income. Reasonable assurance was provided for Compliance with IT Security Policies, Capital Project Management, iTrent, Debt Recovery, Information Governance, Creditor Management, Travel & Subsistence, Consultancies & Agency Workers, Mobile Phone Income and Delegated Financial Approval Authority. For the 5 draft reports issued there are no matters arising that would affect the overall assurance opinion provided although as noted at 2.2 we have raised concerns around ICT asset management.

3.4 We were able to provide an improved overall assurance level in relation to Information Governance which was a targeted follow up review following previously only having provided limited assurance. We also provided significant assurance on the progress of the New Financial System Project through undertaking stage reviews as the project progressed. These examples demonstrate not only the contribution to improving control regimes that is being encouraged by Internal Audit and Fraud work but also the willingness of services to open themselves up to scrutiny and address control issues.

3.5 During the year progress on implementation of agreed recommendations from previous reviews was initially followed up on a quarterly basis. New arrangements were introduced whereby agreed management actions arising from previous Internal Audit Reports are now being recorded on Covalent and will be reported through relevant service committees. Progress has been made on implementing and addressing recommendations from previous reports. Over the year 54 recommendations have been implemented. Target dates for implementation of agreed management action are now included within Covalent and will be included in 2015/16 service performance reporting.

Contingency

- 3.6 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 2015/16 work undertaken has included providing advice on Climate Change Report validation, spot checks on social work intermediary accounts, providing assurance on payroll accuracy and providing assistance with reconciliation of Scottish Welfare Fund crisis grant awards.

Governance

- 3.7 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

- 3.8 The National Fraud Initiative 2014/15 (NFI) commenced in the second quarter of 2014/15 with data being exported to Audit Scotland between October and December 2014. Matches were made available in February 2015. The data matching identified 1,575 matches of which 1,419 were rated as high and medium risk. An early decision was taken to investigate all matches issued. Of the 1,575 matches identified, 1,553 have now been investigated and closed. This resulted in 5 fraud and 9 errors in housing benefit being identified amounting to £12058.43 and 8 creditor errors identified totalling £12861.33. The balances are in the process of being recovered.
- 3.9 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.
- 3.10 The team have utilised information provided by revenues to help identify instances where Single Adult Discount may be being claimed improperly. 31 cases have been identified. Similarly the team has identified a further 9 cases using other data matching techniques. The team have also been utilising data matches provided by our external auditors to identify payment errors with just over £3k of duplicate invoices identified and recovered

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. I am satisfied that Internal Audit work has been carried out in compliance with the Public Sector Internal Audit Standards.

- 4.2 The Internal Audit and Fraud Team undertook a self assessment against the PSIAS during 2014/15 with the aim of identifying development work required. A Quality Improvement Plan identifies some areas for improvement. This has resulted in a re-drafting of the Internal Audit Charter for inclusion in financial regulations and an updating of the internal audit manual. The team have also prepared a Customer Service Questionnaire that will be issued to clients following audit reviews carried out under the 2016/17 plan and beyond.
- 4.3 Further development work is also planned around annual plan administration, review and update of working papers and a review of the assignment planning process to ensure that fieldwork is properly targeted around significant risks
- 4.4 Internal Audit measures its performance against a set of four Key Performance Indicators (KPI). Performance against each of these for 2015/16 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 R&A target date	93	95
3. Audits completed within budget %.	80	85
4. Actual days as % of planned days.	95	83

APPENDIX A - INTERNAL AUDITS COMPLETED IN 2015/16

Audit	Audit Weeks	Annual Plan	Service	Progress
Governance				
Annual Assurance Report	8	2015-16	Corporate	Final Report Issued
Assurance				
Compliance with IT Security Policies	5	2015-16	Corporate	Final Report Issued
Capital Project Management	5	2015-16	Resources and Governance/Corporate	Final Report Issued
Workforce Planning	5	2015-16	Corporate	Draft Report Issued
Shared Services	6	2015-16	Social Services & Education	Draft Report Issued
Health and Social Care Integration	5	2015-16	Social Services	Draft Report Issued
Administration of Blue Badges	4	2015-16	Development and Environmental	Final Report Issued
iTrent	5	2015-16	Resources and Governance	Final Report Issued
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	Draft Report Issued
Information Governance	4	2015-16	Corporate	Final Report Issued
Progress of the New Financial System Project	4	2015-16	Resources and Governance	Final Report Issued
Cash Collection and Handling	4	2015-16	Corporate	Final Report Issued
Creditor Management	4	2015-16	Development and Environmental	Final Report Issued
Fleet Management	4	2015-16	Corporate	Draft Report Issued
Travel and Subsistence	4	2015-16	Corporate	Final Report Issued

Audit	Audit Weeks	Annual Plan	Service	Progress
Consultancies and Agency Workers	5	2015-16	IT/Corporate	Final Report Issued
Mobile Phone Usage	2	2015-16	Strategy and Customer Services	Final Report Issued
Leisure Income	5	2015-16	Corporate and Housing and Community Services	Final Report Issued
Delegated Financial Approval Authority	4	2015-16	Development and Environmental	Final Report Issued
Fraud				
Fraud and Error Prevention & Detection	55	2015-16	Internal Audit and Fraud	Completed
Fraud Awareness and Training	3	2015-16	All Services	Completed
National Fraud Initiative	6	2015-16	All Services submitting data	Completed
Other				
Follow Up	4	2015-16	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.

