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**Report to Resources and Audit Committee**

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**Date of Meeting: 02 May 2013**

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**Subject: Internal Audit and Fraud Annual Report**

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**Report by: Internal Audit and Fraud Team Leader**

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**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 incorporates the annual fraud report which presents the progress made by the Internal Audit and Fraud Team in tackling fraud and error.
- 1.2. 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.

**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.
- 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. The 2012/13 Annual Internal Audit and Fraud Plan was approved by the Committee in October 2012.

3.4. 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.

#### 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.

#### 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 2012/13)

## 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	Signed: J Burnett
Nikki Bridle	Director Finance & Corporate Services	Signed: N Bridle





**INTERNAL AUDIT AND FRAUD**

**ANNUAL REPORT**

**APRIL 2012 TO MARCH 2013**

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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 2012 to March 2013.
- 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; 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 During 2012/13, the Internal Audit and Fraud team has been in transition. The Audit and Fraud Team Leader and other team members were recruited during the year 2012. The Internal Audit and Fraud Team is now fully resourced. For this reason, the 2012/13 Plan was not approved until October 2012 and there has been limited direct audit work. This context provides the basis for the assurance opinion and should be taken into account when placing reliance on it.
- 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 2013,
  - 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 On this basis 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 2013. Internal Audit did identify a number of significant weaknesses, particularly within the Following the Public Pound- Review of ALEOs and Data Protection- Corporate reviews. However I am satisfied that appropriate action has been identified by management to deal with issues.

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

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**Date**

### **3. OVERVIEW OF 2012-13**

- 3.1 Internal Audit and Fraud's Annual Plan for 2012/13 was approved by the Resources and Audit Committee on 4 October 2012. The Plan comprised 6 audits together with time allocated for follow up work; input in to the Annual Governance Statement assurance process; reactive investigations; and the National Fraud Initiative. The Plan also included fraud detection and other fraud work. Further to this the Plan also included two audits (Valuation Roll- Non Domestic Properties and Annual Assurance Report) for the Assessors which will be reported separately to the Valuation Joint Board. A total of 120 weeks were included within the Annual Plan.

#### **Assurance**

- 3.2 Of the 6 audits planned, all have been completed, with draft or final reports issued to management. These audits form the basis of the Internal Audit opinion. Details of internal audit activity undertaken during 2012-13 is summarised in Appendix A.
- 3.3 It should be noted that for 4 of the 6 audits undertaken, Internal Audit are able to provide reasonable assurance on the specific control environments. The specific reviews are Risk Management Arrangements, Income Collection and Cash Receipting, Non- Domestic Rates Income (NDRI) and Purchase Orders to Payment of Suppliers. Limited assurance was provided for 2 reviews, Following the Public Pound- Review of ALEOs and Data Protection- Corporate, and appropriate action has been identified by management to deal with issues.
- 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 11 reports, which were still in progress of implementation by 31 March 2013. Over the year 53 recommendations have been implemented, with 29 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 (5 in total) or have been carried forward in reviews as part of the 2012/13 plan (24 in total).

## **Governance**

- 3.5 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 the Governance Panels for Community and Regulatory Services, Facilities Management, Social Services and Education. This involved contributing to reviewing and challenging evidence provided by services in support of their assurance statements.

The Internal Audit and Fraud Team Leader also chaired the Strategy and Customer Services and Support Services Governance Panels. This is necessary to ensure that there is appropriate independent challenge of the service as it has responsibility for the management of the corporate process and challenge in respect of the Council's governance arrangements.

## **Fraud**

- 3.6 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.
- 3.7 Fraud detection and Recovery has involved the Internal Audit and Fraud Team examining over 211 cases of suspected fraud in relation to Housing Benefit and Council Tax. Of the new referrals, 55 cases were rejected for full investigation for varying reasons e.g. cost / benefit of conducting a full investigation, age / health of suspect etc. 193 cases have been closed to 31 March 2013 with 70 live cases at that date. The value of the fraud uncovered is £167,596 (2011/12- £119,500) and the average value on a case-by-case basis equates to £868.00. Most cases result in repayment however there have been 34 cautions issued, 11 administrative penalties and 16 prosecutions. This total of 61 compares with 53 from the previous year.
- 3.8 The Internal Audit and Fraud Team have identified a small number of cases that are now the subject of confiscation orders and asset recovery applications under the proceeds of crime act. These are not frauds directly involving Council funds but wider public funds, which have been initially uncovered by the Internal Audit and Fraud Team. The estimated

value of these frauds range from below £10k to over £2 million and are pursued by the Crown Office. The Team have also assisted with internal investigations and continue to promote their specialist skills and knowledge to the wider council.

- 3.9 The team was shortlisted by the Home Office's National Fraud national award for their work in fraud awareness and prevention. Clackmannanshire Council were the only local authority from Scotland shortlisted in any of the five categories. At the awards ceremony in London in December the team came runners-up to the City of Stoke-on-Trent Corporate Fraud Team.

#### **4. QUALITY ASSURANCE**

- 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 As the Internal Audit and Fraud Team has only been fully resourced for a limited period of time the Council's External Auditors will not undertake a review of the Team's compliance with PSIAS as part of their 2012/13 work.
- 4.3 The team will undertake a self assessment against the standards during 2013/14 with the aim of identifying any development work required to move the service towards compliance. Some early areas for development have already been identified including re-designing the audit process including moving to an electronic audit package. This should ensure that individual audit reviews will focus more clearly on the key risks associated with the area under review. As a result working papers and the format of our reports will be reviewed and revised to accommodate these changes. We will also review and update as required the audit universe to ensure that all potential auditable areas are captured.
- 4.4 External Audit have indicated that they will undertake a formal review of the Internal Audit service against the standards as part of their 2013/14 work.



**APPENDIX A - INTERNAL AUDITS COMPLETED IN 2012/13**

<b>Audit</b>	<b>Audit Weeks</b>	<b>Annual Plan</b>	<b>Service</b>	<b>Progress</b>
<b>Governance</b>				
Annual Assurance Report	10	2012-13	Corporate	Completed
<b>Assurance</b>				
Risk Management Arrangements	5	2012-13	Corporate	Final Report Issued
Data Protection - Corporate	4	2012-13	Corporate	Final Report Issued
Following the Public Pound- Review of ALEO	4	2012-13	Corporate	Final Report Issued
Income Collection and Cash Receipting	5	2012-13	Support Services- Finance/Accountancy	Final Report Issued
Non- Domestic Rates Income (NDRI)	6	2012-13	Corporate Support Services- Revenues	Final Report Issued
Purchase Orders to Payment of Suppliers	6	2012-13	Corporate & Revenues & Payments	Draft Report Issued
<b>Fraud</b>				
Fraud Detection and Recovery	50	2012-13	Audit and Fraud	Ongoing
National Fraud initiative- Phase One	8	2012-13	All Services submitting data	Completed
Data matching	4	2012-13	All Services	Policy Issued
Fraud Strategy and Associated Policies	4	2012-13	Corporate and Finance & Corporate Services	Strategy Issued
Fraud Training	5	2012-13	Corporate and all services	Completed
Follow Up	4	2012-13	All Services	Completed

