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**Report to Resources and Audit Committee**

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**Date of Meeting: 26 September 2013**

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**Subject: Internal Audit and Fraud Progress 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 an update on work completed from the Internal Audit and Fraud Annual Plan 2013/14, as approved by Resources and Audit Committee on 2 May 2013, in accordance with the Financial Regulations.
- 1.2. The report also provides an update on the progress of implementation of recommendations to 30 June 2013 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 2013/14.

**3.0 Considerations****Progress Against 2013/14 Plan**

- 3.1. Progress on completion of the Assurance element of the Annual Plan 2013/4, is summarised in the table below, with more detail being provided in Appendix A.

<b>Status of Audits</b>		<b>%</b>
To be Commenced	9	53%
Onsite/On going	3	18%
Draft Report Issued	4	23%
Final Report Issued	1	6%
Total	17	100%

- 3.2. The Internal Audit and Fraud Team have introduced a new audit approach that is more risk based. As a result the assurance definitions and

recommendation priorities have been updated to reflect this. The Team has also initiated implementation of the Covalent Audit module.

## **Final Reports**

### **Assurance**

- 3.3. One final report in respect of payroll and HR (Appendix B) was issued during this period.
- 3.4. This review concluded that there is an adequate and effective system of risk management, control and governance in place. The Internal Audit concluded that there is **significant** assurance that risks are being adequately mitigated.

### **Fraud**

- 3.5. Internal Audit and Fraud Team are responsible for co-ordinating the NFI exercise and reporting the progress of investigations to Audit Scotland. Internal Audit and Fraud will also liaise with services and provide guidance, where necessary.
- 3.6. Designated Officers are responsible for the data export and upload and for investigating data matches and forwarding comments and outcomes of investigations to Internal Audit on a timely basis. Phase 2, investigation of data matches has now commenced.

### **Progress of Follow Up**

- 3.7. Within Action Plans from previous Internal Audit Reports, there were 39 recommendations which were due to be implemented by 30 June 2013, arising from 13 reports. 6 recommendations have been implemented, 32 are in progress and 1 is 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 or have been carried forward in other reviews ( in total). Further detail is provided in Appendix C.
- 3.8. The progress made by Officers on these recommendations is summarised in Appendix C and where not sufficiently implemented, progress to date and revised completion dates have been agreed.

### **Conclusion**

- 3.9. Work on the 2013/14 Internal Audit and Fraud Plan is now in progress. This has involved implementing an updated internal audit methodology which has changed the nature of assurance being provided to a more risk based format. Further progress has been made on implementing and addressing recommendations from previous reports.
- 3.10. 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. N/A No

5.3. Finance have 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
- 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.

## 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?  
Yes  No

## 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 2013/14 Internal Audit and Fraud Annual Plan

Appendix B - Payroll and HR

Appendix C - 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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Iain Burns	Internal Audit and Fraud Team Leader	226231

### Approved by

NAME	DESIGNATION	SIGNATURE
Julie Burnett	Senior Support Services Manager	Signed: J Burnett
Nikki Bridle	Director Finance & Corporate Services	Signed: N Bridle

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

**PROGRESS ON APPROVED INTERNAL AUDIT ANNUAL PLAN 2013/14**

**APPENDIX A**

<b>Audit</b>	<b>Audit Weeks</b>	<b>Annual Plan</b>	<b>Service</b>	<b>Progress</b>
Council Tax	4	2013-14	Corporate Services- Revenues	To Be Commenced
ALEOs	1	2013-14	Corporate and across selected services	To Be Commenced
Review of Savings and Efficiencies	4	2013-14	Corporate and across a selection of services	To Be Commenced
<b>Fraud</b>				
Fraud Detection and Recovery	54	2013-14	Audit and Fraud	Ongoing
National Fraud initiative- Phase One	6	2013-14	All Services submitting data	Ongoing
Data matching	4	2013-14	All Services	To Be Commenced
Fraud Awareness and Training	5	2013-14	Corporate and all services	To Be Commenced
<b>Other</b>				
Follow Up	4	2013-14	All Services	Ongoing

## 1. INTRODUCTION

- 1.1 This report details the findings of the Internal Audit review of the Council's systems for Payroll and HR. The review forms part of the Internal Audit and Fraud Plan for 2013/14, which was recommended to full Council for approval by the Resources and Audit Committee on 2 May 2013.
- 1.2 Until April 2013 Clackmannanshire Council maintained standalone Payroll and HR systems. Software support for each system ceased on 31 March 2013 and Legislative changes required the Council to move to Real Time Information (RTI) data transfers with HMRC from April 2013 onwards. Following an options appraisal the Council agreed to upgrade the existing payroll system to a more up to date version which meets the RTI requirements. The Council agreed the system specification to meet corporate and service delivery requirements and implemented the new arrangements in April 2013.

## 2. SCOPE AND OBJECTIVES

- 2.1 The scope of the audit was to review the transfer of information to the Council's new integrated Payroll and HR system to ensure that information is accurate and complete. The review was undertaken in the first quarter of 2013/14. It is envisaged that we will undertake a follow-up review of the project once it is completed.
- 2.2 Internal Audit, in conjunction with Revenue and Payments, identified the key risks relating to the efficiency and effectiveness of Payroll and HR arrangements. In our opinion there is a reasonable control environment operating in relation to Payroll and HR and we can provide overall **significant** assurance that risks are being adequately mitigated against.

Key Risk	Assurance Assessment
Best Value not achieved as forecasted project savings and efficiencies do not materialise.	Reasonable
Data retention, accuracy and security failures resulting in breaches to Data Protection requirements.	Significant
Non compliance with new legislative Employer responsibilities on Real Time Information (RTI) transfers with HMRC and Automatic Enrolment	Significant
Non compliance with FOI responsibilities through supplying inaccurate information.	Reasonable
Unauthorised additions, amendments or changes to the Council's establishment.	Significant
Inaccurate, unauthorised or inconsistent payments being made to employees.	Reasonable
Inconsistent treatment in applying Council terms and conditions, policies and procedures	Reasonable

### 3. FINDINGS

- 3.1 The Payroll / HR Project have been split into three discreet phases. Phase one has resulted in the independent running of the payroll element of the combined system from April 2013. At this stage of the project it is too early to be able to provide significant assurance around delivery of best value and whether forecasted project savings and efficiencies will be achieved. However, we are aware that there are considerable levels of automation being built into systems which provide a substantial degree of comfort that efficiencies are being identified and will be implemented. Arrangements are now in place to allow the Project Board to carry out a formal review of Phase one.
- 3.2 We can provide reasonable assurance however as there have been robust governance arrangement around phase one of the project. This has included having a recognised Project Board in place which met regularly and monitored progress of phase one activity. Supporting the project was a dedicated project manager with payroll and HR teams established to undertake the key stages of the project. It should be noted that progress of the project has been made at the same time as delivering a normal payroll function which has involved significant effort on the part of both the project team and the wider payroll function.
- 3.3 Objectives for the project were set out in the initial Options Appraisal document however there was no subsequent Project Initiation Document created. While we can see that activity has been reported on regularly with issues being raised and documented there is a lack of clear linkage between original objectives and achievements to date. This should be considered when preparing project documentation for phases 2 and 3.
- 3.4 We can provide significant assurance that data retention, accuracy and security arrangements provide adequate protection in relation to Data Protection requirements. A comprehensive data validation exercise was undertaken prior to the transfer of data to the new system. Further to this, the new system automation provides enhanced monitoring. There is robust guidance available to officers who demonstrated a good level of awareness of requirements. Historically there are significant levels of paper records retained which should be addressed and figure in phase 2 and 3 development.
- 3.5 We did not consider IT security arrangements other than user access and roles and responsibilities which are being developed as part of the project. We are comfortable that segregation of duties is being considered appropriately between service functions and that user access levels and roles and responsibilities are being built into systems and will be presented to the Project Board for sign off once complete. At the time of our review no system administrators had been identified however we understand that plans are in place to identify appropriate officers.
- 3.6 Real Time Information (RTI) transfers with HMRC have been implemented in line with statutory requirements. We are aware that there are some minor data issues; however these are currently being addressed. Discreet project management arrangements are in place to achieve the 1<sup>st</sup> November date for auto-enrolment implementation.
- 3.7 There are established Freedom of Information (FOI) arrangements in place in relation to payroll and HR enquiries. While these provide reasonable assurance, the ad hoc reporting capabilities of the new system have not yet been fully developed.
- 3.8 Significant assurance can be provided that there are adequate controls in place to guard against unauthorised additions, amendments or changes to the Council's establishment. The existing hierarchical controls remain in use, and will be built into the HR elements of the system in phases two and three.

- 3.9 The suite of controls in place provides assurance that payments made to employees are accurate, authorised and consistent. Similarly we are comfortable that Council terms and conditions and policies and procedures are being applied consistently. However testing uncovered a small number of non-conformances in existing procedures that should be specifically addressed in further implementation of systems.
- 3.10 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 in Appendix B. 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. Definitions for the priority assessments are provided in Appendix A.

<b>Priority Assessments</b>	<b>Number</b>
Priority 1	-
Priority 2	1
Priority 3	4
Priority 4	1

<b>Assurance</b>	<b>Definitions</b>
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.

The priorities relating to Internal Audit recommendations are defined as follows:

**Priority 1 recommendations** are significant matters relating to factors critical to the success of the organisation. The weakness may also give rise to material loss or error or seriously impact on the reputation of the organisation and require urgent attention.

**Priority 2 recommendations** relate to important issues and may also give rise to material financial loss or error.

**Priority 3 recommendations** are usually matters that can be corrected through line management action or improvements to the efficiency and effectiveness of controls.

**Priority 4 recommendations** these are recommendations that improve the efficiency and effectiveness of controls. The weaknesses highlighted do not affect the ability of the controls to meet their objectives in any significant way.

Ref	Finding	Risk	Priority	Agreed Management Action	Responsible Officer	Target Date
6.1	Objectives for the project have only been documented in the initial options appraisal.	A lack of clear link between original objectives and subsequent project documentation leads to project drift.	2	Project documentation for phases two and three will include a more explicit reference to original objectives.	Revenue and Payments Service Manager	31/12/13
6.2	The ad hoc reporting functionality of the new System is still at early stages.	Management Information is of poor quality and adversely impacts on FOI responses, decision making and operational effectiveness.  Large volume of physical documentation required to be retained.	3	A separate reporting tool, Business Objects, will be used to provide improved ad-hoc reporting.	Revenue and Payments Service Manager	31/12/13
6.3	Controls in place to ensure that authorised additions, amendments and changes to the establishment are not reflected in published guidance.	Potential inconsistencies in application of procedures	3	Financial Regulations to be updated and presented to Resources and Audit Committee by the end of this year.	Revenue and Payments Service Manager	31/12/13
6.4	The Payroll section are carrying out deviance checks on month on month movement on salaries.  There is also limited documentary evidence of who has carried out checks.	Payroll are not best placed to make these checks as they have limited knowledge of reasonableness of pay movements and resources available limits the level of checking possible.	3	Discussions will be held with HR and finance to identify an appropriate way forward.	Revenue and Payments Service Manager	31/12/13

Ref	Finding	Risk	Priority	Agreed Management Action	Responsible Officer	Target Date
6.5	Council does not undertake a regular verification of its employee establishment record.	Local management are not required to confirm establishment on a regular basis leading to inaccurate or unexpected staff costs.	3	Discussions will be held with HR and finance to identify an appropriate way forward.	Revenue and Payments Service Manager	31/12/13
6.6	Reconciliations are prepared for each separate payroll deduction element however no consolidated reconciliation is prepared.	Reduces information on consolidated impact of costs on budgets and outturn monitoring.	4	Training is being given to Payroll Officers to enable them to complete the reconciliations.	Revenue and Payments Service Manager	31/12/13

ORIGINAL

Report Title	Priority				Number of Recommendations	Recommendations				Priority	
	1	2	3	4		Implemented	In Progress	Not Applicable Now	Outstanding	1 - 2	3 - 4
Adoption and Fostering	-	2	-	-	2	-	2	-	-	-	-
Allocation of Council Housing	-	1	1	-	2	-	2	-	-	-	-
Arm's Length External Organisations	3	6	2	-	11	-	11	-	-	-	-
Information Security	-	1	-	-	1	-	1	-	-	-	-
Data Protection - Corporate	-	4	1	-	5	-	5	-	-	-	-
Risk Management Arrangements	-	-	3	-	3	1	2	-	-	-	-
Non Domestic Rates Income	-	1	1	-	2	2	-	-	-	-	-
Income Collection & Cash Receipting	-	-	4	1	5	3	2	-	-	-	-
Purchase Orders to Payment of Suppliers	-	-	1	-	1	-	1	-	-	-	-
Licensing Arrangements	-	-	1	2	3	-	3	-	-	-	-
Management of PPP Contracts	-	1	-	-	1	-	-	1(a)	-	-	-
Purchase Cards	-	1	-	-	1	-	1	-	-	-	-
Trading Standards	1	-	1	-	2	-	2	-	-	-	-
<b>TOTAL</b>	<b>4</b>	<b>17</b>	<b>15</b>	<b>3</b>	<b>39</b>	<b>6</b>	<b>32</b>	<b>1</b>	<b>0</b>	<b>-</b>	<b>-</b>

ORIGINAL