
Report to: Audit Committee

Date of Meeting: 11 October 2018

Subject: Internal Audit Progress Report 2018/19

Report by: Internal Audit Manager

1.0 Purpose

- 1.1. This report provides an update on progress with completing the 2018/19 Internal Audit Plan.

2.0 Recommendations

- 2.1. The Committee is asked to note progress being made with completing the 2018/19 Internal Audit Plan.

3.0 Progress With Completing 2018/19 Internal Audit Plan

- 3.1. The Plan was agreed by Audit and Finance Committee on 15 March 2018. It set out eighteen assignments to be completed by the team during the year.
- 3.2. Fourteen of the eighteen planned assignments have been started, or have been completed to draft or final report stage. A summary of progress is set out at Appendix 1. The scope and Executive Summary of each finalised report is at Appendix 2.
- 3.3. Definitions of the assurance categories used by Internal Audit are set out at Appendix 3.

4.0 Conclusions

- 4.1. The team are making good progress with 2018/19 Internal Audit work. This will contribute to a balanced and evidenced based year end opinion on arrangements for risk management, governance, and control.

5.0 Sustainability Implications

- 5.1. None noted

6.0 Resource Implications

6.1. Financial Details

6.2. The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate. Yes

6.3. Finance have been consulted and have agreed the financial implications as set out in the report. Yes

6.4. Staffing

7.0 Exempt Reports

7.1. Is this report exempt? 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)

Clackmannanshire will be attractive to businesses & people and ensure fair opportunities for all

Our families; children and young people will have the best possible start in life

Women and girls will be confident and aspirational, and achieve their full potential

Our communities will be resilient and empowered so that they can thrive and flourish

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

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 Plan: Progress at 02 October 2018.

- **Appendix 2:** Summary of Findings from Assignments Complete to Final Report.
- **Appendix 3:** Definition of Internal Audit Assurance Categories.

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
Stuart Crickmar	Strategic Director Partnership and Performance	
Nikki Bridle	Chief Executive	

Internal Audit Plan 2018/19 – Progress at 02 October 2018

Planned Assignments (as per 2018/19 Internal Audit Plan)			
	Service	Assignment	Status
1.	All Services	Continuous Auditing	In Progress – Ongoing ¹
2.	All Services	National Fraud Initiative	In Progress – Ongoing ¹
3.	Place	Climate Change Act Public Body Duties Audit	In Progress
4.	People	Cash / Income Collection: <ul style="list-style-type: none"> • Scottish Welfare Fund; • Central Imprest Fund; • Kilncraigs Main Reception. 	Final Reports Issued
5.	All Services	Follow Up of Internal Audit Recommendations	In Progress - Ongoing
6.	All Services	Ad hoc / Consultancy Work	In Progress - Ongoing
7.	Clackmannanshire and Stirling IJB	Experience of Service Users / Patients / Unpaid Carers	Not Started
8.	Central Scotland Valuation Joint Board	<ul style="list-style-type: none"> • Business Continuity Planning • Freedom of Information Request Arrangements 	In Progress
9.	People	Public Protection (Children) - Governance	In Progress
10.	All Services	Building Security (Operational Council Buildings)	Draft Report Issued
11.	Partnerships and Performance	PREVENT (Counter Terrorism) and Serious Organised Crime Readiness	Final Report Issued – Substantial Assurance
12.	Partnerships and Performance	Supplier Set Up and Supplier Bank Account Changes	Final Report Issued – Limited Assurance
13.	Partnerships and Performance	External Quality Assessment of Internal Audit Function	Reliance on Falkirk Council Internal Audit EQA Outcome – Broadly Compliant with Public Sector Internal Audit Standards
14.	Place	Health and Safety – Statutory Electrical Inspections	In Progress
15.	Partnerships and Performance	GDPR Readiness	Final Report Issued – Limited / Substantial Assurance

¹ Findings to date included at Appendix 2.

Planned Assignments (as per 2018/19 Internal Audit Plan)			
	Service	Assignment	Status
16.	All Services	Sickness Absence	Not Started
17.	Place / Partnerships and Performance	Procurement – Waste Services	Not Started
18.	Place	LED Streetlighting Project – Benefits Realisation	Not Started

Summary Of Key Findings Arising From Assignments Complete to Final Report

Assignment	Service	Assurance
Continuous Auditing	All Services	N/A – Ongoing Assurance
Scope	Final Report Executive Summary	
<p>This involves analysing Creditors payment file data (payments to suppliers of goods and services) to identify any potential duplicate payments.</p> <p>We use audit interrogation software to identify any matches on invoice date, invoice amount, and invoice number. We then check our initial results on TechOne to identify any cancelled payments; payments made to different suppliers; and duplicate payments that have already been identified and either cancelled or monies recovered.</p>	<p>For the period October 2017 to March 2018 we identified 24 potential duplicate payments, with a value c£21k. Details of these have been passed to the Chief Accountant for appropriate recovery action.</p>	

Assignment	Service	Assurance
National Fraud Initiative	All Services	Not Applicable
Scope	Final Report Executive Summary	
<p>The purpose of the NFI exercise is to review and investigate the outcomes of data matching undertaken by Audit Scotland on behalf of the Cabinet Office. Matches cover areas such as Payroll, Pensions, Housing and Council Tax Benefit, Council Tax Single Person Discount, and Creditors.</p> <p>The Internal Audit Manager acts as Key Contact for NFI, with responsibility for co-ordinating the process of ensuring that relevant matches are followed-up.</p>	<p>The 2016/17 exercise is drawing to a close. 472 'Recommended' matches were released to Clackmannanshire Council for review and investigation (1,352 matches in total). Services have investigated and closed 962 matches. No instances of fraud, and a total of 31 errors (with a total value of £37,690), were identified, with recovery underway.</p> <p>In addition to the core NFI exercise, Clackmannanshire Council participates in a related exercise designed to detect wrongly claimed Council Tax Single Person Discount. Since 01 April 2017, as a result of participation in this exercise (which matches Council Tax and Electoral Roll data), frauds or errors totalling c£11k have been detected, with recovery action taken or underway.</p> <p>The 2018/19 NFI exercise is about to commence. The required data has been gathered from Services, and uploaded via the secure on-line NFI application. The resultant data matches will be available from 31 January 2019.</p>	

Assignment	Service	Assurance
Cash and Income Collection	People	N/A – Spot Check
Scope	Final Report Executive Summary	
<p>We undertook a spot check of the cash handling arrangements for:</p> <ul style="list-style-type: none"> the Scottish Welfare Fund; Central Imprest Fund; and Kilncraigs Main Reception. 	<p><u>Scottish Welfare Fund</u> Cash held reconciled to the cash / award register and the safe's insurance limit was not breached. There was a need to ensure that:</p> <ul style="list-style-type: none"> the written procedures cover all cash handling processes; the current safe is replaced with a more secure safe; the cash balances and transactions are subject to regular management scrutiny, and that a record of all management checks is retained. <p><u>Central Imprest Fund</u> Cash held reconciled to the claim log, replenishments of the Fund were being appropriately authorised, and the safe's insurance limit was not breached. There was, however, a need to ensure that:</p> <ul style="list-style-type: none"> a record is retained of the officer issuing funds; a safe log is introduced; cash balances and transactions are subject to regular management scrutiny, and that a record of all management checks is retained. <p><u>Kilncraigs Main Reception</u> Cash floats and income collected at the time of the visit were complete and reconciled. The arrangements for the handover of income to the external security firm were also operating effectively. There was a need to ensure that:</p> <ul style="list-style-type: none"> the written procedures cover all cash handling processes; cash drawers are locked when not in use; and the safe is locked during office hours and a register of contents introduced. 	

Assignment	Service	Assurance
PREVENT (Counter Terrorism) and Serious Organised Crime Readiness	Partnerships and Performance	Substantial
Scope	Final Report Executive Summary	
<p>The scope of this review was to evaluate and report on arrangements for implementing and embedding the duties and principles set out in:</p> <ul style="list-style-type: none"> PREVENT Duty Guidance for Scotland; and Scotland's Serious Organised Crime Strategy. <p>We reviewed:</p> <ul style="list-style-type: none"> The clarity of governance and accountability arrangements and roles and responsibilities (including the role of the Risk and Integrity Forum); Progress with deployment of the corporate CONTEST / PREVENT and Serious Organised Crime delivery plans. 	<p>We were able to provide 'substantial assurance' in relation to the arrangements for CONTEST / PREVENT, and Serious Organised Crime readiness.</p> <p>In relation to CONTEST / PREVENT we found that roles and responsibilities had been formalised and were well understood. The Council has completed the national PREVENT self assessment, and an action plan is in place. There have been regular updates on progress provided to the Risk and Integrity Forum and the Corporate Management Team.</p> <p>Similar arrangements were in place for Serious Organised Crime. A high level assessment has been undertaken and an action plan is in place. We found that there was scope to improve the action plan by ensuring that timescales for implementation were recorded. There was also scope to ensure that actions are being progressed quicker.</p> <p>Progress in both areas is reported to the Corporate Risk and Integrity Forum. There are specific risks on failure to prevent extremism and / or radicalisation; and failure to address serious organised crime recorded on the corporate risk log.</p>	

Assignment	Service	Assurance
Supplier Set Up and Supplier Bank Account Changes	Partnerships and Performance	Limited Assurance
Scope	Final Report Executive Summary	
<p>We reviewed:</p> <ul style="list-style-type: none"> Controls over the input, checking, and authorisation of supplier set up, and changes to supplier details, including roles and responsibilities, the adequacy of segregation of duties, and associated guidance; and Controls specifically relating to supplier bank account changes, to ensure these are genuine, appropriately authorised, and accurately processed. 	<p>We were able to provide 'limited assurance' in relation to the adequacy of the controls in place for supplier set up and bank account changes.</p> <p>We reviewed sixty transactions (twenty new suppliers, twenty supplier changes, and twenty supplier bank account changes) selected from all TechOne supplier changes between 1 April 2017 and 3 May 2018. Each element of our sample included nine suppliers with an annual expenditure in excess of £400k. We were content that the supplier records on the corporate finance system were being accurately updated.</p> <p>We did find some weaknesses in the controls over the processing, checking, and authorising of new supplier details and changes.</p> <p>In particular, there was no requirement for authorisation when creating new supplier details or amending bank account details.</p> <p>There were no post processing management checks to ensure that bank account changes or new suppliers' data are valid and have been processed accurately. We have recommended that management checks are introduced, to reduce the risk of financial loss should supplier details be deliberately or inadvertently amended.</p> <p>Our analysis of the supplier database also highlighted a number of duplicate records, and we have provided details of these to the Chief Accountant for review and action as appropriate. In addition, we have suggested that the existing functionality within the corporate finance system should be fully utilised to ensure that supporting documentation, relating to new suppliers or changes, can be attached to the supplier record.</p> <p>Since the audit the Service has agreed to make a number of changes to the process of setting up new suppliers and amending existing details. Once in place the new process will mean that no new supplier will be added unless the necessary supporting documentation has been completed and authorised. All trade creditors will require approval by Procurement. New user guidance is currently being drafted and Internal Audit has provided comments on these.</p>	

Assignment	Service	Assurance
External Quality Assessment (EQA) of Internal Audit Function	Partnerships and Performance	Reliance on Falkirk Council EQA outcome – Broadly Compliant with Public Sector Internal Audit Standards
Scope	Final Report Executive Summary	
<p>Internal Audit seeks to operate in compliance with the Public Sector Internal Audit Standards (PSIAS). One of the requirements of PSIAS is that the Internal Audit Manager develops a Quality Assurance and Improvement Programme (QAIP) to enable evaluation of the section's conformance with PSIAS.</p> <p>The QAIP must include annual self assessments and five yearly independent external assessment.</p>	<p>Internal Audit services are provided on the basis of a Joint Working Agreement with Falkirk Council. The Internal Audit Manager undertook a self assessment of the Falkirk Council Internal Audit team's compliance against PSIAS in early 2018. This concluded that the section was broadly compliant with PSIAS. To fulfil the requirement for five yearly external assessment, the Scottish Prison Service's (SPS) Head of Audit and Assurance undertook an independent validation of this self assessment.</p> <p>The SPS report concluded:</p> <p>"Our review of the Falkirk Council (FC) Internal Audit (IA) PSIAS self-assessment concluded, in line with the self-assessment itself (undertaken by FC's Internal Audit Manager), that FCIA is broadly</p>	

	<p>compliant with PSIAS.</p> <p>The quality of the FCIA self-assessment was sound, and was predicated on the Scottish Local Authorities Chief Internal Auditor Group (SLACIAG) checklist devised specifically for PSIAS compliance self-assessment. Sufficient evidence was collated and included on the self-assessment file to corroborate and validate questionnaire responses.</p> <p>Matters arising from the FCIA self-assessment have been incorporated by them in an action plan, the completion of which will result in FCIA being closer to full compliance with PSIAS. The nature of the actions relate more to continuously improving FCIA practice and approach than dealing with material non-compliance with PSIAS.”</p> <p>The approach taken by the Internal Audit team at Clackmannanshire Council mirrors that at Falkirk Council. On that basis, reliance can be placed on the outcomes of the independent review undertaken by SPS.</p> <p>Nevertheless, arrangements will be made to ensure that a specific, independent, review is undertaken of the team responsible for delivering Internal Audit services to Clackmannanshire Council.</p>
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Assignment	Service	Assurance
GDPR Readiness	Partnerships and Performance	Limited / Substantial
Scope	Final Report Executive Summary	
<p>We reviewed:</p> <ul style="list-style-type: none"> the clarity of accountability arrangements and roles and responsibilities. To include the role of the Information Management Working Group; overall project planning and management arrangements. To include the reporting of progress with the GDPR action plan; and communications and awareness raising. To include the availability of Council wide guidance and training. 	<p>We were able to provide 'limited assurance' in relation to the clarity of accountability arrangements, roles and responsibilities, and project planning and management arrangements, and 'substantial assurance' in relation to communication and awareness raising.</p> <p>In relation to accountability arrangements and roles and responsibilities, a Data Protection Officer has been appointed. The Council's Acting Senior Governance Officer is responsible for day to day progress.</p> <p>From reviewing the minutes of meetings we reached the conclusion that the Council's Records Management and Information Governance Working Group has not been adequately overseeing the Council's preparation for GDPR. There was, for example, no regular formal report on progress provided to the Group in the lead up to 25 May 2018. In addition, there have been no formal progress reports from the Group to the Risk and Integrity Forum, Corporate Management Team, or Elected Members.</p> <p>We also found there was no record of the Group's Terms of Reference and performance being reviewed annually. There is a need to ensure that the Group's Terms of Reference is updated to specifically state its role in relation to Data Protection and Information Security.</p> <p>We were content that GDPR related procedures and guidance had been developed. The Data Protection Policy was updated in May 2018 to include GDPR requirements. The updated Policy had not, however, been agreed by the Records Management and Information Governance Working Group or by Elected Members.</p> <p>In relation to project planning and management arrangements, a GDPR project plan is in place. We have recommended this should be updated to include target implementation dates. Project plan progress should also start to be formally reported to each meeting of the Records Management and Information Governance Working Group.</p> <p>There have been a range of actions taken to raise awareness of GDPR within the Council. Guidance has been prepared, and e-learning training made available to staff. Elected members have still to receive training, although this is due to take place in September 2018.</p>	

	<p>In relation to the e-learning training, this is mandatory for all staff. It is evident that the majority of staff have yet to complete it. We understand that, to address this, HR will provide the Data Protection Officer with a training completion report which will highlight those business areas where action is needed to improve uptake.</p>
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Definition of Internal Audit Assurance Categories

Level of Assurance	Definition
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or abuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or abuse.
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.