
Report to: Audit Committee

Date of Meeting: 05 December 2019

Subject: Internal Audit Progress Report 2019/20

Report by: Internal Audit Manager

1.0 Purpose

- 1.1. This report provides an update on progress with completing the 2019/20 Internal Audit Plan.

2.0 Recommendations

- 2.1. The Committee is asked to note progress being made with completing the 2019/20 Internal Audit Plan.

3.0 Progress With Completing 2019/20 Internal Audit Plan

- 3.1. The Plan was agreed by Audit Committee on 25 April 2019. It set out 16 assignments to be completed by the team during the year.
- 3.2. To date, 5 assignments have been completed to final report stage. A further 9 are in progress or have been completed to draft report stage. A summary of progress is set out at Appendix 1. The Scope and Executive Summary of the reports finalised since the last meeting of Committee in September are at Appendix 2.

4.0 Conclusions

- 4.1. The team are making good progress with 2019/20 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? 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)

7.2. 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 & flourish

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

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 1:** Internal Audit Plan: Progress at 27 November 2019.
- **Appendix 2:** Summary of Findings from Assignments Complete to Final Report – Not Previously Reported to Committee.

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
Stuart Crickmar	Strategic Director Partnership & Performance	

Internal Audit Plan 2019/20 – Progress at 27 November 2019

Planned Assignments (as per 2019/20 Internal Audit Plan)			
	Directorate	Assignment	Status
1.	All Directorates	Continuous Auditing	In Progress – Ongoing
2.	All Directorates	National Fraud Initiative	In Progress – Ongoing
3.	Place	Climate Change Act Public Body Duties Audit	Final Report Issued - Substantial Assurance
4.	All Directorates	Follow Up of Internal Audit Recommendations	In Progress – Ongoing
5.	All Directorates	Consultancy Work	In Progress - Ongoing
6.	Clackmannanshire and Stirling IJB	Risk Management	In Progress
7.	Central Scotland Valuation Joint Board	<ul style="list-style-type: none"> • Payroll; and • Data Protection. 	Both In Progress
8.	Place	Procurement – Waste Services	Final Report Issued – Limited / Substantial Assurance
9.	Partnerships and Performance / All Directorates	Creditors Purchase to Pay Cycle (Purchase Order / Invoice Processing and Authorisation)	Final Report Issued – Substantial Assurance
10.	All Directorates	System Administration – Access Privileges to Key Corporate Systems	Final Report Issued – Substantial Assurance
11.	All Directorates	Savings Tracking	In Progress
12.	All Directorates	Business Continuity Planning	Final Report Issued – Substantial Assurance
13.	All Directorates	Building Security (Operational Buildings)	In Progress
14.	All Directorates	Workforce Planning	In Progress
15.	People	Social Work Information System – Project Planning, Management, and Implementation	Not Started
16.	Place	Housing Rents	Not Started

Summary of Findings from Assignments Complete to Final Report – Not Previously Reported to Committee

Assignment	Directorate	Assurance
Climate Change Act Public Body Duties Audit	Place	Substantial Assurance
Scope	Final Report Executive Summary	
<p>The Climate Change (Scotland) Act 2009 (the Act), introduced the requirement for public bodies to report on their climate change duties.</p> <p>In line with the timescales from the Act, the Council's annual report has to be submitted to the Sustainable Scotland Network (SSN) by end November 2019.</p> <p>Our work focused on reviewing the reporting arrangements and the accuracy of the information in the report.</p>	<p>To ensure the consistency of returns across public bodies, the Annual Report format is a standard template split into five areas:</p> <ul style="list-style-type: none"> • Profile of Reporting Body; • Governance, Management, and Strategy; • Emissions, Targets, and Projects; • Adaptation; and • Procurement. <p>We were able to provide Substantial Assurance on the Council's reporting arrangements and the accuracy of the information set out in each section of the Annual Report.</p>	

Assignment	Directorate	Assurance
Procurement – Waste Services	Place	Limited / Substantial Assurance
Scope	Final Report Executive Summary	
<p>For a sample of Waste Services contracts Internal Audit reviewed:</p> <ul style="list-style-type: none"> • Contract Strategy roles and responsibilities, including the steps followed to: identify requirement; engage with stakeholders; agree tender process and selection and award criteria; and tender evaluation; • financial controls, including budget setting and monitoring arrangements, and billing and invoice validation / approval procedures; and • contract management and monitoring arrangements. 	<p>In overall terms, we found that Waste Services staff were clear about their roles and responsibilities.</p> <p>We were, however, only able to provide Limited Assurance in relation to Contract Strategy roles and responsibilities. We recommended that a Commodity Strategy for Waste Services is developed.</p> <p>We were able to provide Substantial Assurance in relation to financial control arrangements. We were content there were robust budget setting and monitoring arrangements and Purchase Order / Invoice Authorisation and Certification arrangements in place.</p> <p>We also provided Substantial Assurance in relation to contract management and monitoring arrangements. The Team Leader (Waste, Roads, and Street Lighting) is taking steps to ensure that the monitoring of contractor performance, and regular performance meetings and reporting, are in place for all high value / risk contracts. We recommended that the agreed approach is documented in the Commodity Strategy.</p> <p>The findings at paragraph 3.6 of our report resulted in an Internal Audit recommendation, included in the action plan. These relate to:</p> <ul style="list-style-type: none"> • the exemption to be reported to the Audit Committee at its December 2019 meeting (for the Treatment of Co-mingled Mixed Recyclate contract); • the two tender processes that are in progress (for the Treatment of Co-mingled Mixed Recyclate and Treatment on Inert Waste and Rubble contracts);and • agreeing the timetable for the Disposal of Bulky Waste tender process. <p>We recognise these have already been identified by the Team Leader (Waste, Roads, and Street Lighting), and that work is in progress to rectify them. We included as recommendations to ensure that the actions identified are fully implemented.</p>	

Assignment	Directorate	Assurance
Creditors Purchase To Pay Cycle (PO / Invoice Processing and Authorisation)	Partnerships and Performance / All Directorates	Substantial Assurance
Scope	Final Report Executive Summary	
<p>We reviewed a sample of 30 transactions, across all Directorates, to ensure that Section 11 and 12 of the Financial Regulations were being complied with. This included testing to assess whether:</p> <ul style="list-style-type: none"> • best value has been achieved; • the price and quantity of goods or services to be supplied are clearly stated on the order; • the order is within the authorising officer's delegated authority limit; • the invoice price matches the order price; and • the authorised signatory of the invoice is different from the authorised signatory of the order. <p>The same sample was checked against the Council's Contract Register to assess the extent of on / off contract purchasing.</p>	<p>We reviewed a sample of 30 transactions across all Directorates. We concluded that, for 19 of these, Purchase Order and Invoice Authorisation and Certification arrangements were appropriate and in compliance with the Financial Regulations and Contract Standing Orders.</p> <p>For the remaining 11 transactions non-compliance issues included:</p> <ul style="list-style-type: none"> • no Purchase Order raised; • Purchase Order raised after the invoice date; • Purchase Order included insufficient detail on quantities and prices; • rates charged not checked to contract terms; and • no evidence of a contract or formal agreement in place. <p>We recommended that all Purchase Order and Invoice Authorisation and Certification officers are reminded of their roles and responsibilities, and of the requirement to comply with the Financial Regulations and Contract Standing Orders.</p> <p>We were content that there were no instances where Purchase Order / Invoice Authorisation and Certification approval limits had been exceeded. We found some discrepancies between delegated authorisation levels and the financial limits assigned in TechOne, and have recommended that these are reviewed.</p>	

Assignment	Directorate	Assurance
System Administration – Access Privileges to Key Corporate Systems	All Directorates	Substantial Assurance
Scope	Final Report Executive Summary	
<p>Internal Audit work focussed on assessing whether the following internal controls were operating effectively for the corporate finance system and all corporate IT systems which link to the TechOne Purchase Ledger:</p> <ul style="list-style-type: none"> • clear roles and responsibilities for users with high privilege user access rights; • defined user account management arrangements for users with high privilege user access rights and individuals whose user profile combinations carry the greatest risk. We assessed whether users' access rights and profiles are being managed in line with each IT system's Access Control and Password Policy; and • segregation of duties relating to financial transactions, ensuring access to IT systems is restricted to appropriate levels. 	<p>This high level review focussed on ensuring that internal control weaknesses similar to those exploited at Dundee City Council (DCC) do not exist in relation to the high privilege users with access to TechOne, the corporate IT systems that interface with the TechOne purchase ledger, and BACS payment software.</p> <p>We reviewed the publicly available reports on the DCC fraud. From this, we identified seven key control weaknesses that were exploited. Our assessment of the effectiveness of these internal controls, based on the results of our audit fieldwork, in August 2019, is summarised in the table overleaf.</p> <p>We also focussed on providing assurance that the existing internal control framework was sufficient to minimise the risks associated with employee and insider threats.</p> <p>We provided Substantial Assurance in relation to the adequacy of the controls in place for System Administration – Access Privileges to Key Corporate Systems.</p> <p>We found that, in general, sound systems of control were in place. All staff consulted during the review were clear about their roles and responsibilities.</p> <p>We reviewed high privilege users' access rights to TechOne, the systems that interface with the TechOne purchase ledger, as well as the BACS payment software. We were content that no individual user has the same combination of high privilege access that had been exploited in DCC. That is high privilege access to TechOne (the supplier database and the purchase ledger), high privilege access to any of the systems that interface with the TechOne purchase ledger, and BACS access.</p> <p>We did, however, identify areas where there was scope to further improve the internal control framework. In particular, there was scope for reviewing TechOne permissions, and completing the current review of BACS user access.</p>	

System Administration – Access Privileges to Key Corporate Systems – Specific Findings

	DCC Internal Control Weakness	Internal Control at Clackmannanshire Council	Internal Audit Conclusion
1.	IT employee with over 30 years' service who had extensive access to a large number of the Council's financial systems built up over many years.	We confirmed that no Council employee has high privilege access rights across TechOne, the systems that interface with the TechOne purchase ledger, and BACS payment software.	Substantial Assurance
2.	Employee combined knowledge of the systems, and systems access privileges, to insert false invoices into the purchase ledger for payment. These invoices appeared to have come through an interface from a sub-system and were payable to known suppliers. The sub-systems did not record these transactions.	For the corporate systems where payment files are uploaded onto TechOne we confirmed that control totals (number and value of payments in a payment file) are reviewed and verified at various stages of the payment process. For the corporate system where payment files are uploaded directly to the BACS software, we have suggested that once the BACS file has been processed the BACS submitting officer provides the corporate system administrator with the details of the number and value of payments processed.	Substantial Assurance
3.	The employee was able to intercept the false invoices and divert payments to bank accounts within their control.	The payment files that are uploaded directly to TechOne do not include payee bank details as these are held on the supplier database on TechOne. Previous Internal Audit work has provided assurance that there are processes in place for the creation of new suppliers and for making changes to existing supplier bank accounts by the Creditors Team. There is controlled access to add or amend supplier data.	Substantial Assurance
4.	The construction system was bespoke. The employee was involved in its development, and had extensive knowledge of the sub-system.	There are multiple corporate IT systems that interface with the Techone purchase ledger. The majority of these systems, with the exception of FINCH, are commercial off the shelf packages. We confirmed that no Council employee has high privilege access rights across Techone, FINCH, and BACS payment software.	Substantial Assurance
5.	Segregation of duties – the employee had unrestricted access to a number of key systems across the purchase to pay cycle that allowed the insertion of fictitious invoices and malicious code into interfaces and the BACS payment system.	We confirmed that no Council employee has high privilege access rights across TechOne, the systems that interface with the TechOne purchase ledger, and BACS payment software. There is scope to restrict TechOne permissions for one of the System Administrators, and two of the staff involved in the payments run process. We found there to be adequate segregation of duties in processing and authorising the payment files for all of the systems that we reviewed. We have recommended that the exercise to review and introduce a two stage input and approval process for BACS should be completed.	Substantial Assurance
6.	Interface reconciliations – interface reconciliations were ineffective. An effective interface reconciliation of the number and value of transactions interfaced may have allowed for earlier detection of the fraudulent activity.	For the corporate systems where payment files are uploaded onto TechOne we confirmed that control totals (number and value of payments in a payment file) are reviewed and verified at various stages of the payment process. For the corporate system where payment files are uploaded directly to the BACS software, we have suggested that once the BACS file has been processed the BACS submitting officer provides the corporate system administrator with the details of the number and value of payments processed.	Substantial Assurance
7.	Systems documentation – there was a lack of systems documentation and mapping which articulated the flow of transactions and set out how the interfaces work.	Some corporate systems that interface with the TechOne purchase ledger do not have Access Control Policies in place that document the arrangements for managing users' access. There is also a lack of procedural instructions outlining the steps to follow when exporting the payment file from the corporate system that interfaces with the TechOne purchase ledger.	Substantial Assurance