

A meeting of the Audit Committee will held on Tuesday 24 April 2018 at 3pm within the Municipal Buildings, Greenock.

GERARD MALONE
Head of Legal & Property Services

BUSINESS

1. Apologies, Substitutions and Declarations of Interest	Page
PERFORMANCE MANAGEMENT	
2. Internal Audit Progress Report – 5 February to 27 March 2018 Report by Corporate Director Environment, Regeneration & Resources	p
3. External Audit Action Plans – Current Actions Report by Corporate Director Environment, Regeneration & Resources	p
4. Internal Audit - Annual Strategy and Plan 2018 - 2019 Report by Corporate Director Environment, Regeneration & Resources	p
NEW BUSINESS	
5. Accounts Commission Report – 2016/17 Audit of Dundee City Council – Reporting a Significant Fraud Report by Corporate Director Environment, Regeneration & Resources	p
The documentation relative to the following item has been treated as exempt information in terms of the Local Government (Scotland) Act 1973 as amended, the nature of the exempt information being that set out in paragraph 1 of Part I of Schedule 7(A) of the Act.	
6. Appendix relative to Item 2 providing information on a special investigation undertaken since the last meeting of the Committee	p

Report To: Audit Committee **Date:** 24 April 2018

Report By: Corporate Director Environment, Regeneration and Resources **Report No:** AC/20/18/SA/APr

Contact Officer: Andi Priestman **Contact No:** 01475 712251

Subject: INTERNAL AUDIT PROGRESS REPORT – 5 FEBRUARY TO 27 MARCH 2018

1.0 PURPOSE

- 1.1 The purpose of this report is to enable Members to monitor the performance of Internal Audit, to discharge their scrutiny and performance monitoring roles and gain an overview of the overall control environment throughout the Council.
- 1.2 The Monitoring Report from 5 February to 27 March 2018 is attached as an Appendix **Appendix 1** to this report since its content is essential to the understanding of the Council's control environment.

2.0 SUMMARY

- 2.1 There was one internal audit report finalised since the last Audit Committee meeting in February 2018:
- Older Peoples Services – Billing and Collection
- 2.2 This report contained 5 issues categorised as follows:

Red	Amber	Green
0	1	4

- 2.3 The fieldwork for the 2017/18 plan is now underway and the current status of the plan is as follows:

Stage	Number of Reports
Final Report	8
Draft Report	3
Fieldwork Complete	1
Fieldwork in Progress	2
Planning	3
Not started	0
Total	17

- 2.4 In relation to Internal Audit follow up, there were 2 action points due for completion by 31 March 2018, one of which has been reported as completed and the action date in relation to the other item has been revised. The current status report is attached at Appendix 2. **Appendix 2**
- 2.5 The CMT has reviewed and agreed the current status of actions.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that Members agree to note the progress made by Internal Audit in the period from 5 February to 27 March 2018.

Scott Allan
Corporate Director Environment, Regeneration and Resources

4.0 BACKGROUND

- 4.1 In June 2017, the Audit Committee approved the current Internal Audit Annual Plan which detailed a programme of activity to be undertaken during 2017-18.
- 4.2 Internal Audit regularly reports findings and action plans to relevant Council Officers and the Audit Committee as part of the annual audit plan. A follow up process is in place to allow follow up of current internal audit actions to be co-ordinated and updated by Internal Audit on a monthly basis with regular reporting to the CMT and the Audit Committee.

5.0 CURRENT POSITION

- 5.1 There has been one internal audit report finalised since the last Audit Committee meeting in February 2018.
- 5.2 The fieldwork for the 2017/18 plan is underway and the current status of the plan is as follows:

Stage	Number of Reports
Final Report	8
Draft Report	3
Fieldwork Complete	1
Fieldwork in Progress	2
Planning	3
Not started	0
Total	17

- 5.3 There are 3 current action points being progressed by officers. There were 2 action points due for completion by 31 March 2018, one of which has been reported as completed and the action date in relation to the other item has been revised.
- 5.4 The CMT has reviewed and agreed the current status of actions.

6.0 IMPLICATIONS

Finance

- 6.1 There are no direct financial implications arising from this report.

Financial Implications:

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
N/A					

Legal

6.2 There are no direct legal implications arising from this report.

Human Resources

6.3 There are no direct HR implications arising from this report.

Equalities

6.4 There are no direct equalities implications arising from this report.

Repopulation

6.5 There are no direct repopulation implications arising from this report.

7.0 CONSULTATIONS

7.1 Relevant officers have been consulted in the preparation of this report.

8.0 LIST OF BACKGROUND PAPERS

8.1 File of completed internal audit reports: Available from Andi Priestman, Chief Internal Auditor.



**Audit Committee Report
Report on Internal Audit Activity from
5 February to 27 March 2018**

Section	Contents	Page
1	Audit work undertaken in the period	1
2	Summary of main findings from reports issued since previous Audit Committee	2
3	Audit Plan for 2017-2018 – progress to 27 March 2018	3
4	Corporate Fraud Activity	4-6
5	Ad hoc activities undertaken since the previous Audit Committee	6

1 Audit work undertaken in the period

Reports issued since last update

1.1 Detailed findings and recommendations reported to management are currently graded using the following criteria:

Red	<ul style="list-style-type: none"> • In our opinion the control environment is insufficient to address the risk and this could impact the Council as a whole. • Corrective action must be taken and should start immediately. • Overseen to completion by Corporate Management Team.
Amber	<ul style="list-style-type: none"> • In our opinion there are areas of control weakness which we consider to be individually significant but which are unlikely to affect the Council as a whole. • Corrective action must be taken (some exceptions may be agreed with IA) within reasonable timeframe. • Overseen to completion by Head of Service.
Green	<ul style="list-style-type: none"> • In our opinion the risk area is well controlled or our audit highlighted areas for minor control improvement and/or areas of minor control weakness. • Process improvements/efficiencies may be actioned at management discretion in consultation with Internal Audit (IA). • Managed by service owner.

1.2 There was one audit report finalised since the February Audit Committee, which is identified below, together with a summary of the gradings of the issues identified. In Section 2 we have provided a summary of the main findings from the review.

Reports finalised since previous Audit Committee	Grading			Total Number of Issues
	Red	Amber	Green	
Older Peoples Services – Billing and Collection	0	1	4	5
Total	0	1	4	5

Other activities

Risk Management

1.3 Risk Management is the subject of separate reporting to Audit Committee and a full report is submitted separately on an annual basis.

Internal Audit Action Plan Follow Up

1.4 The current status of Internal Audit Action plans is set out as an attachment at Appendix 2 to this report.

2 Summary of main findings from reports issued since previous Audit Committee

- 2.1 We have provided below a summary of the key findings from the final report issued after 2 February 2018.

Older Peoples Services Billing and Collection

- 2.2 Inverclyde's Health & Social Care Partnership (HSCP) organises a wide range of services for eligible clients. Some Community Care services require charges to be levied, although personal and nursing care is provided free to clients with assessed needs under the Free Personal Care policy.
- 2.3 When calculating homecare charges clients' income and capital (excluding their homes) are means tested. Respite care charges are determined by the age of clients and their length of stay within the Hillend Centre. During 2017/18 budgeted income for homecare services is £183,820 and for respite charges is £20,700. It is important that adequate arrangements are in place to collect charges from clients who receive community based services.
- 2.4 The objective of this audit was to provide management and the Audit Committee with an assessment of the adequacy and effectiveness of the governance, risk management and controls surrounding the key fraud risks faced by Inverclyde Council in relation to Quick Quotes.
- 2.5 The overall control environment opinion for this audit was **Satisfactory**. One AMBER issue was identified as follows:

Adequacy of financial assessment process

Homecare clients can participate in financial assessments which allow for their age, income and any savings. Each Spring these clients are expected to complete a review form, known as FA3. However, we found that clients do not always return these forms and officers use previously declared information about their savings and any occupational pensions. The Homecare charging policy does not outline how these clients are to be treated. In contrast, clients who opt out of Homecare financial assessments are charged at the standard hourly rate of £12.80.

Clients may be over or under charged for Homecare services whenever their age, income and savings are not adequately verified. The value of over or underpayments may grow over time when this information is not verified timeously.

In addition, without relevant guidance officers may take inconsistent approaches to calculating Homecare charges whenever clients do not return financial review forms each year.

- 2.6 The review identified 5 issues, 1 of which we consider to be individually significant and an action plan is in place to address all issues by 30 April 2018.

3. Audit Plan for 2017/18 – Progress to 27 March 2018

Planned Audit Cover	Planning	TOR Issued	Fieldwork in Progress	Fieldwork Complete	Draft Report	Report Finalised	Reported to Audit Committee
Risk-Based Reviews							
Grants to Voluntary Organisations	✓	✓	✓	✓	✓	✓	January 2018
Older Peoples Services – Billing and Collection	✓	✓	✓	✓	✓	✓	March 2018
Customer Services	✓	✓	✓	✓			
HSCP Commissioning	✓	✓	✓				
Pupil Equity Fund	✓						
Limited Scope Finance Reviews							
Revenues - Council Tax Billing	✓	✓	✓	✓	✓	✓	February 2018
Project Assurance Reviews							
SWIFT Financials – Phase 1	✓	✓	✓	✓	✓	✓	October 2017
Corporate Fraud Reviews							
Procurement – Quick Quotes	✓	✓	✓	✓	✓	✓	February 2018
Flexi Time	✓	✓	✓	✓	✓		
Commercial Leases	✓	✓	✓	✓	✓	✓	January 2018
Employee Expenses and Overtime Claims	✓	✓	✓	✓	✓		
Code of Conduct – Other Remunerative Employment/Conflicts of Interest	Review complete – see section 4 for detailed activity						
Council Tax Reduction Scheme	Fieldwork is almost complete – see section 4 for detailed activity						
Creditors – Duplicate Payments	Fieldwork is complete – see section 4 for detailed activity						
Arms Length External Organisations							
Performance Management Arrangements	✓						
Corporate Governance							
Annual Governance Statement 2016-2017	Input provided by CIA.						
Other Work							
National Fraud Initiative	Investigations ongoing - See section 4 for detailed activity						
SPOC Liaison with DWP	Ongoing – see section 4 for detailed activity						
Inverclyde IJB	2017-2018 Audit Plan is in progress – one audit report has been finalised and planning for the remaining audit review is complete. Fieldwork and reporting will be carried out in April/May 2018.						

4 Corporate Fraud Activity

The undernoted table sets out progress to date on corporate fraud activity in the period 5 February to 27 March 2018.

Council Tax Reduction Scheme 25/9/17 – 1/12/17		
Number of Home Visits	Number of Errors Identified and Corrected	Total Overpayment/Future Savings
76	6	£2,037/£8,914
Council Tax Reduction Scheme 1/4/17 to date		
Number of Home Visits	Number of Errors Identified and Corrected	Total Overpayment/Future Savings
315	31	£44,429/£22,542
Non Domestic Rates		
Number of Visits	Number of Errors Identified and Corrected	Total Overpayment/Future Savings
0	0	0
Commercial Properties		
Number of Visits	Number of Errors Identified and Corrected	Total Overpayment/Future Savings
4	0	0
Flexi Time		
Fieldwork is complete and report is being drafted for management comment.		
Commercial Leases		
Final report has been issued. Summary of findings was reported to January 2018 Audit Committee.		
Quick Quotes		
Final report has been issued. Summary of findings was reported to February 2018 Audit Committee.		
Code of Conduct – Other Remunerative Employment/Conflicts of Interest		
Relevant cases from the 2016/2017 NFI exercise have now been investigated. Findings have been reported to Corporate Directors and recommendations have been agreed. Summary of findings was reported to January 2018 Audit Committee.		
National Fraud Initiative 2016-2017		
Services are continuing to review identified matches and investigation where appropriate. Corporate Fraud team continue to provide oversight and support to Services. The current status of matches are as follows:-		
Total matches reported – 3608 (520 recommended matches)		
Total matches processed to date – 3608		
Investigations in progress – 23		
Fraud – 8		
Error – 61		
Recovering – 14		

4 Corporate Fraud Activity (Continued)

Specific NFI cases being reviewed by Corporate Fraud since the last Audit Committee are set out below:

File Ref	Description	Status
17/18 17-90	CT SPD > Taxi Licence	Fraud established. Account updated and liable party has now been rebilled.
17/18 17-91	CTR > Pension	Ongoing investigation
17/18 17-108	CTR > Pension	Ongoing investigation
17/18 17-109	CTR > Pension	Fraud established. HB overpayment been identified.
17/18 17-111	CTR > Pension	Closed – no fraud detected.
17/18 17-112	CT SPD > Blue Badge	Closed – no fraud detected.
17/18 17-113	CTR > Pension	Ongoing investigation
17/18 17-114	CTR > Pension	Closed – no fraud detected.
17/18 17-115	CTR > Pension	Closed – no fraud detected.
17/18 17-116	CTR > Pension	Fraud established. No further action proposed.
17/18 17-117	CTR > Pension	Fraud established. Passed to Finance for adjudication.
17/18 17-118	CTR > Pension	Closed – no fraud detected.
17/18 17-119	CTR > Pension	Ongoing investigation
17/18 17-120	CT SPD > Blue Badge	Closed – no fraud detected.
17/18 17-121	CTR > Pension	Ongoing investigation
17/18 17-122	CTR > Pension	Closed – no fraud detected.
17/18 17-123	CTR > Pension	Closed – no fraud detected.
17/18 17-125	CT SPD > Payroll	Closed – no fraud detected.
17/18 17-126	CT SPD > Payroll	Ongoing investigation
17/18 17-129	CTR > Taxi Licence	Closed – no fraud detected. Admin error.
17/18 17-130	CRT > Taxi Licence	Closed – no fraud detected.
17/18 17-131	CT SPD > Payroll	Closed – no fraud detected.
17/18 17-132	CT SPD > Payroll	Closed – no fraud detected.
17/18 17-133	CT SPD > Payroll	Ongoing investigation
17/18 17-136	CTR > Taxi Licence	Ongoing investigation
17/18 17-137	CTR > Pension	Closed – fraud established. DWP ESA overpayment being recovered.
17/18 17-138	CT SPD > Payroll	Closed – no fraud detected.
17/18 17-139	CT SPD > Payroll	Closed – no fraud detected.
17/18 17-148	CTR > Pension	Closed – fraud established. No overpayment to be recovered but details of pension updated on system.
17/18 17-150	CTR > Taxi Driver	Ongoing investigation
17/18 17-151	CTR > Taxi Driver	Closed – no fraud detected.
17/18 17-152	CTR > Taxi Driver	Ongoing investigation
17/18 17-153	CTR > Payroll	Closed – fraud established. CTR overpayment being recovered.
17/18 17-154	CT SPD > Pension	Ongoing investigation
17/18 17-160	CT SPD > Payroll	Ongoing investigation
17/18 17-161	CTR > Taxi Driver	Ongoing investigation
17-18 17-165	CTR > Pension	Closed. Fraud established. ESA overpayment is being recovered.

4 Corporate Fraud Activity (Continued)

SPOC Liaison		
DWP Referrals	21 this period	57 to date
LAIEF requests actioned	35 this period	173 to date
Whistleblowing/Referrals		
File Ref	Description	Status
17/18 17-76	Council Tax Exemption	Ongoing investigation
17/18 17-95	Council Tax Discount	Closed – no fraud detected.
17/18 17-96	Council Tax Exemption	Ongoing investigation
17/18 17-101	CT SPD > Electoral Roll	Closed – no fraud detected.
17/18 17-103	Council Tax Exemption	Ongoing investigation
17/18 17-110	Council Tax Discount	Closed – no fraud detected.
17/18 17-124	Fraudulent Expense Claims	Ongoing investigation
17/18 17-127	Misuse of Blue Badge	Referred to enforcement team.
17/18 17-128	Misuse of Blue Badge	Badge seized. Referred to North Ayrshire Council.
17/18 17-134	Misused of Blue Badge	Badge seized. Referred to North Ayrshire Council.
17/18 17-135	Misuse of Expired Blue Badge	Misuse established. Advice given.
17/18 17-140	Misuse of Blue Badge	Ongoing investigation
17/18 17-141	Misuse of Blue Badge	Misuse established. Letter issued.
17/18 17-142	Misuse of Blue Badge	Misuse established. Letter issued.
17/18 17-143	Council Tax Levy Evasion	Closed. No fraud detected.
17/18 17-145	Council Tax Exemption	Ongoing investigation
17/18 17-146	Council Tax Exemption	Closed. No fraud detected.
17/18 17-147	Alleged misuse of funds	Ongoing investigation
17/18 17-149	Misuse of Expired Blue Badge	Misuse established and BB seized.
17/18 17-155	Misuse of Blue Badge	Misuse established. Letter issued.
17/18 17-157	Misuse of Expired Blue Badge	Misuse established. Letter issued.
17/18 17-158	Misuse of Blue Badge	Misuse established. Letter issued.
17/18 17-159	Misuse of Blue Badge	Ongoing investigation

5 Ad hoc activities undertaken since the previous Audit Committee

- 5.1 From time to time, management will request the assistance of Internal Audit in certain activities that are in addition to the annual Operational Plan. Examples of such activities include investigations of alleged irregularities, review of changes in system procedures etc.
- 5.2 Contingency has been made available in the Operational Plan for such ad hoc activities. Since the previous Audit Committee, ad hoc activity undertaken in the period is as follows:
- Providing relevant information in relation to FOI requests.
 - Review of SPT Grant Claims.

INVERCLYDE COUNCIL INTERNAL AUDIT
REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS (RED AND AMBER ONLY)
AT 31 MARCH 2018

Summary: Section 1 Summary of Management Actions due for completion by 31/03/18

There were 2 actions due for completion by 31 March 2018, one of which has been reported as completed by management and the action date for one item has been revised.

Section 2 Summary of Current Management Actions Plans at 31/03/18

At 31 March 2018 there were no audit reports delayed due to management not finalising the action plan within agreed timescales.

Section 3 Current Management Actions at 31/03/18

At 31 March 2018 there was a total of 3 current audit action points.

Section 4 Analysis of Missed Deadlines

At 31 March 2018 there was one audit action point where the agreed deadline had been missed.

Section 5 Summary of Action Plan Points by Audit Year

**INVERCLYDE COUNCIL INTERNAL AUDIT
REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS (RED AND AMBER ONLY)
SUMMARY OF MANAGEMENT ACTION PLANS DUE FOR COMPLETION BY 31.03.18**

SECTION 2

Directorate	No. of Actions Due	No. of Actions Completed	Deadline missed Revised date set*	Deadline missed Revised date to be set*
Environment, Regeneration & Resources	0			
Health and Social Care Partnership (HSCP)	0			
Education, Communities and Organisational Development	2	1	1	
Total	2	1	1	

* These actions are included in the Analysis of Missed Deadlines – Section 4

In addition, the following actions which had a completion date of 1/4/18 have been reported as completed by management:

Action
<p>Adequacy of Timescales for Bid Submissions (Amber) Management will remind all services regarding the prescribed timescale afforded to potential bidders – Goods – 5 days, Services – 15 days and Works – 20 days. Corporate Procurement should be consulted when services require to amend the timescale.</p> <p>In addition, in consultation with Services, Corporate Procurement will consider the current timescales and review whether these could be adjusted to reflect current needs/practices.</p>
<p>Incomplete Award Notice Process (Amber) Management will remind all Procurement Officers of the requirement to complete this action as part of the Quick Quote process.</p> <p>The Corporate Procurement Manager will raise this issue at the Designated Procurement Officers Meeting and also at the Corporate Procurement Board.</p>
<p>Adequacy of Due Diligence Checks (Amber) Management will ensure that once a successful bidder has been identified, appropriate due diligence checks are conducted by Services to ensure that the company/individual being awarded the contract is suitable. The Corporate Procurement Manager will include this process within the Procurement Manual.</p>
<p>Lack of Relevant and Reliable Management Information (Amber) The Corporate Procurement Manager will ensure that management information is developed and routinely generated for analysis to ensure compliance with procurement guidance.</p>

**INVERCLYDE COUNCIL INTERNAL AUDIT
REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS (RED AND AMBER ONLY)
SUMMARY OF CURRENT MANAGEMENT ACTION PLANS AS AT 31.03.18**

SECTION 2

CURRENT ACTIONS BY DIRECTORATE

Education, Communities and Organisational Development	
Due for completion June 2018	2
Total Actions	2
HSCP	
Due for completion April 2018	1
Total Actions	1
Total current actions:	3

**INVERCLYDE COUNCIL INTERNAL AUDIT
REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS (RED AND AMBER ONLY)
CURRENT MANAGEMENT ACTIONS AS AT 31.03.18**

SECTION 3

Education, Communities and Organisational Development

Action	Owner	Expected Date
Corporate Health and Safety (September 2016)		
<p>Planning and managing health and safety audits and inspections (Amber) Relevant action will then be taken if Figtree can be used to track audits.</p>	Health and Safety Team Leader	30.06.18
<p>Applying data retention policy to health and safety information (Amber) Feasibility of using Figtree for Health and Safety information is now complete and functionality is now being tested with a view to populating the system by the end of the financial year 2017/2018. (New Action)</p>	Health and Safety Team Leader	30.06.18*

HSCP

Action	Owner	Expected Date
Older Peoples Services – Billing and Collection (March 2018)		
<p>Adequacy of Financial Assessment Process (Amber) Management will update the FA1 and FA3 forms to include a declaration to verify that information is accurate.</p> <p>Management will ensure that any unsigned forms will result in follow-up home visits to obtain signed declarations from clients.</p>	Team Leader (Care and Assessment)	30.04.18

* See Analysis of Missed Deadlines – Section 4

**INVERCLYDE COUNCIL INTERNAL AUDIT
REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS (RED AND AMBER ONLY)
ANALYSIS OF MISSED DEADLINES**

SECTION 4

Report	Action	Original Date	Revised Date	Management Comments
Corporate Health and Safety (September 2016)	Applying data retention policy to health and safety information (Amber) Feasibility of using Figtree for Health and Safety information is now complete and functionality is now being tested with a view to populating the system by the end of the financial year 2017/2018. (New Action)	31.03.18	30.06.18	There have been delays by the software provider which has resulted in a lack of access to the full system to undertake testing. New functionality has just been released which is currently being tested by Health and Safety team.

**INVERCLYDE COUNCIL INTERNAL AUDIT
REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS (RED AND AMBER ONLY)
SUMMARY OF ACTION PLAN POINTS BY AUDIT YEAR**

SECTION 5

The following table sets out the total number of agreed actions raised by audit year together with their completion status as at 31 March 2018.

Audit Year	Total Agreed Actions	Total Actions Completed	Total Current Actions Not Yet Due*		
			Red	Amber	Green
2008/2009	214	214	0	0	0
2009/2010	194	194	0	0	0
2010/2011	118	118	0	0	0
2011/2012	62	62	0	0	0
2012/2013	76	76	0	0	0
2013/2014	116	115	0	0	1
2014/2015	77	75	0	0	2
2015/2016	52	51	0	0	1
2016/2017	66	56	0	2	8
2017/2018	36	27	0	1	8
Total	1011	988	0	3	20

*This part of the table sets out the total number of current actions not yet due at the date of the follow up report. The AMBER actions are included in Section 3 of the follow up report.

Report To:	Audit Committee	Date:	24 April 2018
Report By:	Corporate Director Environment, Regeneration and Resources	Report No:	AC/19/18/SA/APr
Contact Officer:	Andi Priestman	Contact No:	01475 712251
Subject:	EXTERNAL AUDIT ACTION PLANS - CURRENT ACTIONS		

1.0 PURPOSE

- 1.1 The purpose of this report is to advise Members of the status of current actions from External Audit Action Plans at 31 March 2018.

2.0 SUMMARY

- 2.1 The Chief Internal Auditor co-ordinates follow up reporting on current actions arising from External Audit Action Plans on a monthly basis with regular reporting to the CMT and the Audit Committee.
- 2.2 There was one action due for completion by 31 March 2018 which has been reported as completed by management.
- 2.3 There are no current external audit actions remaining.
- 2.4 The CMT has reviewed and agreed the current status of actions.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that Members note the progress to date in relation to the implementation of external audit actions.

Scott Allan
Corporate Director Environment, Regeneration and Resources

4.0 BACKGROUND

- 4.1 External Audit regularly report findings and action plans to relevant Council Officers and the Audit Committee as part of their annual audit plan.
- 4.2 A follow up process is in place to allow follow up of current external audit actions to be co-ordinated and updated by Internal Audit on a monthly basis with regular reporting to the CMT and the Audit Committee.

5.0 CURRENT STATUS

- 5.1 There was one action due for completion by 31 March 2018 which has been reported as completed by management.
- 5.2 There are no current external audit actions remaining.
- 5.3 The CMT has reviewed and agreed the current status of actions.

6.0 IMPLICATIONS

6.1 Finance

There are no direct financial implications arising from this report.

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
N/A					

6.2 Legal

There are no direct legal implications arising from this report.

6.3 Human Resources

There are no direct HR implications arising from this report.

6.4 Equalities

There are no direct equalities implications arising from this report.

6.5 Repopulation

There are no direct repopulation implications arising from this report.

7.0 CONSULTATIONS

- 7.1 Relevant Officers were asked to provide updates to the report as appropriate.

8.0 LIST OF BACKGROUND PAPERS

8.1 External Audit reports. Copies available from Andi Priestman, Chief Internal Auditor.

Report To:	Audit Committee	Date:	24 April 2018
Report By:	Corporate Director Environment, Regeneration and Resources	Report No:	AC/21/18/SA/APr
Contact Officer:	Andi Priestman	Contact No:	01475 712251
Subject:	INTERNAL AUDIT - ANNUAL STRATEGY AND PLAN 2018-2019		

1.0 PURPOSE

- 1.1 The purpose of this report is to present the Internal Audit Annual Strategy and Plan for 2018-2019 to Members for approval.

2.0 SUMMARY

- 2.1 The Public Sector Internal Audit Standards include the requirement for the Chief Internal Auditor to prepare a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.

- 2.2 The Audit Universe contains all areas that have been identified for review and an assessment has been undertaken of the risk relating to each area based on a number of criteria. Account has also been taken of the risks identified in the Council's Corporate, Directorate and Service Risk Registers and risks identified by external scrutiny bodies through the Local Scrutiny Plan.

- 2.3 It is intended that audit work will be focused on areas of greater risk taking into account management's own view of risk and meetings have been held with Corporate Directors and Heads of Service as appropriate. Each area has been assessed against a broad range of risk criteria and a risk score has been generated based on probability factors such as current control environment, results of last audit and time since the last audit.

- 2.4 In addition, the annual audit plan includes areas of proactive work in relation to corporate fraud reviews.

- 2.5 Furthermore, to meet the requirements of External Audit, the Annual Plan will include limited scope reviews of financial systems that are not subject to a full scope review or will not be covered in the External Audit Annual Audit Plan to maximise audit coverage and reduce duplication.

- 2.6 The proposed Annual Audit Strategy and Plan for 2018-19 is attached at Appendix 1. The Plan contains a contingency provision that will be utilised during the year in response to unforeseen work demands that arise eg special investigations and provision of ad hoc advice.

Appendix
1

- 2.7 The risk scoring system is maintained on a real-time basis and is altered as circumstances change. Regular reviews of the risk scores allow Internal Audit to address the changing risk exposure of the organisation more effectively and ensure audit effort is focused on those areas identified as higher risk.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that Members approve the Internal Audit Annual Strategy and Plan for 2018-2019.

Scott Allan
Corporate Director
Environment, Regeneration and Resources

4.0 BACKGROUND

- 4.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising governance, risk management and control by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- 4.2 The requirement for an Internal Audit function derives from local government legislation, including Section 95 of the Local Government (Scotland) Act 1973, which requires authorities to make arrangements for the proper administration of their financial affairs. Proper administration includes Internal Audit.
- 4.3 The Public Sector Internal Audit Standards include the requirement for the Chief Internal Auditor to prepare a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.

5.0 CURRENT POSITION

- 5.1 It is intended that audit work will be focused on areas of greater risk taking into account management's own view of risk and meetings have been held with Corporate Directors and Heads of Service as appropriate. Each area has been assessed against a broad range of risk criteria and a risk score has been generated based on probability factors such as current control environment, results of last audit and time since the last audit.
- 5.2 Account has also been taken of the risks identified in the Council's Corporate, Directorate and Service Risk Registers and risks identified by external scrutiny bodies through the Local Scrutiny Plan for 2018-2019.
- 5.3 Outlined below are the current risk factors influencing our proposed audit coverage for 2018-19:
 - General Data Protection Regulations come into force in May 2018. Internal Audit will review the adequacy and effectiveness of arrangements that are being put in place to ensure compliance with the regulations.
 - The Council has an established mobile phones policy. Internal Audit will review the processes and controls governing cell phone and mobile device management and utilisation and assess the adequacy of applicable policies, procedures and guidelines for consistency and completeness.
 - In order to facilitate payment for low value, high volume transactions, Council services use corporate purchase cards. Internal Audit will review the adequacy and effectiveness of arrangements that are in place to ensure compliance with relevant policies and procedures.
 - In relation to IR35 rules, public authorities are responsible for checking whether off-payment payroll rules apply to individuals or companies providing services to the organisation. Internal Audit will review the adequacy and effectiveness of arrangements that are in place
 - As part of the current budget exercise, a number of services within the Council will be reduced or will be subject to redesign. In order to facilitate the change management process, Directorate Change Boards have been established. Internal Audit will review the adequacy and effectiveness of the change board governance arrangements.
- 5.4 The proposed Annual Audit Strategy and Plan for 2018-19 is attached at Appendix 1. The Plan contains a contingency provision that will be utilised during the year in response to unforeseen work demands that arise eg special investigations and provision of ad hoc advice. The plan also includes proposed resources for providing Internal Audit support to the Integrated Joint Board.

- 5.5 The risk scoring system is maintained on a real-time basis and is altered as circumstances change. Regular reviews of the risk scores allow Internal Audit to address the changing risk exposure of the organisation more effectively and ensure audit effort is focused on those areas identified as higher risk.

6.0 IMPLICATIONS

Finance

- 6.1 The work required to deliver the Annual Internal Audit Plan will be contained in the existing Internal Audit budget.

Financial Implications:

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
Internal Audit	Various	2018-2019			

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
N/A					

Legal

- 6.2 There are no direct legal implications arising from this report.

Human Resources

- 6.3 There are no direct HR implications arising from this report.

Equalities

- 6.4 There are no direct equalities implications arising from this report.

Repopulation

- 6.5 There are no direct repopulation implications arising from this report.

7.0 CONSULTATIONS

- 7.1 Discussions have taken place with Corporate Directors and Heads of Service as appropriate in relation to the proposed annual audit plan coverage.
- 7.2 There will be regular ongoing discussion with External Audit to ensure respective audit plans are reviewed as circumstances change in order to minimise duplication of effort and maximise audit coverage for the Council. In their annual audit plan for 2017-2018 External Audit intend to place reliance on a number of areas of Internal Audit work carried out during 2017-2018.

8.0 LIST OF BACKGROUND PAPERS

- 8.1 Internal Audit Annual Plan 2018-2019. Available from Andi Priestman, Chief Internal Auditor.

INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2018-2019

1. Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) set out the requirement for the Chief Internal Auditor to prepare a risk-based audit plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.
- 1.2 The Chief Internal Auditor must review and adjust the plan as necessary in response to changes in the organisation's business, risks, operations and priorities.
- 1.3 The audit plan must incorporate or be linked to a strategic or high-level statement of how the Internal Audit Service will be delivered and developed in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities.
- 1.4 The strategy shall be reviewed on an annual basis as part of the audit planning process.

2. Internal Audit Objectives

- 2.1 The definition of internal auditing is contained within the PSIAS as follows:

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

- 2.2 The primary aim of the internal audit service is to provide assurance services which requires the Chief Internal Auditor to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.
- 2.3 The internal audit service also provides advisory services, generally at the request of the organisation, with the aim of improving governance, risk management and control and contributing to the overall opinion.
- 2.4 The internal audit service supports the Chief Financial Officer in his role as Section 95 Officer.

3. Risk Assessment and Audit Planning

- 3.1 The internal audit approach to annual audit planning is risk-based and all areas which may be subject to audit review are contained within an Audit Universe which is subject to formal review, at least annually.
- 3.2 The risk scoring system is maintained on a real-time basis and is altered as circumstances change. Regular reviews of the risk scores allow Internal Audit to address the changing risk exposure of the organisation more effectively and ensure audit effort is focused on those areas identified as higher risk.

INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2018-2019

- 3.3 The Audit Universe is risk assessed each year to determine the Annual Audit Plan and ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk. Each area within the Audit Universe is assessed for impact against a number of broad risk categories as follows:
- Strategy Risks associated with the setting and achievement of strategic objectives.
 - Economy Risks associated with the economy in which Inverclyde Council operates.
 - Reputation Risks associated with threats to Inverclyde Council's name and standing in the sector.
 - Customer Risks associated with customer relationships.
 - Legal/Regulatory Risks associated with the requirement to comply with a wide range of statute.
 - Financial Risks associated with financial loss or inefficiency.
 - Technology Risks associated with application systems, their integrity, security and development.
 - Management Information Risks associated with the provision of information for decision-making purposes.
 - Human Resources Risks associated with people, eg recruitment, succession, development, motivation and morale etc.
 - Operations Risks associated with the business operating process.
 - Business Continuity/Resilience Risks associated with disaster scenarios which would threaten the continuing operation of Inverclyde Council.
 - Security Risks associated with security over customer and Inverclyde Council's assets.
 - Stakeholder Risks associated with management of stakeholder expectations (eg Government or local communities)
 - Fraud Risks associated with asset misappropriation, corruption and financial statement fraud.
- 3.4 Account has also been taken of the risks identified in the Council's Corporate, Directorate and Service Risk Registers and risks identified by external scrutiny bodies through the Local Scrutiny Plan for 2018-2019.
- 3.5 There will be regular ongoing discussion with External Audit to ensure respective audit plans are reviewed as circumstances change in order to minimise duplication of effort and maximise audit coverage for the Council.

INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2018-2019**4 Service Delivery**

- 4.1 The provision of the internal audit service is through a directly employed in-house team.
- 4.2 In relation to the total staff days allocated to the 2018-2019 plan, each member of staff completes a resource allocation spreadsheet for the year which is split between annual leave, public holidays, training days, general administration and operational plan days. This spreadsheet is reviewed and updated each period by each member of staff against time charged to timesheets.

The combined operational plan is 725 days which will be resourced as follows:

Team Member

Audit Practitioner – 191
Audit Assistant (0.8 FTE) – 152
Senior Corporate Fraud Officer – 191
Corporate Fraud Officer – 191

The Chief Internal Auditor does not directly carry out the assignments included in the annual audit plan but provides the quality review and delivery oversight of the overall plan. As such, no direct time is included within the plan. Where there are any resource issues which may impact on delivery of the plan, this will be reported to Audit Committee at the earliest opportunity.

- 4.3 Given the range and complexity of areas to be reviewed it is important that suitable, qualified, experienced and trained individuals are appointed to internal audit positions. The PSIAS requires that the Chief Internal Auditor must hold a professional qualification such as CMIIA (Chartered Internal Auditor), CCAB or equivalent and be suitably experienced. The internal auditor posts must also be CMIIA/CCAB or equivalent with previous audit experience.
- 4.4 Internal audit staff members identify training needs as part of an appraisal process and are encouraged to undertake appropriate training, including in-house courses and external seminars as relevant to support their development. All training undertaken is recorded in a personal training records for CPD purposes.
- 4.5 Internal audit staff members require to conform to the Code of Ethics of the professional body of which they are members and to the Code of Ethics included within the PSIAS. An annual declaration is undertaken by staff in relation to specific aspects of the Code.
- 4.6 Following each review, audit reports are issued in draft format to agree the accuracy of findings and agree risk mitigations. Copies of final audit reports are issued to the Corporate Director, Head of Service and Service Manager responsible for implementing the agreed action plan. A copy of each final audit report is also provided to External Audit.
- 4.7 The overall opinion of each audit report feeds into the Internal Audit Annual Report and Assurance Statement which is presented to the Audit Committee and is used by the Chief Financial Officer in the preparation of the Annual Governance Statement.

INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2018-2019

5 Proposed Audit Coverage 2018-2019

- 5.1 The proposed audit coverage is set out in the table below. This includes a range of risk based reviews, limited scope financial reviews and regularity audits.
- 5.2 The Plan contains a contingency provision that will be utilised during the year in response to unforeseen work demands that arise eg special investigations and provision of ad hoc advice.

Audit Area	Service	Risk Score	Staff Days
Risk-Based Audit Reviews			
General Data Protection Regulations	Corporate	8732	30
Corporate Purchase Cards	Corporate	6500	30
IR35 Compliance	Corporate	6000	30
Mobile Phones Policy and Procedures	Corporate	5520	40
Total			130
Limited Scope Financial System Reviews			
FMS Logical Access Controls	Finance	6960	25
BACS Payment Process	Finance	6480	25
Total			50
Project Assurance Reviews			
Change Board Governance Arrangements	Corporate	-	30
Total			30
Regularity Audits			
Education – Control Self Assessment	Education	-	30
Council Tax Reduction Scheme – Discounts and Exemptions	Finance	-	60
Employee Expenses – Quarterly Checks	Corporate	-	50
Stock/Inventory Control – Quarterly Checks	Corporate	-	50
Total			200
Corporate Governance Reviews			
Annual Governance Statement (2017/2018)	Corporate Review	-	20
Total			20
Other Work			
Audit follow up	Corporate	-	20
National Fraud Initiative	Corporate	-	60
SPOC Liaison with DWP	-	-	40
Fraud Awareness Training	Corporate	-	10
IJB – Internal Audit Service	-	-	50
Contingency	-	-	45
C/f from 2017-2018 Audit Plan	-	-	70
Total			295
Total Staff Days			725

INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2018-2019

6 Quality and Performance

- 6.1 The PSIAS require each internal audit service to maintain an ongoing quality assurance and improvement programme based on an annual self-assessment against the Standards, supplemented at least every five years by a full independent external assessment.
- 6.2 In addition, the performance of Internal Audit continues to be measured against key service targets focussing on quality, efficiency and effectiveness. For 2018-2019 these have been set as follows:

Measure	Description	Target
1. Final Report	Percentage of final reports issued within 2 weeks of draft report.	100%
2. Draft Report	Percentage of draft reports issued within 3 weeks of completion of fieldwork.	90%
3. Audit Plan Delivery	Percentage of audits completed as planned.	85%
4. Audit Budget	Percentage of audits completed within budgeted days.	80%
5. Audit Recommendations	Percentage of audit recommendations agreed.	90%
6. Action Plan Follow Up	Percentage of action plans followed up – Internal and External Audit.	100%
7. Customer Feedback	Percentage of respondents who rated the overall quality of internal audit as satisfactory or above.	100%
8. NFI recommended matches	Percentage of National Fraud Initiative recommended matches investigated within timescales.	100%
9. NFI other matches	Percentage of National Fraud Initiative other matches investigated within timescales.	80%
10. DWP liaison	Percentage of cases referred to/ actioned for DWP within DWP timescales.	100%
11. Staff compliance with CPD	Number of training hours undertaken to support CPD	140
12. Management engagement	Number of meetings with CMT and DMTs as appropriate	1 per quarter

- 6.3 Actual performance against targets will be included in the Internal Audit Annual Assurance Report for 2018-2019.

Report To:	Audit Committee	Date:	24 April 2018
Report By:	Corporate Director Environment, Regeneration and Resources	Report No:	AC/22/18/SA/APr
Contact Officer:	Andi Priestman	Contact No:	01475 712251
Subject:	ACCOUNTS COMMISSION REPORT – 2016/17 AUDIT OF DUNDEE CITY COUNCIL – REPORTING A SIGNIFICANT FRAUD		

1.0 PURPOSE

- 1.1 To inform the Committee of the contents of the issues raised by the Accounts Commission report, "2016/17 Audit of Dundee City Council – Reporting a significant fraud" published in March 2018 and to suggest how best the Council may use the findings of the report to assess our own existing practices and identify where improvements could be made. Appendix 1

2.0 SUMMARY

- 2.1 As part of the external auditor's report on the 2016/2017 audit, a significant fraud was referred to that had been perpetrated against Dundee City Council. The Accounts Commission report, prepared by Audit Scotland, sets out how the fraud was perpetrated, the weaknesses in the Council's control systems and the actions taken by the Council following discovery of the fraud. The financial loss to the Council and the recovery outcome were also reported.
- 2.2 The report summarised the weaknesses in control systems as follows:
- Budgetary control procedures did not detect all of the fraudulent payments.
 - Segregation of duties – the employee had unrestricted access to a number of key systems across the purchase to payable cycle that allowed the insertion of fictitious invoices and malicious code into interfaces and the BACS payment system.
 - Reconciliations – interface reconciliations were not effective; balance sheet reconciliations were not undertaken; supplier statement reconciliations had not been conducted.
 - System limitations – limitations of the construction sub-system undermined the control environment. In addition there was a lack of system and process documentation to document the flow of transactions and how the interfaces work.
- 2.3 The report concluded that failures in fundamental controls within the Council allowed this fraud to continue over a prolonged period.
- 2.4 The report stresses the wider lesson from this incident for other councils to consider is the importance of key internal controls. As part of the Internal Audit Annual Plan for 2018-2019, reviews of the BACS payment process and FMS Logical Access Controls will be undertaken. In addition, Budgetary Control will also be reviewed by External Audit as part of their key controls work. Reports will be presented to the Audit Committee as part of the regular reporting process.

3.0 RECOMMENDATIONS

3.1 It is recommended that Members consider and agree key actions being taken by the Council as follows:

- Undertake limited scope financial reviews of the BACS payment process and FMS Logical Access Controls as part of the Internal Audit Annual Plan for 2018-2019 and report findings to the Audit Committee as part of the regular reporting process.

Scott Allan
Corporate Director
Environment, Regeneration and Resources

4.0 BACKGROUND

- 4.1 As part of the external auditor's report on the 2016/2017 audit, a significant fraud was referred to that had been perpetrated against Dundee City Council.
- 4.2 The fraud was complex and resulted in a long-term employee embezzling £1.065 million from the Council between August 2009 and May 2016. Through its insurance arrangements, the Council has recovered all of the loss from the fraud excluding the policy excess of £10,000.

5.0 CURRENT POSITION

- 5.1 The Accounts Commission report, prepared by Audit Scotland, sets out how the fraud was perpetrated, the weaknesses in the Council's control systems and the actions taken by the Council following discovery of the fraud.
- 5.2 The report summarised the weaknesses in control systems as follows:
- Budgetary control procedures did not detect all the fraudulent payments.
 - Segregation of duties – the employee had unrestricted access to a number of key systems across the purchase to payable cycle that allowed the insertion of fictitious invoices and malicious code into interfaces and the BACS payment system.
 - Reconciliations – interface reconciliations were not effective; balance sheet reconciliations were not undertaken; supplier statement reconciliations had not been conducted.
 - System limitations – limitations of the construction sub-system undermined the control environment. In addition there was a lack of system and process documentation to document the flow of transactions and how the interfaces work.
- 5.3 The report concluded that failures in fundamental controls within the Council allowed this fraud to continue over a prolonged period.
- 5.4 The report stresses the wider lesson from this incident for other councils to consider is the importance of key internal controls. As part of the Internal Audit Annual Plan for 2018-2019, reviews of the BACS payment process and FMS Logical Access Controls will be undertaken. In addition, Budgetary Control will also be reviewed by External Audit as part of their key controls work. Reports will be presented to the Audit Committee as part of the regular reporting process.

6.0 IMPLICATIONS

Finance

- 6.1 The work required to deliver the Annual Internal Audit Plan will be contained in the existing Internal Audit budget.

Financial Implications:

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
Internal Audit	Various	2018-2019			

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
N/A					

Legal

6.2 There are no direct legal implications arising from this report.

Human Resources

6.3 There are no direct HR implications arising from this report.

Equalities

6.4 There are no direct equalities implications arising from this report.

Repopulation

6.5 There are no direct repopulation implications arising from this report.

7.0 CONSULTATIONS

7.1 Discussions have taken place with relevant officers in the preparation of the report.

7.2 There will be regular ongoing discussion with External Audit.

8.0 LIST OF BACKGROUND PAPERS

8.1 Accounts Commission Report "2016/17 Audit of Dundee City Council – Report on a significant fraud" Appendix
1

2016/17 Audit of Dundee City Council

Report on a significant fraud



ACCOUNTS COMMISSION 

Prepared by Audit Scotland
March 2018


The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about-us/accounts-commission 

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Commission findings	4
Executive summary	5
Introduction	5
Summary.....	5
Auditor's opinion.....	6
Fraud details	7
Initial discovery and quantification	7
Financial loss to the council.....	8
How the fraud was perpetrated.....	8
Why budgetary control processes did not detect the fraud	8
Control weaknesses that facilitated the fraud	9
Informing the elected members of the fraud	10
Data analytics.....	10
Internal audit	11
Further council action	11
Responsibilities for preventing and detecting fraud	12
Audit conclusions	13
Appendix 1 - PwC recommendations	14
Appendix 2 - Timeline	17
Appendix 3 - Lessons for other councils to consider	18

Commission findings

- 1. The Commission accepts the Controller of Audit's report on a matter arising from the 2016/17 audit of Dundee City Council. The report refers to a significant fraud perpetrated against the council.**
- 2. We note the conclusion of the Controller that failures in fundamental controls within the council allowed this fraud to continue over a prolonged period. We also note the conclusion that appropriate action was taken by management on discovering the fraud and that it continues to try and enhance public confidence by improving its resilience to fraud and corruption.**
- 3. It is important that we, in our role of providing assurance to the public about councils' governance and their custodianship of public money, underline the lessons to be learned by every council from this matter. Councils must ensure that fundamental internal controls are in place and working effectively. Such controls include appropriately segregating duties of those involved in managing controls, ensuring systems reconciliations are carried out, accurate documenting of procedures, and budget monitoring.**
- 4. It is management's responsibility for ensuring that such arrangements are in place and thus help assure elected members and the public that risks are being identified and managed effectively. We expect a council's external auditor to review such procedures and make recommendations where weaknesses are identified. We expect management to act upon and apply recommendations from both external and internal auditors to address potential weaknesses and risks.**

Executive summary

Introduction

1. The external auditor's report on the 2016/17 audit refers to a significant fraud perpetrated against Dundee City Council. The fraud was complex and resulted in a long-term employee embezzling £1.065 million from the council between August 2009 and May 2016. I submit this report under section 102(1) of the Local Government (Scotland) Act 1973 as a matter that the Controller of Audit considers should be considered by the local authority or brought to the attention of the public.
2. The purpose of this report is to draw the Accounts Commission's attention to how the fraud was perpetrated; the weaknesses in the council's control systems; and the actions taken by the council following discovery of the fraud. The financial loss to the council and the recovery outcome are also reported.

Summary

3. During routine year end procedures the council highlighted an invoice for £7,337 where supporting information could not be found. The payment for this invoice was made into an employee's bank account in May 2016 which resulted in an internal investigation and a Police Scotland investigation. The reviews highlighted fundamental weaknesses in the council's internal financial control systems. Investigations identified fraudulent payments to the employee totalling £1,065,085 during the period from August 2009 to May 2016.
4. The fraud resulted from the employee having unrestricted access to several systems which allowed him to insert fake invoices into the system and alter the bank payment details of suppliers without detection.
5. The employee was immediately suspended and resigned from his position in June 2016. The Police Scotland investigation resulted in the ex-employee pleading guilty on 2 August 2017 to the charge of embezzling £1,065,085 from the council and on 24 August 2017 at the High Court in Glasgow he was sentenced to 5 years 4 months imprisonment.
6. Full recovery of the loss, excluding the policy excess of £10,000 and fees of £8,663, has been achieved through a range of methods. The recovery included the pension of the convicted individual, an ex gratia payment from a third party and the proceeds of the council's fidelity insurance policy.
7. PricewaterhouseCoopers (PwC) provided additional specialist support, under their internal audit contract, for the investigation. The PwC reports issued to management in October 2016 and June 2017 highlighted control weaknesses; recommendations for improvement; and details of reviews undertaken to ensure no further anomalous payments were made.
8. The Leader of the Council, Depute Leader and Group Secretary were provided with details of the fraud in June 2016. During 2016 the Chair of the Scrutiny Committee and other senior

politicians were briefed on the fraud and the actions being taken. Member briefings on the fraud were provided by management on 19 April and 5 December 2017 with a report considered by the Scrutiny Committee on 13 December 2017. The Scrutiny Committee report indicated that all the PwC recommendations had been implemented or had an agreed implementation date.

9. Internal audit's plan for 2018/19 are to include following up the PwC recommendations to ensure that these have been implemented effectively. Internal audit as part of the current year have planned to review the Bank Automated Clearance System (BACS) and User Access Levels to provide further assurance to members for these areas.

Auditor's opinion

10. The fraudulent payments totalled £1.065 million over several years and the impact on the financial statements from 2009/10 to 2015/16 did not represent a material misstatement in any given year. However, there were failures in fundamental controls within the council that allowed this fraud to continue over a prolonged period resulting in a loss to the council. In particular, the lack of segregation of duties allowed the perpetrator access to a number of systems, enabling them to carry out the fraud. Internal controls such as system reconciliations were not carried out or were ineffective and as a result the payments were not identified as anomalies for further investigation at an early stage.
11. On discovery of the erroneous payment the council acted promptly to deal with the individual and reporting the fraud to Police Scotland. Officers undertook appropriate investigations and effective recovery of the fraudulent payments. The investigations highlighted the control weaknesses and officers have acted to address the issues and strengthen the control environment.
12. Elected members and the local external audit team have been kept up to date at appropriate key stages of the fraud investigations since its discovery.
13. Members' briefings were held in April and December 2017 and a report was also presented to the Scrutiny Committee on 13 December 2017. External audit was invited and attended these meetings and considered them comprehensive and informative.
14. The council continues to strengthen its control environment through its Corporate Integrity Group, which was established in February 2017. Police Scotland has also approached the council in order to develop a case study of the fraud to provide a resilience message across Scotland's public sector.
15. The wider lesson from this incident, for other councils to consider, is the importance of key internal controls. These are documented in Appendix 3 and cover areas such as: segregation of duties (including user access rights); effective system reconciliations; system documentation; and effective budget monitoring.

Fraud details

Initial discovery and quantification

16. On 20 May 2016, as part of the council's year-end procedures, an invoice for £7,337 was highlighted where supporting information could not be found. A request was made on 23 May to the IT helpdesk to investigate the issue. On 25 May the IT officer investigating the issue (the perpetrator of the fraud) highlighted that he had been carrying out testing of the BACS system and had used his own bank details to test a payment. The employee immediately returned the payment of £7,337 to the council. Finance staff notified senior management and it was agreed that the employee should be suspended with immediate effect to allow for a full investigation to be undertaken. The employee was suspended on 26 May 2016 and Police Scotland notified on 30 May.
17. At the same time a further query on a fleet management invoice by council staff for an invoice of £17,846 highlighted a second bank account, suspected to be controlled by the employee.
18. A formal disciplinary meeting was held with the employee on 9 June 2016, solely in relation to the payment of the initial £7,337 discovered. At the meeting, prior to being issued with a notice of dismissal, the employee tendered his resignation.
19. In June 2016 PwC were requested to provide additional support for the investigation through an existing internal audit contract to:
 - establish the extent of any anomalous payments and where these are posted in the accounting records
 - establish where failings in the current control environment enabled the fraud to be perpetrated without detection
 - identify improvements to the control environment that would help prevent similar incidents in future
 - assess the resilience of the council's systems to external threats.
20. Interrogation of the BACS system by PwC verified £804,775 of fraudulent payments, 44 made to the employee's personal account dating from March 2012 totalling £786,929 and 1 of £17,846 made to a second bank account. The BACS system was upgraded in March 2012 and the council was unable to establish whether payments had been made to these accounts prior to the system change.
21. Police Scotland's investigation subsequently identified an additional 12 fraudulent transactions totalling £260,310 between August 2009 and July 2012.
22. From August 2009 to May 2016 the fraud totalled £1,065,085 resulting from 57 transactions with payments to two bank accounts. These accounts were different accounts from where the employee's salary was paid into.

-
23. The employee was charged and convicted with regard to the fraud and is currently serving five years in prison.

Financial loss to the council

24. The council has insurance cover (Fidelity guarantee) to protect itself against dishonesty of employees resulting in financial loss to the authority. Following discovery of the fraud, a formal claim was submitted with the insurer appointing an independent loss adjuster to investigate the claim.
25. The council has recovered all of the loss from the fraud excluding the policy excess of £10,000. The recovery methods included the pension of the convicted individual, an ex gratia payment through a third party and the proceeds of the fidelity insurance policy. The recovery also covered £47,141 towards the PwC fees of £55,804 for their investigation.

How the fraud was perpetrated

26. The employee was an IT officer with over 30 years' service, who had extensive access to a large number of the council's financial systems which had been built up over many years.
27. The employee combined his knowledge of the systems, and his system access privileges, to insert fake invoices into the purchase ledger for payment. These invoices appeared to have come through an interface from a subsystem and were payable to known suppliers. The subsystems did not record these transactions.
28. Further to this, the employee was able to intercept these fake invoices and divert payments to bank accounts within the individual's control. A genuine payment to the same supplier would not be intercepted, resulting in suppliers being paid as normal.

Why budgetary control processes did not detect the fraud

29. Prior to 2012 the council is unable to assess the quality of its control environment as no audit trail has been retained by the council prior to this period. The 45 fraudulent transactions totalling £804,775 that the council is able to access were processed through two systems (29 payments through the construction sub-system totalling £501,407; and 16 payments through the fleet management sub-system totalling £303,368).
30. The construction sub-system is a bespoke system developed in-house in the 1980s. The employee who committed the fraud, was involved in the development and has extensive knowledge of this sub-system. Interfaces from the construction sub-system enter the council's ledger as a batch total split across cost centres rather than on an invoice by invoice basis.
31. The fraudulent transactions were not recorded in the sub-system and the fake interface of these transactions to the purchase ledger resulted in them being split across various cost centres.
32. A review of the construction sub-system would therefore not contain any fraudulent transactions and a review of the general ledger would not allow budget holders to dig down to

individual invoices to investigate variances. As the fraudulent payments were for small amounts between £5,898 and £27,557 over a number of years they did not stand out in the high value and volume of genuine transactions processed through the construction sub-system. Budget monitoring did not, therefore, identify any of the fraudulent payments.

33. The fleet management system is an "off the shelf" system widely used in the private and public sector. The council's ledger for these areas should have been subject to regular management review and would have allowed analysis down to invoice level. One of the fraudulent payments (£17,846 highlighted above) was queried however it is unclear why the remaining payments went undetected by budget holders although the volatility of fuel prices may have helped mask the impact of these payments.

Control weaknesses that facilitated the fraud

34. The PwC report *Phase 1* was issued to management in October 2016. The report highlighted a number of fundamental control failings that enabled the fraudulent payments to go undetected and resulted in key areas for control improvement (Appendix 1) in relation to:
 - **segregation of duties:** The employee had unrestricted access to a number of key systems across the purchase to payable cycle that allowed the insertion of fictitious invoices and malicious code into interfaces and the BACS payment system.
 - **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.
 - **balance sheet reconciliations:** A reconciliation of the fleet management system to the general ledger was not undertaken. The limitations in the construction sub-system resulted in the reconciliation for the construction system to the general ledger being an ineffective control.
 - **supplier statement reconciliations:** The council had not conducted supplier statement reconciliations to supplier's accounts that would have highlighted the fake invoices.
 - **system limitation:** Limitations on the construction sub-system had a pervasive impact across the control environment, undermining the effective operation of segregation of duties, interface, and balance sheet reconciliation controls. This was exacerbated by the lack of system and process documentation which articulate the flow of transactions and sets out how interfaces work. The system is viewed by management as no longer fit for purpose and is scheduled to be replaced in 2018.
35. A further PwC review was agreed in December 2016 with the scope to:
 - review the control environment over the construction purchase-to-pay process to identify gaps and/or weaknesses and design appropriate controls to mitigate these
 - review the existing reconciliations performed between the construction sub-system and the council's general ledger to identify and design improvements in the reconciliation process.

-
36. The PwC report *Phase 2* was issued to management in June 2017 and highlighted additional improvements surrounding the construction IT system and included:
- journal, reconciliation and interface controls
 - process improvements for journal entries for construction invoices
 - construction system and civica reconciliations
 - segregation of duties within IT
 - super-user/administrative passwords.

Informing the elected members of the fraud

37. The Leader of the Council, Depute Leader and Group Secretary were informed of the fraud through discussions with the Chief Executive and Executive Director of Corporate Services on 13 June 2016. During 2016 the Chair of the Scrutiny Committee and other senior politicians were briefed on the fraud and the actions being taken. No formal documented briefings were presented to members during this time as investigations which were part of disciplinary and police investigations were ongoing. The external auditor has been kept well informed since the discovery of the fraud.
38. Scrutiny Committee members were invited to a briefing in April 2017 and all elected members were invited to attend briefings on the fraud in December 2017. These briefings were also attended by the external audit team who considered them comprehensive and informative.
39. The report to the Scrutiny Committee in December 2017 summarised the above actions and findings from the PwC reports. The reports indicated that all the PwC recommendations had been implemented with the exception of system and process documentation which is nearing completion and is linked with the implementation of the new construction system which is planned to go live in August 2018.

Data analytics

40. To provide assurance to the council that no further fraudulent transactions were processed in a similar manner, in other systems, PwC used data analytics to scan for any anomalous payments:
- identifying suppliers with BACS payments to more than one bank account
 - comparing payment files in the purchase ledger and the BACS system
 - matching invoices in the construction sub-system with those in the general ledger
 - matching invoices in the fleet management system with those in the general ledger.
41. The testing did not identify any further fraudulent payments. The testing in this area was restricted to the back-up information retained by the council (eg PwC highlighted that only 76.5 per cent of payment files have survived for the analysis of the post-2012 BACS payments). Due to system limitations it was also not possible to run effective analytical tests on payments made through the pre-2012 BACS system.

Internal audit

42. The 2017/18 Internal audit plan agreed by the Scrutiny Committee in April 2017 contains planned reviews of BACS and User Access Levels to provide assurance to members and management around the control environments in these areas.
43. As part of the 2018/19 internal audit plan, resources will be set aside to follow-up on all recommendations made in the PwC report to ensure these have been implemented as intended. A report on the findings from that review will be submitted to the Scrutiny Committee in line with standard reporting procedures.

Further council action

44. The council continues to try to enhance public confidence and improve the organisation's resilience to fraud and corruption, through its Corporate Integrity Group, which had been established in February 2017 and is chaired by the Head of Corporate Finance. The integrity group model used is the approach recommended by Police Scotland's Public Sector Anti-Corruption Unit and is already utilised in a number of Scottish local authorities. The Corporate Integrity Group's remit includes:
 - undertaking a fraud and corruption risk assessment and compiling an integrity risk register
 - assisting with the development, review and communication of policies and procedures to mitigate the risk of fraud and corruption
 - highlighting emerging risks, threats, vulnerabilities and related fraud and corruption opportunities
 - receiving, considering and monitoring organisational vulnerability alerts / fraud and corruption flags and developing appropriate mechanisms for reporting and communicating these as appropriate
 - agreeing appropriate actions to mitigate the fraud and corruption risks identified, including sustainable preventative measures
 - raising awareness of fraud and corruption in the council as a method of prevention
 - developing an action plan to implement / address the above and keep the response proportionate to the risks
 - ensure proper communication and exchange of information with other groups, eg Serious Organised Crime Group.
45. Police Scotland has also asked to work jointly with the council to pull together a case study on the fraud that would be valuable in getting the resilience message across Scotland's wider public sector. It is envisaged that this case study would also be used to inform various groups across the public sector including: the Local Government Directors of Finance (Scotland) Group and the Scottish Local Authorities Chief Internal Auditors Group.

Responsibilities for preventing and detecting fraud

46. Councils are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. They are also responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
47. The auditor is required to review those arrangements as part of their responsibility for assessing the suitability and effectiveness of the council's corporate governance arrangements, as required by the Code of Audit Practice. External auditor reports have not identified any weaknesses in the council's overall arrangements for the prevention and detection of fraud.
48. The previous external auditor reported in 2011/12, 2012/13 and 2013/14 that system reconciliations were an improvement area for management to address, although the issues raised were not specifically in relation to either the construction system or the fleet management system. Management agreed to document the key reconciliations that are undertaken around the various financial and non-financial systems operated by the council and to review the sufficiency of each reconciliation and implement an improvement action where required. The external auditor also reported in 2011/12 that the council did not undertake supplier statement reconciliations, with management agreeing that this would be implemented on a sample basis. The reports on the audits of 2014/15 and 2015/16 did not highlight any issues in relation to these areas.
49. As referred to at paragraph 1, the current external auditor, appointed in 2016/17, reported on the fraud in her latest annual audit report.

Audit conclusions

50. Failures in fundamental controls within the council allowed this fraud to continue over a prolonged period. From the 57 fraudulent transactions only two were detected by the control systems in operation and resulted in the investigations.
51. On discovering the fraud appropriate action was taken by management as follows:
 - individual - immediately suspended and access to systems removed. Disciplinary meeting held timeously where the employee resigned.
 - investigations - the review undertaken were appropriately scoped to provide evidence of the fraudulent payments; identify the control weaknesses; and provide assurance that no further frauds had occurred.
 - Police Scotland - informed timeously of the council's findings from the reviews and co-operated with the investigations. This resulted in the individual pleading guilty to the embezzlement of £1,065,085 from the council and he was sentenced to 5 years 4 months imprisonment.
 - recovery of fraudulent payments - full recovery of the loss has been achieved with the exception of the £10,000 policy excess and £8,663 of PwC fees.
 - control improvements - recommendations arising from the two PwC reviews have been implemented with the exception of system and process documentation which is nearing completion and is linked with the implementation of the new construction system which is planned to go live in August 2018. Follow-ups to the PwC reports are to be incorporated into internal audit's 2018/19 plan to provide assurance that the implemented controls are operating effectively.
52. The wider lesson from this incident, for other councils to consider, is the importance of key internal controls. These are documented in Appendix 3 and cover areas such as: segregation of duties (including user access rights); effective reconciliations; system documentation; and effective budget monitoring.

Appendix 1 - PwC recommendations

Ref.	Findings	Recommendations
1.	<p>Restricted access for privileged system users</p> <p>The method used to process the fraudulent payments was the result of over-reliance on a single individual within IT who abused his privileged access rights. The user had access to systems right across the purchase to payable cycle and was able to use that access to execute the fraud.</p>	<p>Restricting system access rights, and, where possible, segregating responsibilities, limits the ability of any one user being able to bypass system enforced segregation of duties controls.</p> <p>An analysis should be undertaken across the council's financially significant systems, to identify all system administrators and super-users. Where conflicting access rights exist, these access rights should either be segregated or, if segregation is not possible, then monitoring of that user's access should be implemented.</p> <p>The next step is to undertake a wider review of system access for all users across financially significant systems, focusing on identifying potential segregation of duties conflicts and defining the access users require for their job role and responsibilities.</p>
2.	<p>Interface reconciliations</p> <p>It is our view that effective interface reconciliation controls may have helped identify the fraudulent transactions earlier.</p>	<p>Controls should be implemented to verify the completeness and accuracy of the data being interfaced between sub-systems and the general ledger. Any differences identified should be investigated and resolved.</p>

Ref.	Findings	Recommendations
3.	<p>Balance sheet reconciliations</p> <p>DCC did not conduct a balance sheet reconciliation from the Tranman subsystem to the general ledger. Such a reconciliation would have shown the fraudulent invoices 'routed' through this system.</p> <p>DCC did conduct a balance sheet reconciliation for the construction sub-system but this was an ineffective control.</p>	<p>It is recommended that DCC reconsider the balance sheet reconciliations that they are performing to determine if there are any missing reconciliations (such as the Tranman reconciliation) and whether the reconciliations that are currently taking place are effective.</p>
4.	<p>Supplier statement reconciliations</p> <p>DCC did not conduct any supplier statement reconciliations on the supplier accounts that MC placed his false invoices into.</p> <p>While it is accepted that this may not be practicable for the construction subcontractors, a monthly supplier statement reconciliation of the Scottish Fuels account should have revealed the fraudulent invoices that were 'routed' through the Tranman subsystem.</p>	<p>It is accepted that conducting supplier statement reconciliations is resource intensive, but we recommend that DCC consider whether they could conduct reconciliations on key supplier accounts, where it would be easiest to 'hide' fraudulent invoices.</p>
5.	<p>System limitations</p> <p>It is clear that the limitations of the current construction sub-system, DCS, have had a pervasive impact across the control environment, undermining the effective operation of segregation of duties, interface, and balance sheet reconciliation controls.</p> <p>Management have identified that the system is no longer fit for purpose and the process is underway to procure a new construction sub-system to replace the existing construction sub-system.</p>	<p>Until a new construction sub-system can be procured and implemented, management will need to consider the practicalities of developing a short-term fix to address these issues.</p>

Ref.	Findings	Recommendations
6.	<p data-bbox="260 264 770 297">System and process documentation</p> <p data-bbox="260 315 839 477">DCC do not have detailed system notes and mapping which articulate the flow of transactions and sets out how the interfaces work.</p> <p data-bbox="260 495 839 1081">This lack of documentation, while not a factor in enabling the fraud, was a contributing factor in the difficulty in tracking the accounting entries, as DCC could not demonstrate how the accounting systems actually worked. In order to gain an understanding of how the processes were working, PwC had to track entries through the systems, seeking to understand on a step-by-step basis what was happening at each stage of the process. This task, which was time consuming and labour intensive, would have been significantly streamlined had systems documentation been available.</p> <p data-bbox="260 1099 839 1258">This lack of documentation places DCC at increased operational and financial risk should an unexpected event befall any of its IT systems in future.</p>	<p data-bbox="871 264 1426 477">DCC should document the processes and accounting pathways for each of its systems to ensure that they have a record of how these systems operate for future reference.</p>

Source: PwC report Phase 1

Appendix 2 - Timeline

Date	Event
27 April 2016	Invoice added to system marked Prompt Payment.
20 May 2016	Finance doing year-end work and noticed one payment had no invoice or remittance slip.
23 May 2016	On investigation data was going missing from live system, and call logged with IT.
24 May 2016	IT officer assigned call and spoke to finance staff: trace put on payment.
25 May 2016	IT officer advises payment was made into his bank account in error and this money would be refunded into the council's bank account.
26 May 2016	IT officer is suspended from duties and all access to buildings and computer systems is disabled.
30 May 2016	Police Scotland notified of the incident.
6 June 2016	PwC discussion around scope of work for Phase 1 review.
9 June 2016	A formal disciplinary meeting arranged – IT officer resigns from his post.
13 June 2016	Council Leader, Depute Leader and Group Secretary advised of incident.
14 June 2016	PwC begin working with the council.
July to Oct 2016	Chair of Scrutiny Committee and other senior politicians briefed on fraud and action being taken.
6 October 2016	Police Scotland advise officers of fraudulent payment pre 2012.
26 October 2016	PwC report to officers on fraud - Phase 1.
27 October 2016	Briefing with senior politicians from cross parties.
2 November 2016	Briefing for senior politicians and the Administration Group
19 December 2016	Agreed scope of work for Phase 2 of PwC investigation.
19 April 2017	Scrutiny Committee Members briefing on fraud.
1 June 2017	PwC report to officers on Phase 2.
2 August 2017	Individual pleads guilty to embezzling £1.065 million.
24 August 2017	Individual sentenced to 5 years 4 months imprisonment.
5 December 2017	Members briefing on fraud.
13 December 2017	Report to Scrutiny Committee on fraud

Appendix 3 - Lessons for other councils to consider

While the fraud was complex, weaknesses in the council's key internal controls, facilitated the fraud and meant that it was not detected for some time. Other councils could learn lessons from this incident. They should consider whether the following fundamental internal controls are operating effectively:

- segregation of duties: ensuring access to systems are restricted to appropriate levels (to negate the possibility of individuals processing transactions all the way through the payments process).
- reconciliations: ensuring feeder systems are effectively reconciled to other systems (eg general ledger); using third party information (supplier's statements) and reconciling with payment systems.
- system documentation: system documentation should be maintained which details key controls to be carried out by staff to prevent fraud or error.
- budget monitoring: budget monitoring should be at a level that would allow budget holders to identify anomalous payments at an early stage.

2016/17 Audit of Dundee City Council

Report on a significant fraud

This report is available in PDF and RTF formats, along with a podcast summary at:

www.audit-scotland.gov.uk 

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500

or info@audit-scotland.gov.uk 

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN

T: 0131 625 1500 E: info@audit-scotland.gov.uk 

www.audit-scotland.gov.uk 

ISBN 978 1 911494 49 2