

**To: Audit, Scrutiny and Petitions Board**

**On: 19 September 2016**

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**Report by: Chief Auditor**

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**Heading: Internal Audit and Counter Fraud Progress and Performance for  
Period to 30 June 2016**

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**1. Summary**

- 1.1 The Internal Audit Annual Plan was approved by the Audit, Scrutiny and Petitions Board on 21 March 2016. Normally, Internal Audit measures the progress and performance of the team on a regular basis using a range of performance indicators and reports these to members as part of this report. However, since we are currently transferring over to a revised audit management system, only the percentage of Audit Plan completion performance indicator is available for the period 1 April 2016 to 30 June 2016.
- 1.2 The Internal Audit Plan is intended to be sufficiently flexible to deal with unplanned investigations and emerging priorities. An assessment of the resources required for these activities has been undertaken. This report recommends changes to the Audit Plan to accommodate increased resources being targeted towards further anticipated unplanned work.
- 1.3 In terms of Counter Fraud, the current focus in this area is establishing the priorities for this new team and therefore it has been agreed with the Director of Finance and Resources that no performance targets will be established for 2016/17.
- 1.4 The report details progress against local and national initiatives involving Internal Audit and the Counter Fraud Team from 1 April 2016 to 30 June 2016.

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## 2. **Recommendations**

- 2.1 Members are invited to note the Internal Audit and Counter Fraud Team progress and performance to 30 June 2016.
- 2.2 Members are asked to approve the proposed changes to the internal audit plan.

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## 3. **Background**

- 3.1 The progress and performance of the Internal Audit and Counter Fraud Team is usually subject to regular monitoring using a number of performance measures. However, we are currently transferring over to a new audit management system and therefore in order to avoid duplication of effort by populating two systems with the 2016/17 Audit Plan, it was decided that only the Percentage of Audit Plan completion indicator would be prepared. This is because all the indicators would have to be prepared manually. The Director of Finance and Resources has set annual targets for the team to demonstrate continuous improvement.
- 3.2 The Internal Audit Plan is intended to be sufficiently flexible to deal with unplanned investigations and emerging priorities. It has been identified that the current planned resource will not be sufficient to accommodate the resource required for the remainder of the year.
- 3.3 This report provides members with the progress and performance of both the Internal Audit and Counter Fraud Team for the period from 1 April 2016 to 30 June 2016.
- 3.4 Internal Audit and the Counter Fraud Team support a variety of local and national initiatives through participation in professional practitioner groups and co-ordination of national initiatives such as the National Fraud Initiative.

#### **4. Internal Audit Team Performance**

##### **(a) Percentage of audit plan completed as at 30 June 2016**

This measures the degree to which the Audit plan has been completed

<b>Actual 2015/16</b>	<b>Annual Target 2016/17</b>	<b>Audit Plan Completion Target to 30 June 2016</b>	<b>Actual to 30 June 2016</b>
95.1%	95.0%	20.0%	21.0%

Actual performance is currently ahead of target. This is mainly due to focus being on completing last year's outstanding audits and also as a result of our investigation budgeted time being included as part of the operational audit time. Internal Audit management will closely monitor the audit plan completion progress throughout 2016/17.

#### **5. Proposed amendments to the 2016/17 Internal Audit Plan**

- 5.1 The 2016/17 Internal Audit Plan provides for 100 days of resource directed towards unplanned investigative work and 209 days for project, consultancy and emerging priorities.
- 5.2 There has been a higher proportion of investigations undertaken between April and July than would normally be anticipated, which has resulted in the investigation resource being 80% used. It is anticipated that an additional 100 days will be required to meet the anticipated demand to 31 March 2017.
- 5.3 At the time of planning it was anticipated that Internal Audit would provide consultancy support in relation to process redesign during the implementation stage of the Enterprise Resource Planning project. To date the team has had significant involvement in the design workshops and the project board.
- 5.4 Following on from a structured session led by the Police Scotland National Counter Corruption Unit which was delivered to Chief Officers and other key personnel from across the Council based on case studies involving public sector fraud, corruption, abuse of position and poor contract management, it has become an emerging priority to ensure that the Council's processes are sufficiently robust to mitigate these risks. As a result, Internal Audit has been working in partnership with the Police Scotland Counter Corruption Unit Auditor to develop an action plan which will be taken forward and monitored by the Council's Integrity Group.

- 5.5 Both of the above areas of work have required a higher than anticipated use of contingency / consultancy time than would normally be expected at this time of year. As a result, the contingency resource allocated at the time of planning is currently 70% used. It is anticipated that an additional 50 days will be required to meet the anticipated demand to 31 March 2017.
- 5.6 Internal Audit staff assist at election events and there is time in the plan to accommodate this. To date, however, more resource than anticipated has been used, given the number of election events and the number of staff called upon to assist.
- 5.7 As a result, the following planned reviews contained on the Audit Plan are recommended for cancellation at this stage. The 130 days will be reallocated to meet the anticipated demand for investigations and contingency / consultancy work:
- Governance of ALEOs
  - Trading Standards
  - Carbon Management
  - Housing Benefit and CTR
  - Programme Management – Option Appraisal
  - HR Policies and Procedures
- 5.8 The additional 20 days required will be achieved through a targeted review of prior year recommendations and anticipated savings on some planned reviews.
- 5.9 The additional resources being transferred to investigations and contingency will be regularly monitored and should the revised budget not be required, the above audits recommended for cancellation will be reinstated to the plan on a priority basis.

## **6. External Quality Assessment**

- 6.1 The Public Sector Internal Audit Standards require that an external quality assessment is undertaken at least once every 5 years. The Board agreed to participate in the Scottish Local Authorities Chief Internal Auditors' Group peer review framework in March 2014.
- 6.2 The review is being undertaken by West Lothian Council and the self assessment checklist and supporting evidence has been submitted to the review team for assessment against the standards. A report will be brought to a future Board meeting on the outcome of the external quality assessment.

## **7. Counter Fraud Team Progress and Performance**

- 7.1 The Housing Benefit investigation work transferred to the Department for Work & Pensions' (DWP) Single Fraud Investigation Service

officially from 1 March 2016. Similarly with the majority of other Local Authorities, a Corporate Counter Fraud Resource has now been established within the Internal Audit Service consisting of two Counter Fraud Officers with one of the Internal Auditors being seconded to lead the establishment of the team.

7.2 Per the Service Level Agreement with the DWP, there is a requirement for an Officer to act as the Single Point of Contact (SPOC) to route potential fraud referrals to them, liaise with the Council's Housing Benefit Team and DWP Fraud Officers and retrieve the necessary evidence for the DWP Fraud Officers from the Housing Benefit System. The resource that has been required for this role since March is one FTE Counter Fraud Officer.

7.3 The remainder of the Corporate Counter Fraud resource is currently focusing on reviewing the Council functions to determine the areas where there is a potential for fraud to incur and also investigating non-benefit fraud referrals received to date in areas such as council tax reduction, tenancy and education.

7.4 The focus of the work for the remainder of the year will be on ensuring that there are adequate policies and procedures in place to support the counter fraud agenda.

## **8. Scottish Local Authorities Chief Internal Auditors' Group**

Each year, SLACIAG produces an Annual Report highlighting achievements and ongoing workstreams and a copy of the report for 2015/16 is attached at Appendix 1 for information.

## **9. Local and National Initiatives**

9.1 As the current Chair of the Scottish Local Authorities Chief Internal Auditors' Group, which is a special interest group of CIPFA, there is a requirement for the Chief Auditor to attend the CIPFA Branch Executive meetings.

9.2 The Chief Auditor attended her first meeting of this group in August and provided an update on progress of the participants in the External Quality Assessment peer review framework.

9.3 In addition, there was discussion around CIPFA developing an accredited Counter Fraud qualification suitable for Scottish Local Authority Counter Fraud Officers. As no such qualification currently exists feedback was positive and discussions are continuing.

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## Implications of the Report

1. **Financial** - The Council has in place arrangements to recover the any overpayments identified from the work of the Counter Fraud Team and the National Fraud Initiative.
2. **HR & Organisational Development** - None
3. **Community Planning – Safer and Stronger** - effective internal audit is an important element of good corporate governance.
4. **Legal** - None
5. **Property/Assets** - None
6. **Information Technology** - None
7. **Equality & Human Rights**
  - (a) The Recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report. If required following implementation, the actual impact of the recommendations and the mitigating actions will be reviewed and monitored, and the results of the assessment will be published on the Council's website.
8. **Health & Safety** – None
9. **Procurement** - None
10. **Risk** - The progress and performance reported relates to the delivery of the risk-based internal audit plan and the mitigation of the risk of fraud and error.
11. **Privacy Impact** – None

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## **ANNUAL REPORT FROM THE CHAIR – 2015**

### **1. INTRODUCTION**

- 1.1 Membership of the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) is made up of the Heads of Internal Audit from each Scottish Local Authority and Strathclyde Partnership for Transport. The Group is a Special Interest Group of CIPFA Scotland, with operational arrangements, vision, and objectives set out in a formal Constitution.
- 1.2 The Group's vision is to be the voice of Internal Audit across Scottish Local Authorities and a driving force for best practice in respect of local authority and public transport bodies internal audit, governance, and operations. In support of that vision the Group has the following objectives:
- To secure a quality and responsive service for members of the group ;
  - To develop the influence of the group with key decision makers and institutions in Scotland, as the key representative body for internal audit in local government with a particular emphasis on governance, risk, control and assurance matters;
  - To strengthen links and build long term relationships across the internal audit community within the public service;
  - To provide an effective group for the discussion of issues of common concern, sharing of good practice and commissioner of work to develop advanced practice
  - To consider the development and training needs of our people as a collective to ensure that the best available products are procured at the best price
  - To uphold the groups key values including: Respect; Openness and Honesty; Adding Value; Professional Team working; Sharing Best Practice; Integrity; Continuous Improvement.
- 1.3 One of the Group's previous objectives to seek statutory recognition for the role of Internal Audit in Scotland has been achieved through The Local Authority Accounts (Scotland) Regulations 2014 which came into force on 10 October 2014. The regulations require a local authority to operate a professional and objective internal auditing service. This service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector. The standards require internal audit to have suitable operational independence from the authority.
- 1.4 The purpose of this Annual Report to key stakeholders is to provide an update on the Group's activities and achievements over the course of 2015.

### **2. SLACIAG ACTIVITY AND ACHIEVEMENTS DURING 2015**

- 2.1 SLACIAG met four times during 2015:
- 20 March 2015 – hosted by East Ayrshire Council;
  - 8 and 9 June 2015 – SLACIAG Conference in Dundee;
  - 18 September 2015 – hosted by Renfrewshire Council; and
  - 27 November 2015 – hosted by Falkirk Council.
- 2.2 All of the meetings were very well attended, re-affirming the value of the Group to members through the variety of topics considered by the Group over the course of the year and the calibre of speakers who attended and presented. This is particularly pleasing at a time of such significant change across Local Government generally and for Internal Audit in particular. The membership of SLACIAG also continues to change, with new members joining and an ever increasing emphasis on the involvement of members of Internal Audit teams as well as Heads of Internal Audit.
- 2.3 As usual, the Group held its Annual General Meeting in March 2015. At that meeting the Treasurer, Kenneth Ribbons of West Lothian Council, provided an update on the Group's finances, which continue to show a healthy financial position. This allowed rates for attendance at the June 2015 Conference to be held at a level which offered very good value, enabled support for training provision, and allowed subscriptions to be held at the same rate.

- 2.4 As well as allowing the Group to conduct its AGM business, the March meeting provided the opportunity to continue some of the themes from the previous year including corporate fraud and health and social care integration. Owen Smith of Audit Scotland gave his perspective on the 2014/15 National Fraud Initiative exercise. Laura Friel, Corporate Director - Finance and Corporate Support of North Ayrshire Council, spoke very enthusiastically and positively about the integration work being undertaken, both at a local and a national level.
- 2.5 SLACIAG's biennial Conference on 8 and 9 June 2015 in Dundee, which had a theme of 'Transforming Internal Audit' was very positive and productive. Over the two days, around 60 day and residential delegates (including Heads of Internal Audit and members of their teams) heard from a range of engaging and entertaining speakers and participated in workshop sessions aimed at exploring various topics in more detail.
- 2.6 Tracy Forth, Intelligence Team Leader, National Anti-Fraud Network (NAFN) enlightened the delegates on the resources and services provided by NAFN which was followed by a workshop on how these could be utilised within our counter fraud practices to positive effect.
- 2.7 Andrea Calder, Corporate Improvement Manager, Dundee City Council, and Colin O'Kane, Senior Business Improvement Analyst, ACCA, provided their own perspectives, insights and experiences of Transformational Change in Scottish Local Government covering risks, challenges and opportunities, and the role of internal audit.
- 2.8 Brian Moore, Chief Officer Health & Social Care Partnership, Inverclyde Council, gave his Chief Officer perspective on Health and Social Care Integration and the role of Internal Audit. The success of the Conference was not only down to the quality of the speakers, but also the relevance of the topics to life as a Local Government Internal Auditor. This was used as a platform for future meetings.
- 2.9 The morning of Day 2 of the Conference focussed on our own teams and individuals to consider the challenges facing Internal Audit, the management of client expectations, and how Internal Audit can demonstrate added value. Tree of Knowledge came recommended by many of our employing organisations so we asked for their involvement. Gavin Oattes brought a fresh perspective to the conference, engaging and energising the delegates with his presentation style, whilst focusing our thoughts towards how we can effectively meet the challenges ahead.
- 2.10 Probably the most significant development during 2015 was the inaugural meeting in September 2015 of the Heads of Internal Audit from NHS Boards joining SLACIAG members to share our thoughts on the implications of Health and Social Care Integration for our organisations and our internal audit services. Paul Leak of the Scottish Government joined the Group and our colleagues to get to grips with the risks, challenges and opportunities associated with Health and Social Care Integration, and we used the opportunity to talk about the evolving regulations and guidance, as well as some of the issues to be considered by Internal Audit both pre and post implementation. It was agreed that there would be an annual joint LA/NHS Heads of Internal Audit meeting in September to discuss integration matters.
- 2.11 2015 was also a pivotal year in relation to the implementation across a number of Councils of the SLACIAG peer review approach to External Quality Assessment to meet the 2013 Public Sector Internal Audit Standards requirement that Internal Audit sections undergo periodic (at least 5 yearly) external assessment against the Standards. This was discussed at the November 2015 meeting. Over the course of 2016 and subsequent years this approach will continue to be rolled out to all remaining Councils willing to participate, and a timetable for this programme has been agreed.
- 2.12 Another significant development during 2015 was the Scottish Local Authority Investigators Group (SLAIG), which was formerly affiliated to IRRV, becoming the corporate fraud sub-group of SLACIAG. The synergies are apparent given the renewed corporate fraud focus in the public sector and the extent to which Internal Audit can input into prevention and detection of fraud within their organisations (particularly where there is shared responsibility across Internal Audit and Corporate Fraud teams). The mission statement of SLAIG, which consists of counter fraud practitioners from local authorities in Scotland, is to: Raise the profile of the counter fraud agenda; Share good practice; Raise awareness of the risk of fraud; and Ensure that fraud is investigated in a professional manner. SLAIG will provide a periodic update to the full meeting of SLACIAG on the work of their sub-group in accordance with SLACIAG's constitution.



- 2.13 The counter fraud theme continued at the November 2015 meeting when Fraser Paterson (National Counter Fraud Manager - Prevention) gave a very interesting presentation on the role of the NHS Counter Fraud Service, strategy including the 4D principles (deter, disable, detect, deal with), and the outcomes of some recent cases.
- 2.14 The Group continued to strive to source and provide value for money training and development for its members. The June 2015 Conference was an interactive event with participation in workshop sessions aimed at exploring various topics in more detail and it also provided an opportunity to identify specific training and development needs or themes. The Training Sub-Group arranged training events on Counter Bribery and Corruption and on Social Media provided by CIPFA in November 2015. Both events were very well attended, offered excellent value, and attracted positive feedback from delegates. Further opportunities for training and development will continue to be explored for members of SLACIAG and its computer audit and counter fraud Sub-Groups.

### **3. COMPUTER AUDIT SUB-GROUP**

- 3.1 The main aim of the Computer Audit Sub-Group (CASG), which is a permanent sub-group of SLACIAG, is to provide a forum to share and discuss computer audit practices and developments. This includes raising awareness of new standards, updates to legislation, new and current topics of interest, and computer audit developments, resources, and techniques. CASG meets three times per annum and the meetings, which are hosted by Councils, continue to cater for computer audit knowledge from novice through to professional level and were attended by auditors from Local Authorities as well as from Strathclyde Partnership for Transport and Scottish Water.
- 3.2 Meetings have included presentations and discussions on a range of topics with speakers from within and out-with the group. In the past year, presentation topics have included: Contract for outsourced IT services; Key Cyber Security Risks; Social Media; Audit of cloud computing; ICT resilience; Information Governance; Systems Security; The Digital Agenda; Public Sector Network compliance.

### **4. SUMMARY**

- 4.1 In summary, SLACIAG has had another very successful year, and I believe that, individually and collectively, the Group will continue to be at the forefront of developments, is well positioned to meet the considerable challenges of the future, and that our voice will continue to be heard as experts in matters of risk management, governance and control. Group members, in their Authorities, will continue to adapt as necessary to support their Board and Executive Management Teams to maintain delivery of well governed services in the context of reducing resources and significant transformation.
- 4.2 Specific challenges ahead for members and for the Group will include: implementing the full programme of peer review External Quality Assessments; the provision of a statutory internal audit service in conformance with the mandatory requirements of the PSIAS; and responding to strategic developments within the public sector, including Health and Social Care Integration. However, the groundwork has been laid through the development focus of our meetings and Conference which will place members in a strong position to meet those challenges going forward.
- 4.3 Finally, I would like to take this opportunity to thank the Committee and all Group members for their strong support and contributions during my two years as Chair, and wish the Group every success for the future.



**Jill Stacey (Chief Officer Audit and Risk, Scottish Borders Council)**  
**Chair of SLACIAG**  
**17 March 2016**