

To: Audit, Scrutiny and Petitions Board

On: 13 February 2017

Report by: Chief Auditor

**Heading: Internal Audit and Counter Fraud Progress and Performance for
Period to 31 December 2016**

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 (PIs) and reports these to members as part of this report. However, since we transferred over mid year to our revised audit management system and are still populating this system, the PIs have to be calculated manually and therefore only the percentage of Audit Plan completion performance indicator is available for the period 1 April 2016 to 31 December 2016.
- 1.2 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.
- 1.3 The report details progress against local and national initiatives involving Internal Audit and the Counter Fraud Team from 1 April 2016 to 31 December 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 31 December 2016.

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 have just transferred over to a new audit management system and 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. In the performance report at the end of June 2016, it was been identified that the current planned resource would not be sufficient to accommodate the resource required for certain categories of work for the remainder of the year and therefore changes were approved to the audit plan to accommodate this resource shortfall.
- 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 31 December 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 31 December 2016

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

Actual 2015/16	Annual Target 2016/17	Audit Plan Completion Target to 31 Dec 2016	Actual to 31 Dec 2016
95.1%	95.0%	66.5%	60.8%

Actual performance is below target. This is mainly due to a vacancy within the team. From February 2017, an experienced Internal Audit agency worker is being employed and further arrangements are currently being undertaken to rectify the resource gap.

5. Amendments to the 2016/17 Internal Audit Plan

- 5.1 As approved at the board meeting in September 2016, 6 audits have been cancelled and the 130 days have been reallocated to Contingency to assist with the additional time budget pressures due to the higher than anticipated level of investigations and consultancy support. The additional 20 days anticipated to be also required at this date have not been reallocated as the planned reviews where we anticipate time savings have not yet been concluded.
- 5.2 The level of investigations and consultancy work in the third quarter of the year still continued to be higher than anticipated. At the end of December 2016, there is approximately only 10 days remaining in the revised contingency time budget. Therefore, taking account of the additional 20 days above, the total contingency budget remaining for the final quarter of the year is currently 30 days. This budget will continue to be closely monitored by Internal Audit Management and the Board will be notified as soon as possible of any other actions agreed with the Director of Finance and Resources, or if any further revisions are required to the audit plan.

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 they have now conducted their on-site visit. They are currently finalising their outcome report and 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 In line with the Service level Agreement, the Counter Fraud Team act as the Single Point of Contact (SPOC) to route potential fraud referrals to the DWP, 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.
- 7.2 The remainder of the Corporate Counter Fraud resource is currently investigating non-benefit fraud referrals received to date in areas such as tenancy and education.
- 7.3 In addition, the work updating the policies and procedures in place to support has recommenced and it is intended to have a revised draft Strategy for the Prevention and Detection of Fraud and Corruption by March 2017.

- 7.4 We also participate in the Scottish Local Authorities Investigators Group. On behalf of this group, we are currently liaising with Colleagues in Legal and Democratic services to develop a draft Information Sharing Protocol which can be used by all Scottish Local Authorities to facilitate the sharing of information between Authorities for the purpose of the prevention of fraud.

8. Scottish Local Authorities Chief Internal Auditors' Group

- 8.1 At the last meeting in November, presentations were given by representatives from the Police Scotland's Corruption Unit on the work they have been undertaking in the Public Sector and also from the SEEMIS Group on the developments to the Education Management Information System used by all Local Authorities.

9. Local and National Initiatives

- 9.1 The work with CIPFA to adapt their accredited Counter Fraud qualification to be suitable for Scottish Local Authority Counter Fraud Officers is still ongoing.
- 9.2 Internal Audit are involved in the work of the Council's Integrity Group and the Group's action plan (largely based on Police Scotland's Vulnerability Risk Assessment for this Council) is currently being revised into a more concise format, enabling the progress in implementing the actions across the appropriate services to be tracked more easily.
- 9.3 We continue to be involved in the management and security of the Council's information and we have representation on the Information Security and Information Management Governance Groups.
- 9.4 We are awaiting the matches arising from participation in the National Fraud Initiative which require further investigation. These are due in February 2017 and the Internal Audit Service will be responsible for ensuring the appropriate investigations into the results are undertaken and that the outcomes are recorded.
- 9.4 Internal Audit continue to have an ongoing involvement in the new Enterprise Resource Planning Project with the Chief Auditor participating on the Project Board.

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

Author: Karen Campbell – 01416187016