

# Audit and Governance Committee Report



## 11 July 2012

Report of **Audit Manager**

Author: **Adrianna Partridge**

Telephone: **01235 547615**

Telephone: **01491 823544**

E-mail: **[adrianna.partridge@southandvale.gov.uk](mailto:adrianna.partridge@southandvale.gov.uk)**

Cabinet member responsible: **Councillor Matthew Barber**

Telephone: **07816 481452**

E-mail: **[matthew.barber@whitehorsedc.gov.uk](mailto:matthew.barber@whitehorsedc.gov.uk)**

To: Audit and Governance Committee

DATE: 11 July 2012

## Internal audit activity report quarter one 2012/2013

### Recommendation

That members note the content of the report

### Purpose of Report

1. The purpose of this report is to summarise the outcomes of recent internal audit activity for the committee to consider. The committee is asked to review the report and the main issues arising, and seek assurance that action will be/has been taken where necessary.
2. The contact officer for this report is Adrianna Partridge, Audit Manager for South Oxfordshire District Council and Vale of White Horse District Council, telephone (SODC) 01491 823544 and (VWHDC) 01235 547615.

### Strategic Objectives

3. Managing our business effectively.

## Background

4. Internal audit is an independent assurance function that primarily provides an objective opinion on the degree to which the internal control environment supports and promotes the achievements of the Council's objectives. It assists the Council by evaluating the adequacy of governance, risk management, controls and use of resources through its planned audit work, and recommending improvements where necessary. After each audit assignment, internal audit has a duty to report to management its findings on the control environment and risk exposure, and recommend changes for improvements where applicable. Managers are responsible for considering audit reports and taking the appropriate action to address control weaknesses.

5. Assurance ratings given by internal audit indicate the following:

**Full Assurance:** There is a sound system of internal control designed to meet the system objectives and the controls are being consistently applied.

**Satisfactory Assurance:** There is basically a sound system of internal control although there are some minor weaknesses and/or there is evidence that the level of non-compliance may put some minor system objectives at risk.

**Limited Assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.

**Nil Assurance:** Control is weak leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

6. Each recommendation is given one of the following risk ratings:

**High Risk:** Fundamental control weakness for senior management action

**Medium Risk:** Other control weakness for local management action

**Low Risk:** Recommended best practice to improve overall control

## 2012/2013 Audit Reports

7. Since the last Audit and Governance Committee meeting, the following audits and follow up reviews have been completed:

### Completed Audits

Full Assurance: 2

Satisfactory Assurance: 6

Limited Assurance: 2

Nil Assurance: 0

	Page Ref	Assurance Rating	No. of Recs.	High Risk Recs.	No. Agreed	Medium Risk Recs.	No. Agreed	Low Risk Recs.	No. Agreed
Sundry Debtors 11/12	N/A	Full	3	0	0	0	0	3	3
HR Pro 11/12	N/A	Limited	6	2	1	2	2	2	2
Capital Accounting 11/12	N/A	Satisfactory	7	0	0	3	3	4	4
Pro-active Anti-fraud 11/12	Page 146	Limited	3	3	3	0	0	0	0
Housing and Council Tax Benefit 11/12	N/A	Full	4	0	0	0	0	4	3
Creditor Payments 11/12	N/A	Satisfactory	6	0	0	3	2	3	2
Treasury Management 11/12	N/A	Satisfactory	5	0	0	0	0	5	5
Verification of Pls 11/12	N/A	Satisfactory	8	0	0	1	1	7	6
Groupwise/ Exchange Procurement 11/12	N/A	Satisfactory	2	1	1	1	1	0	0
Emergency Planning 12/13	N/A	Satisfactory	4	0	0	1	1	3	3

#### Follow Up Reviews

	Page Ref	Original Assurance Given	No. of Recs	Implemented	Partly Implemented	Not Implemented	Ongoing
Grounds Maintenance 11/12	N/A	Satisfactory	12	4	0	8	0
Car Parks 11/12	N/A	Satisfactory	9	4	2	3	0

<b>Cash Office 11/12</b>	<b>N/A</b>	<b>Limited</b>	<b>13</b>	12	1	0	0
<b>Planning Fees 11/12</b>	<b>N/A</b>	<b>Full</b>	<b>2</b>	1	0	1	0
<b>ICT 12/13</b>	<b>N/A</b>	<b>Limited</b>	<b>6</b>	2	1	3	0

8. **Appendix 1** of this report sets out the key points and findings relating to the pro-active anti-fraud review. Due to the lengthy July committee agenda, the chairman of the audit and governance committee has requested that members focus on this report only and any questions/comments members have on the other reports will be answered as part of the 'comments on internal audit reports not presented to committee quarter one 2012/2013' report.
9. Members of the committee are asked to seek assurance from the internal audit report and/or respective managers that the agreed actions have been or will be undertaken where necessary.
10. A copy of each report has been sent to the appropriate service manager, the relevant strategic director, the section 151 officer and the relevant member portfolio holder. In addition to the above arrangements, reports are now published on the council intranet and committee members are alerted by e-mail when reports are published.
11. Internal audit continues to carry out a six month follow up on all non-financial audits to establish the implementation status of agreed recommendations. All key financial system recommendations are followed up as part of the annual assurance cycle.

## **Systemic Control Weaknesses**

12. **Appendix 2** of this report sets out weaknesses which have been identified within planned audits which internal audit consider to be systemic within the council. Every recommendation made by internal audit since April 2010 has been logged within a recommendation register according to an Institute of Internal Auditors control type definition, and a point system has been used - 1 point for a low risk recommendation, 2 points for a medium risk recommendation and 3 points for a high risk recommendation. The points have been totalled against each control type, and the top 10% control weaknesses which occur across a number of operational areas have been listed as a systemic control weakness. The table will be reviewed and updated by the audit manager, head of finance and the strategic director (section 151 officer) on an ongoing basis, and will be used to inform the annual audit plan and the scope of individual reviews

## **Financial Implications**

13. There are no financial implications attached to this report.

## **Legal Implications**

14. None.

## **Risks**

15. Identification of risk is an integral part of all audits.

ADRIANNA PARTRIDGE  
AUDIT MANAGER

# **1. PRO-ACTIVE ANTI-FRAUD 2011/2012**

## **1. INTRODUCTION**

- 1.1 The fieldwork for this audit was undertaken in March 2012 and the final report was issued on 4 April 2012.
- 1.2 The following areas have been covered during the course of this review to provide assurance that:
- Anti-fraud and corruption controls within council systems and associated functions are sufficient to identify and reject false transactions/exceptions/data entry errors.
  - Upon a data entry being identified as inappropriate/unauthorised, management review the data and the appropriate action is taken within the system.
  - Any remedial action is taken promptly by management, clearly documented and where appropriate reported to the Section 151 Officer and internal audit.
  - Management are taking action to enhance the anti-fraud and controls within the system where ongoing issues are identified.

## **2. BACKGROUND**

- 2.1 The council has a joint anti-fraud, bribery and corruption policy with the South Oxfordshire District Council, which was approved by Cabinet on 8 February 2010. The policy was reviewed and updated last in November 2011. This is supported by an anti-fraud and corruption response plan covering how the council should respond to suspected or apparent irregularities, fraud or corruption.

## **3. PREVIOUS AUDIT REPORTS**

- 3.1 Pro-active anti fraud review was last subject to an internal audit review in May 2011 and three recommendations were raised. A satisfactory assurance opinion was issued.
- 3.2 All three recommendations raised in the 2010/2011 review were found to be implemented based on the checks made in the current review.

## **4. 2011/2012 AUDIT ASSURANCE**

- 4.1 **Limited Assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.
- 4.2 Three High risk recommendations have been raised in this review.

## **5. MAIN FINDINGS**

### **5.1 Overall**

- 5.1.1 Internal audit identified nine tests that would be appropriate to carry out and

submit fraudulent activity into the council's systems in order to check that systems are in place to identify and appropriately manage fraudulent activity. The tests were checked and approved by the audit manager and the strategic director (s151 officer) prior to their initiation.

- 5.1.2 One test regarding expenses claim was not carried out as internal audit discovered that the claim form is required to be signed by the opticians prior to submission to HR.
- 5.1.3 The eight tests carried out included three fraudulent invoices for payments made through the accounts payable module of Agresso, a dummy member and officer expense claim, a false request to change an officers bank details on the payroll system, a dummy request for a new IT user and inappropriate car parking.
- 5.1.4 Of the eight tests undertaken, internal audit established that five were appropriately checked and identified as suspicious and were not fulfilled. Of the remaining three tests, one was for members' claim being submitted for payment without appropriate checks; another for an officer's bank details being changed on the payroll system without confirmation from the officer; and the third for internal audit parking their car in a car park using an invalid parking permit.

## 5.2 **Specific findings**

- 5.2.1 A dummy invoice for a fictitious business was submitted directly to Capita. During the review, internal audit monitored the Agresso accounts payable module to check any activity for the dummy invoice. After one month of monitoring no details were found on the module regarding this fictitious business. Internal audit was satisfied that the invoice was not processed by Capita. No recommendations have been made as a result of our work in this area.
- 5.2.2 A dummy invoice for an existing supplier was submitted to the council. During the review, internal audit monitored the Agresso accounts payable module to check any activity for the dummy invoice. After one month of monitoring no details were found on the module regarding the invoice. Internal audit was satisfied that the invoice was not processed by the council. No recommendations have been made as a result of our work in this area.
- 5.2.3 A duplicate of a recent invoice was submitted to directly to Capita. During the review internal audit monitored the Agresso accounts payable module to check if the duplicate invoice was registered. After one month of monitoring no details were found on the module regarding any duplicate invoices being registered. Internal audit was satisfied that the invoice was not processed by Capita. No recommendations have been made as a result of our work in this area.
- 5.2.4 Testing of submitting a fraudulent payment voucher for sight test was not carried out as it was established that officers are required to get the payment voucher signed by the optician, prior to submitting it to HR. No recommendations have been made as a result of our work in this area.

- 5.2.5 In order to test checks made on members' claims, the chairman of the audit and corporate governance committee agreed to submit an expense item for a meeting which was not attended and claim excess mileage. The fraudulent claim was queried by democratic services with the member on the meeting which was not attended, but not for the excess mileage. Internal audit established from the democratic services manager that he did not require his officers to check the mileage and only if members' attended the meeting or not. One recommendation has been made as a result of our work in this area (Rec 1).
- 5.2.6 In order to test checks made on officers' claims, a non-finance officer agreed to submit an expense item without a receipt. The fraudulent claim was queried with their line manager and subsequently rejected. Internal audit was satisfied that the expense claim was not authorised by the line manager. No recommendations have been made as a result of our work in this area.
- 5.2.7 A paper request to change an officers bank details was submitted to payroll with a scanned signature. The request was not verified with the officer who it appeared to be from and the details were changed on the payroll system. Internal audit contacted Capita and the bank details were changed back. One recommendation has been made as a result of our work in this area (Rec 2).
- 5.2.8 A request to create a fictitious new IT user within internal audit was submitted to the helpdesk. The IT team checked with both the head of service and the audit manager to establish if the request was valid and was subsequently identified as an audit test. Internal audit was satisfied that the user was not created. No recommendations have been made as a result of our work in this area.
- 5.2.9 Internal audit parked their car in the cattle market car park, which requires a permit that costs £240.00 per annum, for one week (30 January 2012 to 3 February 2012). Internal audit used the permit which does not permit them to park in that car park. After the week, internal audit did not receive a parking ticket. Internal audit obtained from the car parks manager the parking attendant's schedule and established that the car should have been given a ticket on two separate occasions during that week. One recommendation has been made as a result of our work in this area (Rec 3).

## 6. CATEGORISATION OF RECOMMENDATIONS

- 6.1 To assist management in using our reports, we have categorised our recommendations according to their level of priority as follows:

<b>High Risk</b>	Fundamental control weakness for senior management action	<b>(Recs 1, 2 and 3)</b>
<b>Medium Risk</b>	Other control weakness for local management action	
<b>Low Risk</b>	Recommended best practice to improve overall control	

# OBSERVATIONS AND RECOMMENDATIONS

## PRO-ACTIVE ANTI FRAUD REVIEW

### 1. Members' claim form checks

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> All members' expense claim forms are checked to ensure that the mileage claimed for is appropriate.</p> <p><u>Findings</u> Internal audit contacted the chairman of the audit and governance committee, requesting the submission of a fraudulent members' expense claim form, to which he agreed. Internal audit established that the chairman submitted two fraudulent claims on the expense form, one was a meeting he did not attend and the other was excess mileage. Democratic services failed to notice the excess mileage claimed.</p> <p>The democratic services manager stated that the officers are only expected to check if members attended the meeting, not their mileage.</p> <p><u>Risk</u> If members' expense claim forms are not checked, there is a risk that members could be claiming more mileage than they are entitled to resulting in a financial loss to the council.</p>	<p>Officers within democratic services should be instructed to check members' mileage when receiving an expense claim form before authorisation and submission to Capita.</p>	<p>Democratic services manager</p>
<b>Management Response</b>		<b>Implementation Date</b>
<p>Recommendation is <b>Agreed in Principle</b> Procedure for checking councillors' mileage claims to be prepared by democratic services manager and agreed by management team.</p> <p>Management Response: Head of legal and democratic services</p>		<p>1 July 2012</p>

## 2. Change request verification

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Capita verify all change requests received through the post, if electronic signature is used.</p> <p><u>Findings</u> Internal audit submitted a fraudulent bank detail request through the post using an officers' electronic signature. Capita changed the bank details on the payroll system without verifying with the relevant officer.</p> <p><u>Risk</u> If change requests are not verified, there is a risk of fraudulent requests being undertaken and salaries being paid in the wrong bank account.</p>	<p>When bank detail change requests are received through the post using an electronic signature, Capita should contact the relevant officer and request confirmation of the change via email.</p>	<p>Capita Payroll</p>
<b>Management Response</b>		<b>Implementation Date</b>
<p>Recommendation is <b>Agreed</b> A control is now in place that bank details should only be accepted if we are notified by South/Vale HR. If bank details are received by any other method we will contact the relevant officer to check the validity.</p> <p>Management Response: Business Manager (Capita)</p>		<p>Implemented</p>

## 3. Parking permit

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> All car park attendants are fully looking at the parking permit, and producing tickets if the wrong permit is used.</p> <p><u>Findings</u> Internal audit parked their car in cattle market car park, using an invalid VWHDC parking permit. During the whole week, internal audit did not obtain a parking ticket for parking their car in the wrong car park. Internal audit established that the parking attendants monitored the car</p>	<p>All car park attendants check all parking permits appropriately and issue a ticket to all vehicles that are parked inappropriately.</p>	<p>Shared technical and facilities manager</p>

<p>park on two days and failed to spot that the permit was incorrect.</p> <p><u>Risk</u> If parking permits are not checked appropriately, there is a risk of council officers parking their vehicles in car parks they are not entitled to.</p>		
<b>Management Response</b>		<b>Implementation Date</b>
<p>Recommendation is <b>Agreed</b> All car park inspectors to be reminded during the next team meeting to double check location on permits.</p> <p>To discuss with Chipside contractors to establish if it is possible to review the wording on the permits to make the dates/locations bigger and/or clearer.</p> <p>Consider how we can do our own further 'mystery parker' checks on car park inspectors</p> <p>Management Response: Shared Technical and Facilities Manager</p>	<p>30 April 2012</p> <p>31 May 2012</p> <p>30 June 2012</p>	

# PRO-ACTIVE ANTI-FRAUD TESTING MATRIX

	Test 1	Test 2	Test 3	Test 4	Test 5	Test 6	Test 7	Test 8	Test 9
System or Application:	Agresso/Capita	Agresso/Capita	Agresso/Capita	Paper-Based Expenses	Members' Expense Claim	Officers' Expense Claim	Payroll Bank Details	Dummy ICT User Access	Inappropriate Car Parking
<b>Process</b>	<b>Accounts Payable</b>	<b>Accounts Payable</b>	<b>Accounts Payable</b>	<b>HR Monitoring</b>	<b>Democratic Monitoring</b>	<b>Online Expenses</b>	<b>Payroll</b>	<b>ICT Security</b>	<b>Car Park Permit</b>
Area:	Finance	Finance	Finance	HR/Payroll	Democratic/Payroll	HR/Payroll	HR/Payroll	ICT	Car Parks
Specific Test (Including any associated documentation, date of entry and initial contacts for the transactions)	<p>a) To submit to Capita, a dummy invoice for a new company to generate a fraudulent payment.</p> <p>b) If payment completed (or partially), request to delete supplier and check for audit trail on transaction history.</p>	<p>a) To submit a dummy invoice for a slight variant on an existing supplier with different address and bank details.</p> <p>b) If payment completed (or partially), request to delete supplier and check for audit trail on transaction history.</p>	<p>a) To submit to Capita, a duplicate invoice on a current supplier/invoice</p> <p>b) If payment completed (or partially), request to delete supplier and check for audit trail on transaction history.</p>	To submit to HR, a dummy payment voucher for sight test/other.	As part of the monthly members' expense claim process, internal audit is to ask the Chairman of Audit & Corporate Governance to submit a fraudulent expenses claim for travelling and/or subsistence. Claim to be in line with mileage rates but for a ghost meeting/ event.	A non finance officer to submit fraudulent claim with no supporting receipts.	<p>Internal audit to submit a dummy paper request for a change of officers bank details. Document to look as if Steve Bishop has made the request.</p> <p>Ensure processing well before pay run.</p> <p>Check for:</p> <p>a) HR check and Approval</p> <p>b) Payroll check.</p>	Internal audit to submit a dummy email request for a new ICT user.	Internal audit to park their car at the cattle market car park, which requires officers to pay for their parking permit, using their free parking permit.
Process controls and/or point in the process that the fraudulent transaction was identified?	The invoice was posted via royal mail to Capita's exchequer services on 12 January 2012. Internal audit monitored the Agresso accounts payable module and after one month of monitoring no details were found on the module regarding this fictitious business. Internal audit was satisfied that the invoice was not processed by Capita.	The invoice was posted via royal mail to the council on 12 January 2012. Internal audit monitored the Agresso accounts payable module and after one month of monitoring no details were found on the module regarding invoice. Internal audit was satisfied that the invoice was not processed by council.	The invoice was posted via royal mail to Capita's exchequer services on 12 January 2012. Internal audit monitored the Agresso accounts payable module and after one month of monitoring no details were found on the module regarding duplication of invoice. Internal audit was satisfied that the invoice was not processed by Capita.	Testing of submitting a fraudulent payment voucher for sight test was not carried out as it was established that officers are not required to fill in a payment voucher, they are required to take the receipt to HR after the test.	The claim was checked and queried by democratic services with the member on the meeting which was not attended, but not for the excess mileage.	The claim was checked by the line manager and the officer was asked to submit a receipt.	A paper request to change bank details was submitted to payroll with the scanned signature of the officer. The request should not be accepted on paper only by email from the officer or through HR Pro system.	The request was logged with a helpdesk reference as expected. The request was emailed to the head of service and audit manager to check for authorisation to proceed. At this point it was established that the request was a part of the anti fraud tests.	Internal audit did not receive a parking ticket for wrongful parking. The parking attendant's schedule showed that internal audit should have been given two tickets, as they were due to monitor the car park on two separate days during the week.

	Test 1	Test 2	Test 3	Test 4	Test 5	Test 6	Test 7	Test 8	Test 9
Management review of transaction and actions taken?	The invoice was rejected and not processed by Capita.	The invoice was rejected and not processed by the council.	The invoice was rejected and not processed by Capita.	Not Applicable	One part of the fraudulent claim was identified and enquiries made. The excess mileage was not spotted and was authorised and submitted to Capita for payment.	The fraudulent claim was identified.	Confirmation from the officer was not sought from Capita and bank details were changed on the payroll system. Internal audit contacted Capita to explain it was a test and requested that the bank details be changed back on the system.	The helpdesk officer carried out appropriate checks with the service area involved.	The parking attendant monitored the car park on two separate days during the week and failed to spot that the wrong parking permit was used.
Remedial action taken by management, documented and reported accordingly?	The invoice was not processed so in that respect was managed appropriately.	The invoice was not processed so in that respect was managed appropriately.	The invoice was not processed so in that respect was managed appropriately.	Not Applicable	The verification of the claim details was recorded via email and copied to internal audit.	The claim form was rejected as the receipt was not presented.	The request was not verified and was actioned within the payroll system.	The Head of Finance identified the request as being an anti fraud test as the user request to be set up was not genuine. The communication is covered by emails.	The parking attendant failed to spot that the wrong parking permit was used.
Any enhancement actions to the control mechanism?	None - checks were made and appropriate actions taken.	None - checks were made and appropriate actions taken.	None - checks were made and appropriate actions taken.	Not Applicable	The claim form was not verified and submitted to Capita for payment.	None needed - the claim was queried and rejected.	The request to change bank details was not verified and was actioned within the payroll system.	None needed - the request was verified with the Head of Service and appropriate action taken.	Appropriate checks not carried out on the parking permit.
Conclusion	From the test undertaken, appropriate checks appear to be made to identify incorrect and potentially fraudulent claims.	From the test undertaken, appropriate checks appear to be made to identify incorrect and potentially fraudulent claims.	From the test undertaken, appropriate checks appear to be made to identify incorrect and potentially fraudulent claims.	Not Applicable	Recommendation 1	From the test undertaken, appropriate checks appear to be made to identify incorrect and potentially fraudulent claims.	Recommendation 2	From the test undertaken, appropriate checks appear to be made which would identify potentially fraudulent adjustment requests.	Recommendation 3