

Report

Report to:	Risk and Audit Scrutiny Committee
Date of Meeting:	17 November 2021
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Internal Audit Activity as at 29 October 2021
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ update the Risk and Audit Scrutiny Committee on progress by, and performance of, the Internal Audit service in the period to 29 October 2021

2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

- (1) that progress and performance is noted.

3. Background

3.1. Findings from internal audit assignments are reported to the Committee throughout the year. The last progress report to the Committee was in September 2021 and reported on work completed in the period 5 June to 27 August 2021. This report covers all work completed in the period 28 August to 29 October 2021. Performance information is also included.

4. Delivery of the 2020/2021 Audit Plan: Progress and Performance

- 4.1. As at 29 October 2021, 95% of assignments from Phase 1 of the 2021/2022 Audit Plan have started. 23% have been completed to draft report stage. A further 30% of assignments relate to work that continues throughout the year and is carried forward to the second, six month Plan. Work to complete the remaining 47% of the first phase of the 2021/2022 Audit Plan continues and will now be completed alongside the assignments that form part of the second half of the Plan through to 31 March 2022.
- 4.2. Key performance indicators reflecting quality, on time and within budget for the period to 30 September 2021 are summarised in Appendix 1 together with explanations. 100% of draft reports have been issued on time and 100% within budget against targets of 80% respectively. Quality continues to be monitored through internal quality control procedures.
- 4.3. Client contributions to the delivery of the audit plan take the form of responding to draft reports, agreeing to closing meetings and signing reports quickly once agreed. 100% of audit assignments were concluded to a signed action plan, where this was required, within 4 weeks of the issue of a draft report against a target set of 80%.
- 4.4. Members are asked to note performance

5. Findings

- 5.1. Appendix 2 lists all assignments completed in the period 28 August to 29 October 2021.
- 5.2. In December 2020, the Committee was advised that the format for presenting findings within Internal Audit update reports was to be reviewed to ensure that this fully supported Member scrutiny. This review has been completed and the first of these, in the new format of a more expanded key messages summary, is attached at Appendix 3. Summaries, in this format, will be appended to update reports for all significant internal audit output going forward. To further assist Members with their scrutiny role, each of these key messages summaries will conclude with suggested areas where Members should seek assurances that all risks have been identified and that there are controls in place to mitigate.
- 5.3. Members are asked to note findings set out in Appendices 2 and 3.

6. Progress against Strategy

- 6.1. The Public Sector Internal Audit Standards (PSIAS) require progress against the audit strategy to be monitored and reported to the Committee as part of regular monitoring reports that are presented at each meeting.
- 6.2. Delivery of the strategy will be evidenced by completion of the 2021/2022 Plan and will be monitored through the performance indicators regularly reported throughout the period.

7. Employee Implications

- 7.1. There are no employee issues.

8. Financial Implications

- 8.1. A breakeven position for 2021/2022 is forecast at the end of the financial year for the Internal Audit section.

9. Climate Change, Sustainability and Environmental Implications

- 9.1. There are no implications for climate change, sustainability or the environment in terms of the information contained within this report.

10. Other Implications

- 10.1. The main risks to the delivery of the Audit Plan are, generally, vacancies and team up-skilling requirements, unforeseen service demands and delays with client sign-off. Normally these would be mitigated by coaching and training, regular meetings and escalation processes as well as inclusion of contingency time within the annual plan. However, given the ongoing pandemic, these risks require particular consideration and the Audit Plan for 2021/2022 will remain under review. Any required amendments will be presented to the Committee for approval.

11. Equality Impact Assessment and Consultation Arrangements

- 11.1. There is no requirement to equality assess the contents of this report.
- 11.2. Heads of Service are consulted on each and every audit assignment.

Paul Manning
Executive Director Finance and Corporate Resources

2 November 2021

Link(s) to Council Objectives/Improvement Themes/Values

- Achieve results through leadership, good governance and organisational effectiveness

Previous References

- ◆ 2021/2022 Internal Audit Plan – Six Months to 30 September 2021 – Risk and Audit Scrutiny Committee, 3 March 2021
- ◆ Internal Audit Activity as at 4 June 2021 – Risk and Audit Scrutiny Committee, 22 June 2021
- ◆ Internal Audit Activity as at 27 August 2021, Risk and Audit Scrutiny Committee, 15 September 2021

List of Background Papers

- ◆ Figtree extracts of Action Plans

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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Key audit performance indicators as at 30 September 2021

Appendix 1

Indicator	Numbers	Percentage	Target	Comment
Assignments delivered within budget	9/9	100%	80%	
Draft reports delivered within 6 weeks of file review	10/10	100%	80%	
2021/2022 Audit Plan completed to draft by 31 March 2022	7/30	23%	100%	95% of assignments from Phase 1 of the 2021/2022 Audit Plan have started. Time to conclude Phase 1 assignments has been included in the Phase 2 Plan.
Internal Audit recommendations delivered on time	0/0	n/a	90%	No internal audit actions fell due in the period to 30 September 2021.
Client to agree findings and actions within 4 weeks of draft issue	9/9	100%	80%	

Job Number	Assignment name	Draft Issue	Final Issue	Assurance Info
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Previous Year				
I611188	Anti-Fraud Review	31/03/2021	13/10/2021	See Appendix 3.

Current Year				
I262102	General Ledger Data for External Audit	21/07/2021	21/07/2021	Provision of data to External Audit re 2020/2021 financial year end.
I710058	Online Banking - Community Councils	16/08/2021	17/08/2021	Provision of advice and guidance regarding key internal controls.

External Clients				
I925113	LVJB Cyber Security	14/05/2020	18/05/2021	Reported to LVJB
I948168	IHSC Annual Report 2020/2021	15/06/2021	15/06/2021	Reported to IJB
I921145	LVJB 2021/2022 Audit Plan	15/06/2021	16/06/2021	Reported to LVJB
I911136	SLLC 2021/2022 Audit Plan	25/08/2021	25/08/2021	Reported to SLLC
I914137	SLLC Follow up	25/08/2021	25/08/2021	Reported to SLLC
I918172	SLLC 2020/2021 Annual Report	20/07/2021	25/08/2021	Reported to SLLC
I912164	SLLC CCM	21/06/2021	01/11/2021	Reported to SLLC

Key Messages**Background**

From the outset of the COVID-19 pandemic, the public sector has been responding to the crisis with various measures to mitigate the economic and social impacts, with the government allocating billions of pounds of additional funding to support these measures. Some of this additional funding is being administered and disbursed to vulnerable business and residents by South Lanarkshire Council.

Within any crisis situation, there is an inherently high risk of fraud if new processes are designed and implemented within limited and pressured timeframes (giving limited opportunities to fully consider anti-fraud controls) or if 'business as usual' controls are weakened or suspended (for example, due to pressures, changes in working practices or reduced segregation of duties, verification or approval). Fraudsters are very likely to exploit perceived gaps or weaknesses in internal controls.

The main fraud threats that might be applicable during the pandemic (which may come from external or internal parties) include theft; claims for monies not due; attempts by fraudsters to redirect legitimate payments; cyber-enabled crime; scams; and potentially corruption, including influencing decisions out with normal protocols or being involved in decisions where conflicts exist. These fraud risks did exist pre-COVID, but the risks have potentially heightened during the pandemic.

It is essential that the Council are aware of any heightened risks and the vulnerabilities within business processes so that additional controls can be put in place to mitigate if necessary. It is key that relevant employees understand particular fraud risks and the anti-fraud controls required to mitigate.

It is also essential that fraud reporting channels are clear and open and that all sources of fraud reporting and intelligence are fully considered, with potential leads investigated, ideally prior to making payments. For any frauds detected following payment, it is essential that every effort is made to invoke clawback of monies.

If fraud risks are not sufficiently mitigated, in addition to the inevitable financial implications, the fraud may also result in reputational damage, breaches of data and associated fines and potential disruption to, or impact upon, service delivery or service users.

Objective

The objective of this audit was to assess the Council's vulnerability to key fraud risks emerging during the pandemic and to consider further audit testing for higher fraud risk areas during 2021/2022, based on the controls identified to mitigate and the assessment of residual risks.

Key Observations

Internal Audit's assessment identified that it is possible that fraud risks have heightened in all of the key 'financial' business processes during the pandemic – procurement / contracts; accounts payable; and payroll. Some further analysis to understand spend with suppliers and the award of contracts during the pandemic (in particular any awards made under 'emergency' procurement arrangements) is planned for 2021/2022; as well as some sample testing to obtain assurances that Resource controls remained robust to check and verify claims prior to submitting to corporate sections for processing and payment.

In addition, there may be particular fraud risks associated with any 'crisis' payments

disbursed during the pandemic, in particular business grants, given the volume and value of grants disbursed and some of the fraud intelligence arising via established fraud reporting channels. Further work will take place in this area, with a focus on investigation of NFI grant matches and any further fraud intelligence. The PayPoint system used to disburse education and social care payments during the pandemic will also be reviewed later in 2021/2022.

The Council's fraud reporting channels (for employee and third parties) remain open and monitored. Any intelligence from these channels, or via established 'intelligence' channels, will continue to be investigated, with recovery sought where fraud is identified.

Lastly, the move to remote working may have increased the risks of loss or theft of Council assets (particularly equipment, stock or data) given a shift away from direct supervision of employees, unoccupied premises and the potential for records to contain gaps if these could not be updated during the initial crisis response period of the pandemic. In light of these risks, work is ongoing to review inventory and stock control arrangements as the Council begins to recover from the initial crisis response periods for the pandemic. Employees have been reminded of their duties to safeguard both assets and Council data and the potential sanctions for misuse have been reiterated. Additionally, employees have been reminded of the 'scams' that they may be exposed to during the pandemic and the good practice steps that should (and should not) be taken in order to mitigate security and fraud risks. The Council's IT Security Team advise that they continue to monitor the cyber threats emerging during the pandemic and have introduced additional controls to maintain IT security controls in the face of both cyber threats and any potential security implications arising from remote connections.

In line with the fraud risk assessment pre-COVID, many of these fraud risks will continue to remain even after recovery from the pandemic given the inherent nature of some of these. The key mitigating action will be continued adherence to the established systems of internal controls and Internal Audit will continue to assess this adherence via agreed programmes of audit work.

Areas where Members should seek assurance:

- 1. Are Members satisfied that the report captures all of the key emerging fraud risks (either new or heightened) for South Lanarkshire Council?***
- 2. Are Members satisfied that there has been an appropriate and proportionate response by South Lanarkshire Council to mitigate these new and emerging risks?***
- 3. Are Members satisfied that the areas that are proposed for further review by Internal Audit are those of highest risk?***