CLACKMANNANSHIRE COUNCIL

Report to: Audit & Scrutiny Committee

Date of Meeting: 13 June 2024

Subject: Internal Audit Progress Report

Report by: Internal Audit Manager

1.0   Purpose

1.1   This report provides an update on progress with completion of the 2023/24 Internal Audit Plan.

2.0   Recommendations

2.1   It is recommended that the Committee notes the progress being made with completion of the 2023/24 Internal Audit Plan.

3.0   Progress with Completion of the 2023/24 Internal Audit Plan

3.1   The 2023/24 Internal Audit Plan was agreed by Audit Committee on 20 April 2023. It set out 16 assignment areas to be completed by the team during the year. This includes 11 audit reports to be issued to Clackmannanshire Council (those 11 audit reports do not include those assignments or reports undertaken and issued to the Clackmannanshire and Stirling Integration Joint Board, Central Scotland Valuation Joint Board, or the Public Sector Internal Audit Standards: External Assessment). Of these 11 audit reports:

- 7 audit reports have been completed to final report stage (5 of which have been reported to Elected Members at previous meetings of this Committee) as part of our annual and committed assignment programmes of work; and

- 4 were not started. 3 of these audit reviews will be undertaken as part of the 2024/25 Internal Audit Plan. The audit review of the Energy Bills Support Scheme (EBSS) is no longer required as the scheme is now closed, with guidance withdrawn, therefore, no further validation work can be undertaken. There is no longer a risk that warrants completion of audit work.

3.2   A summary of progress is set out at Appendix 1. Details on the scope of, and findings arising, from the twos review finalised since the last Committee in April are at Appendix 2. The assurance is provided in line with the definitions at Appendix 3.

3.3 Internal Audit are continuing to experience delays in confirming audit findings with auditees / Directorates which has meant it has proven difficult to clear audit reports within agreed timeframes. This is due to backlog recovery, staff turnover, and delays in filling vacancies within the Council. As part of the 2022/23 internal audit annual assurance work the Senior Leadership Group had undertaken to monitor these issues to ensure improvement, however, there has been no signs of improvement in 2023/24.

3.4 In overall terms, the programme of work will be completed within the agreed time allocation, but it should be recognised that there are issues outwith the Internal Audit team's control which impact on the ability to meet or exceed performance.

3.5 As part of our 2023/24 continuous auditing programme, Internal Audit has undertaken an additional data matching exercise relating to suppliers. This was to ensure there has been no unnecessary duplication of supplier records (which can increase the risk of duplicate payments, potentially leading to financial loss).

3.6 We also reviewed matches between Payroll (employee) data and suppliers, therefore, indicating if the Council is buying goods or services from a supplier owned or run by a member of staff. In relation to these "related party transactions", the Code of Practice on Local Authority Accounting "seeks to ensure disclosure of transactions with individuals or organisations linked to Clackmannanshire Council where there is actual or perceived opportunity to control / exert influence". This check could also help to identify where any supplier payments have been fraudulently changed to those of an employee. Review of these matches should eliminate instances of possible fraud, ensure that any related party transactions have been disclosed, and reduce the error of duplicate payments being made.

3.7 From our analysis of employee data it was found that, on two occasions, the same bank details were recorded for two different employee names and addresses. The Payroll and Systems Manager confirmed that investigation was undertaken and no payments were made to incorrect employee or bank accounts. In addition, monthly validation reports on bank details will be generated to identify any future similar errors. The analysis on the supplier database found that there is scope for deactivating several suppliers. Details of our analysis have been passed to the Corporate Accountancy Team Leader and Procurement Manager for appropriate action.

4.0 Conclusions

4.1 2023/24 Internal Audit work will contribute to a balanced and evidenced based year end opinion on arrangements for risk management, governance, and control.

5.0 Sustainability Implications

5.1 None Noted.

6.0 Resource Implications

Financial Details

6.1 The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate.   Yes ☐

6.2 Finance have been consulted and have agreed the financial implications as set out in the report.   Yes ☐

Staffing

6.3 No implications other than those set out in the report.

7.0 Exempt Reports

7.1 Is this report exempt?   Yes ☐ (please detail the reasons for exemption below)   No ☐

8.0 Declarations

8.1 The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

(1) **Our Priorities** (Please double click on the check box ☑)
Clackmannanshire will be attractive to businesses & people and
ensure fair opportunities for all   ☐
Our families; children and young people will have the best possible
start in life   ☐
Women and girls will be confident and aspirational, and achieve
their full potential   ☐
Our communities will be resilient and empowered so
that they can thrive and flourish   ☐

(2) **Council Policies** (Please detail)

9.0 Equalities Impact

9.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?

Yes ☐   No ☐

10.0 Legality

10.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers.   Yes ☐

11.0 Appendices

11.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

- Appendix 1: Internal Audit Plan 2023/24 Progress at 17 May 2024

- Appendix 2: Internal Audit Plan 2023/24 Assignment Outcomes Summary of Key Findings from Assignments Complete to Final Report Not Previously Reported to Committee

- Appendix 3: Definition of Internal Audit Assurance Categories

12.0 Background Papers

12.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

Yes ☐ (please list the documents below) No ☐

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Approved by

NAME	DESIGNATION	SIGNATURE
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INTERNAL AUDIT PLAN 2023/24

Progress at 17 May 2024

	Client / Directorate	Assignment	Status
Annually Recurring Assignments			
1.	All Directorates	National Fraud Initiative	**Ongoing**
2.	All Directorates	Continuous Auditing	**Ongoing**
3.	Place	Climate Change Act Public Body Duties Audit	**Final Report Issued**
4.	All Directorates	Consultancy Work	**Ongoing**
5.	All Directorates	Work on Recommendations Outstanding	**Ongoing**
6.	Internal Audit	Public Sector Internal Audit Standards: External Assessment	**Final Report Issued**
Committed Assignments			
7.	Partnership and Performance / All Directorates	IT and Information Security Governance	Not Started
8.	People / All Directorates	Purchase Order Arrangements at Clackmannanshire for Adult Social Care	**Final Report Issued**
9.	Partnership and Performance / People	Leisure Income Follow Up Review	**Final Report Issued**
10.	Partnership and Performance / All Directorates	Freedom of Information Requests	**Final Report Issued**
11.	All Directorates	Care Home Residents Monies	**Final Report Issued**
12.	Partnership and Performance / All Directorates	Overtime Arrangements	**Final Report Issued**

	Client / Directorate	Assignment	Status
13.	Place / Partnership and Performance	Energy Bills Support Scheme (EBSS)	No longer applicable
14.	People	School Admissions Policy	Not Started
15.	Partnership and Performance / All Directorates	Use of Purchase Cards	**Final Report Issued**
16.	Partnership and Performance / All Directorates	Community Benefits	Not Started
Other Client Work			
17.	Clackmannanshire and Stirling Integration Joint Board	The Internal Audit Plan for 2023/24 was presented to the IJB Audit and Risk Committee on 28 June 2023.	**In Progress**
18.	Central Scotland Valuation Joint Board	The Internal Audit Plan for 2023/24 was presented to the Central Scotland Valuation Joint Board on 30 June 2023.	**In Progress**

INTERNAL AUDIT PLAN 2023/24 ASSIGNMENT OUTCOMES

Summary of Key Findings from Reviews Complete to Final Report
Not Previously Reported to Committee

Review	Directorate	Assurance
Use of Purchase Cards	Partnership and Performance / All Directorates	**Limited Assurance**

Scope	Final Report Executive Summary

Purchase cards represent another payment method that is available to reimburse the Council's suppliers. As such, there must be compliance with the Council's Standing Orders, Financial Regulations, and Procurement Policy.
 	
They can be used as an alternative to petty cash, for online purchases, and for urgent expenditure that needs to be incurred outwith normal office hours. Barclays Bank (Barclaycard) provide Clackmannanshire Council's purchase cards under a UK wide Crown Commercial Service agreement. The expenditure that is incurred from using the purchase cards is recorded and monitored on the Barclaycard Centre Suite system that is administered by Barclays Bank. A monthly statement is also received from Barclaycard.
 	
Barclaycard statements are issued to all purchase cardholders who have incurred transactions during the statement period. These transactions are then authorised by the cardholder's line manager by matching the statements to a transaction log. This enables the monitoring and review of the purchase card transactions that have been incurred by those who do not have access to the Barclaycard Centre Suite system.
 	
Responsibility for managing / administering the Council's purchase cards is delegated to the Procurement Manager within the Partnership and Performance Directorate. Budget holders are responsible for managing expenditure.
	We were content that:
	• all involved are aware of their responsibilities regarding purchase cards;
	• procedures and guidance have been developed in relation to the purchase cards;
	• purchase cards have been issued on an individual basis instead of on a team basis;
	• the Procurement Manager maintains the list of purchase cardholders. Any required updates (for example, as a result of cardholders leaving the Council) are informed via: a monthly 'starters' and 'leavers' report that is provided by the Human Resources section (HR) to the Procurement Manager; completed Change of Information forms; notification from IT; and / or direct contact from cardholders;
	• reports are generated each month that show when the purchase cards were last used (to identify any that are not being used and could be deactivated);
	• the single transaction limit for each purchase card does not exceed the purchase order limit for that cardholder; and
	• arrangements are in place for paying the monthly statement balance to Barclaycard and for ensuring that cardholders provide a ledger code for each transaction to enable their upload to TechOne and subsequent payment.
	
	We identified many significant weaknesses in the existing framework of control. We have, therefore, made the following recommendations:
	• Contingency arrangements should be established to provide business continuity in the absence of the Procurement Manager.
	• The Purchase Card Policy and Procedures Guide should provide clarity on who can approve purchase card applications.
	• The authorisation limits for each cardholder should be reviewed on a quarterly basis to ensure that they remain appropriate.
	• To prevent any unauthorised expenditure, checks should be made to ensure that the authorisation limits revert to their normal amounts after any temporary change.
	• To prevent the circumvention of any controls that are in place, line managers should be informed of any changes to authorisation limits.
	• To ensure compliance with the Purchase Card Policy and Procedures Guide:
	  ➢ Three occasions where a cardholder's single transaction limit has been exceeded should be investigated.
	  ➢ All cardholders should be reminded each month of the requirement for them to promptly provide supporting documentation for their purchase card transactions (with consideration given to blocking cards until this documentation is provided).
	  ➢ Travel and subsistence expenses should be challenged by line managers.
	  ➢ Purchase card payments to prohibited suppliers should be investigated.
	• To prevent inappropriate use of the purchase cards, consideration should be given to creating a list of approved suppliers for purchase card transactions.
	• To ensure that expenditure has been accurately recorded, reconciliations between the ledger and the bank account for transactions should be conducted each month.
	• To ensure that accurate transactions data is available and is being reported, the discrepancies between the data provided by the Procurement Manager and what has been reported on the Council's website should be investigated.
	• To ensure that the correct rebate amounts are being received from Barclaycard, the following points relating to purchase card rebates should be addressed:
	  ➢ The reasons for discrepancies in the rebate amounts should be determined.
	  ➢ The rebate % for annual expenditure above £250k should be ascertained.
	  ➢ The reasons for not qualifying for a rebate in 2019/20 should be determined.
	  ➢ Maintain records of all expected and actual rebates received for each year.

	➢ The 2021/22 purchase card rebate should be confirmed with Barclaycard.
	➢ Evidence (in the form of transaction reports) to be provided confirming that the rebate income for each year has been correctly coded to the ledger.

Review	Directorate	Assurance
Overtime Arrangements	Partnership and Performance / All Directorates	**Assurance**

Scope	Final Report Executive Summary

Scope

Over a 12 month period from 1 December 2022 to 30 November 2023 overtime[1] payments with a total value of £1,609,993 were paid through iTrent.[2] The overtime cost over the same period per Directorate is detailed at **Table 1** below. For context basic pay paid over the period totalled c£72m.

Table 1: Overtime Costs per Directorate

Directorate / Service	Payments	Cost (£)
Place	3,507	1,237,430
Health and Social Care Partnership	910	169,962
People	753	166,236
Partnership and Performance	149	36,365
Total	**5,319**	**£1,609,993**

The Council's Overtime Authorisation, Policy, Principles, and Protocols (known as the OT Protocols) was developed in 2016 and last updated in 2018. These Protocols set out the Council's approach to approved overtime working and provides guidance to managers responsible for authorising overtime, payments, and time off in lieu (TOIL) entitlements.

There are two methods of processing overtime claims on iTrent. Direct approval of claims by a Reporting Manager on iTrent; and Payroll Section input of an overtime claims spreadsheet provided by Services. The main reason for Payroll Section input of overtime claims is that some employees do not have access to iTrent.

We selected a sample of 58 employees and 122 related overtime payments made between 1 December 2022 and 30 November 2023. Our sample included employees from all Directorates and was proportionally representative to overall payments per Directorate over the period. For example, the Place Directorate had the highest number and value of overtime payments and so had the highest number of employees and related payments in the sample for review.

The sample of overtime payments was reviewed to

Final Report Executive Summary

At corporate level we found overtime Policies[3] were in place with ad hoc training provided to overtime approving managers. At the time of the review, high level management information was provided to Senior Management detailing costs of overtime per Directorate, however, we identified weaknesses and made recommendations in relation to the following:

- Overtime Policies have not been reviewed in over 4 years.
- There was no specific training or operational guidance for overtime approving managers.
- Overtime paid figures per Directorate are not regularly reported to the Extended Senior Leadership Group for review to ensure overtime levels are appropriate and cost effective.

Through testing a sample of overtime payments across all Directorates we identified non compliance with overtime related policies. These issues are summarised in **Table 2** below.

Table 2: Directorate Significant Issues

Directorate / Service	Manager Approval	Audit Trail	Claim Errors	Over Payments
Place	No	No	Yes	Yes
Health and Social Care Partnership	No	No	Yes	Yes
People	No	No	Yes	Yes
Partnership and Performance	No	No	N/A	N/A

We were unable to identify any instances within our sample of the Health and Social Care Partnership, or the Place and People Directorates overtime payments that were fully compliant with the Financial Regulations and the OT Protocols. The Overtime Policies are not being applied and overtime arrangements are not being effectively managed.

The following significant issues which require to be investigated were identified within the Health and Social Care Partnership, and the Place and People Directorates:

- There was no evidence that overtime was approved in advance.
- Lack of an audit trail evidencing specific overtime hours worked and related duties undertaken.
- Approving managers did not have sufficient delegated authority to approve overtime claims.
- No evidence of monitoring of overtime levels and compliance with Working Time Regulations Guidance including employee "opt outs"[4].

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[1] Overtime Transaction Types: Additional Hours (plain time), Overtime Hours (time and a half), and Overtime Hours (double time).

[2] iTrent is the Council's Payroll and Employee Management self service system.

[3] The Financial Regulations (s13), Overtime, Authorisation, Policy Principles and OT Protocols, and Working Time Regulations Guidance.

[4] Employees (and workers) can agree to work more than the 48 hours weekly maximum by submitting a signed "Opt-out agreement".

ensure compliance with the requirements of the OT Protocols including:

- overtime should only be authorised when it is necessary to provide or continue to provide a statutory service or where an identified risk to the public or staff must be managed;
- where appropriate overtime is approved in advance and any associated claims are approved in line with the Council's delegated authorities;
- there is a record of actual overtime hours and work undertaken and there are management checks to ensure the time and work is appropriate;
- management have ensured that Working Time Regulations apply to employees claiming overtime. For example, employees should not work more than 48 hours per week; and
- overtime claims are accurately recorded and processed. For example, plain time is paid for additional hours up to 37 hours per week.

This audit assessed the robustness of the overtime arrangements internal control framework across the Council including related roles and responsibilities and policies and procedures, and considered the extent to which these are consistently applied in practice.

- Errors identified in our sample of overtime claims resulted in potential overpayments which need to be investigated. The total potential overpayments identified for one month per employee in the sample, per Directorate is detailed at **Table 3** below:

Table 3: Sample of Potential Overpayments

Directorate / Service	Employees	Payments	Over Payments Value (£)	% Sample Value
Place	35	73	1,673	2.4
Health and Social Care Partnership	13	30	618	5.3
People	7	15	217	1.4
Partnership and Performance	3	4	-	-
Total	**58**	**122**	**2,508**	**2.5**

The sample of Place overpayment claims contained continuous hours in excess of 6 hours with no breaks (numerous examples across the sample in excess of 12 daily hours claimed, with the highest claim in the sample having 19 daily continuous hours). The approving managers advised that this practice is common in Property and Building Maintenance.

Given the high number of overtime hours being claimed on a daily basis there is a potential risk of fraud, as it is not possible for individuals to work this amount of hours in one day. This also breaches Financial Regulations (Section 13.4 and Section 3.14): claims are not excessive, and payment conforms with approved terms and conditions for the employee and has implications for non-compliance with Working Time Regulations. For example: a 30 minute break should be taken for every 6 hours of work, a daily rest period of 11 consecutive, uninterrupted hours, and working no more than 48 hours in each working week.

Sample testing also confirmed that overtime related policies had not been fully applied within the Partnership and Performance Directorate, including:

- Not all payments had evidence that overtime was approved in advance.
- Lack of an audit trail evidencing specific overtime hours worked and related duties undertaken.
- No evidence of monitoring of overtime levels and compliance with Working Time Regulations Guidance including employee "opt outs".

Through sample testing we also identified instances where overtime is ongoing (within the Health and Social Care Partnership, as well as Place and People Directorates) and in these cases, we recommend that section management should review employee resources to ensure they are sufficient in order to minimise the level of overtime required.

In the areas where the Policy and Procedures are breached, there is a significant risk that overtime is not being effectively managed, potentially resulting in significantly greater costs.

DEFINITION OF INTERNAL AUDIT ASSURANCE CATEGORIES

Level of Assurance	Definition
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or abuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or abuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or abuse is unacceptable. Significant improvements are required.