

EAST RENFREWSHIRE COUNCILAUDIT AND SCRUTINY COMMITTEE27 September 2018Report by ClerkNATIONAL EXTERNAL AUDIT REPORT2016/17 AUDIT OF DUNDEE CITY COUNCIL - REPORT ON A SIGNIFICANT FRAUD**PURPOSE OF REPORT**

1. To provide information on the Audit Scotland report *Audit of Dundee City Council – Report on a Significant Fraud*.

RECOMMENDATION

2. It is recommended that the Committee considers the report.

BACKGROUND

3. A copy of the Audit Scotland *2016/17 Audit of Dundee City Council – Report on a Significant Fraud* published in March 2018, has already been circulated to all Audit and Scrutiny Committee Members. Under the Committee's specialisation arrangements, the Members leading the review of this particular report are Councillor Miller and Councillor Grant. The Head of Business Change and Revenue Services and Head of ICT and Digital Engagement have provided comments on the report and a copy of that feedback is attached (see Appendix A).

RECOMMENDATION

4. It is recommended that the Committee considers the report.

Local Government Access to Information Act 1985

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Background Papers:-

1. Audit Scotland report *Audit of Dundee City Council – Report on a Significant Fraud*

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AUDIT SCOTLAND – 2016/17 AUDIT OF DUNDEE CITY COUNCIL –
REPORT ON A SIGNIFICANT FRAUD

Comments from Head of Business Change & Revenues

September 2018

PURPOSE OF REPORT

1. To provide comments on how East Renfrewshire Council is placed in relation to a report on the '2016/17 Audit of Dundee City Council – Report on a Significant Fraud', published by Audit Scotland in March 2018.

SUMMARY

2. The issue of the significant fraud at Dundee City Council was first brought to East Renfrewshire Council's attention through a Directors' of Finance meeting in June 2017. The background was an over-reliance on a single individual within Dundee's ICT service who abused his privileged system access rights to fraudulently divert council funds to his own personal account over a period of years.

3. On return to East Renfrewshire, the Head of Accountancy notified the Head of Business Change & Revenues and the Head of ICT & Digital Enablement and immediate amendments were made to a Creditors' payment process and ICT controls to mitigate the possibility of similar fraud occurring within our Council. Further consideration was given to these issues on publication of subsequent reports into the Dundee incident, which were circulated in the finance community.

4. The Internal Audit workplan for 2018/19 includes time to consider East Renfrewshire Council's mitigating actions taken since the reports on the Dundee fraud were published.

REPORT

5. In June 2016 the Head of Accountancy attended a Directors' of Finance meeting and was advised of the significant fraud at Dundee City Council. The key issues appeared to be around appropriate segregation of duties, specifically ICT system permissions, and verification of payments made from the bank.

6. Immediately and then the subsequent to publication of the audit report the Heads of Business Change & Revenues and ICT & Digital Enablement took action within the Creditors (i.e. invoice payments) and ICT teams to mitigate any potential risk for East Renfrewshire Council.

7. Within the Creditors service a new process check was added to procedures. This was a new check each morning after a payment run to ensure that the amount actually paid out from the Council's bank tallied to the amount originally requested by the Creditors' team and also that the number of actual individual payments also correlated with the planned number.

8. ICT undertook a number of validation activities to audit existing access, controls and process. ICT system accounts with elevated privileges, both user and system, were audited

to ensure accounts and their access was current and appropriate. Segregation of duties and privilege were confirmed for user admin-level accounts, as per existing policy and best practice. ICT also supported the creation of a repository for standard operation procedures to aid system documentation which would detail the key controls to be carried out by staff to prevent fraud or error. Where ICT staff had system access for finance or payments their levels of privilege and access were validated with the business area.

9. Following consideration of the fraud at Dundee City Council's Scrutiny Committee in December 2017, further learning and recommendations emerged amongst the Finance community and the Head of Accountancy wrote to the Director of Corporate and Community Services, the Chief Accountant and the Chief Internal Auditor asking that consideration be given to any additional actions required. Further reviews were undertaken at that time, including in the Revenues Service, and further clauses were added into the Council's insurance tender in 2017/18.

10. Internal Audit will review the mitigating actions and make further recommendations later in 2018/19.

CONCLUSION

11. On notification of the Dundee City Council fraud and subsequent publication of detailed reports, East Renfrewshire Council took immediate action to mitigate any risks, most importantly by ensuring appropriate segregation of duties and amending the payment review process.

12. The Council continues to place a significant emphasis on the availability and maintenance of clear procedures, particularly for areas of financial control and compliance. These are reviewed routinely and also subject to regular audit work to ensure that we can make continuous improvements, and learn from practice elsewhere with an emphasis on maintaining key controls and actively managing process risk.

For further information please contact: Louise Pringle, Head of Business Change & Revenues, 0141 577 3136, louise.pringle@eastrenfrewshire.gov.uk