



COTSWOLD
DISTRICT COUNCIL

PUBLICA



SWAP
INTERNAL AUDIT SERVICES

Assuring – Improving – Protecting

Assurance over Payment Procedure

Cotswold District Council

Follow Up Report

For follow-up of a 2015/16 audit

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Issue Date: 14th December 2018

Working in Partnership to Deliver Audit Excellence

Agenda Item 11
Appendix 'C'

Executive Summary

Audit Conclusion

In December 2015, Cotswold District Council (CDC) was victim to a phishing email scam, in which the authority lost £55,520.

An investigation was undertaken by Internal Audit and the Counter Fraud Unit, along with a review of the systems in place in relation to CHAPS (Clearing House Automated Payments System) payments. A number of recommendations were made to improve the control framework and mitigate the weaknesses that had been identified, within the systems at the time.

During February 2018, a Freedom of Information Request was received by Cotswold District Council, in respect of fraudulent payments. The information in relation to the payments was made public and was reported in the media on 4th September 2018. Following this, a report was taken to Full Council on 26th September 2018 and debated by Members, the outcome being that they required Internal Audit to conduct a review and report back to the Audit Committee.

Meetings were held with Finance Officers and Publica's Finance Director (CDC Strategic Director at the time of the incident) to document actions carried out, since completion of the 2015/16 report, in relation to the issues raised. Where appropriate additional evidence and/or testing was carried out to verify the information given by the officers.

We can confirm that recommendations made in the 2015/16 audit report have all been actioned and the controls that are now in place are more robust than was recommended at the time.

The officer, who requested, and authorised the payments was subject to the Council's formal disciplinary procedure and received a sanction on their employment record. As the officer was a victim, rather than the perpetrator, we can confirm that the sanction given was appropriate for the circumstance.

Phishing emails continue to come into Cotswold District Council, as they do for the Partner Councils, but officers are vigilant in ensuring that any payment requests are challenged, and any that appear to be phishing emails are not paid. Furthermore, phase one of a new online training schedule has recently been released by ICT to all staff and will be rolled out to Members in the New Year. The first module to be completed is 'Think before you Click' and covers what a Phishing scam is, how to identify a phishing email and how to deal with one.

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Audit Objective	Progress Summary				
		Complete	In Progress	Not Started	Total
To provide assurance that agreed actions to mitigate against risk exposure have been implemented in respect of payment procedures.	Priority High	6	-	-	6
	Priority Medium	-	-	-	-
	Priority Low	-	-	-	-
	Total	6	-	-	6

Scope

Meetings were held with Finance Officers and Publica's Finance Director to document actions carried out, since completion of the 2015/16 report, in relation to the issues raised. Where appropriate additional evidence and/or testing was carried out to verify the information given by the officers.

Findings and Outcomes

Objective:

To provide assurance, to the Council, that agreed actions to mitigate against risk exposure have been implemented in respect of payment procedures.

1. Risk: That recommendations made in the 2015/16 audit report have not been implemented to ensure risks are mitigated

1.1 Finding and Action

Recommendation

That the CDC online banking process is brought in line with the other Local Authorities within GOSS (Publica) which includes a verification process - the current CDC process does not.

Follow-Up

At the time of the incident CDC's banking platform was a two-stage process (set-up and approval) for payments up to £1m.
 The CDC online banking platform now sits on the CBC platform, along with the other Partner Councils. Each Council has its own area to ensure payments are made from the correct Council.
 Making a payment on the new platform follows a three-stage process, it requires an officer to set up the payment, an officer to verify the payment and an officer to authorise the payment (this officer is a Bank Signatory).
 The online banking application is due for an upgrade and this will only enhance the current controls that are in place.

Conclusion

Recommendation Complete.

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1.2 Finding and Action	
Recommendation	Follow-Up
If a request to set up a CHAPS payment is received by email, we recommend that the Officer contact the requesting colleague by direct telephone or using the internet email address book (not by replying to the original email).	<p>Payment requests are challenged when necessary.</p> <p>Treasury Management Officers review emails which contain a payment request, they have been instructed to challenge the requesting officer if they are unsure about a request.</p> <p>If a payment request is received directly from a Service Manager, an officer from Treasury Management will contact the officer to check the validity of the request. The Service Manager is then advised that the payment request must be forwarded to an Officer in Finance (this is to aid with budgetary control), the payment will be confirmed with Finance prior to it being processed.</p> <p>If an emergency payment is requested, this must be clarified.</p>
Conclusion	
Recommendation Complete.	

1.3 Finding and Action	
Recommendation	Follow-Up
All staff involved in the set-up of CHAPS payments should refuse a request if it does not follow due process, regardless of the seniority of the Requesting Officer. This action will protect the officer from being deemed to be a culpable of any fraudulent or incorrect payment in such instances.	<p>Challenge is made by Treasury Management officers when necessary.</p> <p>There have been a couple of phishing emails recently, but no payments have been made against these requests.</p> <p>Fraud training has been carried out by officers from the Counter Fraud Unit, to all staff which included phishing and other types of fraud the Council may be susceptible to.</p>
Conclusion	
Recommendation Complete.	

1.4 Finding and Action

Recommendation	Follow-Up
That the Verification Officer (within the Treasury Team) has sight of the originating email / document requesting a CHAPS payment not that they simply confirm the Requesting Officer is legitimate.	Treasury Management receive all supporting evidence for payment requests which is reviewed by each of the officers involved in the payment process. The paperwork is held on a file within the Treasury Management office.
Conclusion	
Recommendation Complete	

1.5 Finding and Action

Recommendation	Follow-Up
Any Requesting Officer cannot also be an Authorising Officer in any circumstance. There should be clear delegation of function.	<p>Due to the small number of officers involved in the process, this isn't always possible.</p> <p>Occasionally, a requester (Finance Officer) may be an approver, but the payment will have been set-up and verified by two different officers in the Treasury Management Team. If the requester and authoriser are the same officer, they are challenged to ensure the payment is valid, these occurrences happen very infrequently and are for a very low payment value.</p> <p>This type of occurrence was not evident within the sample of payments included in testing.</p> <p>An audit trail is available which identifies the officers, and their part of the process, for each payment request.</p>
Conclusion	
Recommendation Complete.	

1.6 Finding and Action	
Recommendation	Follow-Up
<p>That the Verification Officer also authorises any payments which are made. If this is an onerous task the value could be set at a minimum.</p>	<p>There are an increased number of Authorising Officers (Bank Signatories) and they can authorise for each authority of necessary therefore there is no need for the Verification Officer to authorise any payments</p> <p>Testing included a sample of CHAPS payments, at the time of testing the last CHAPS payment was made in August 2018.</p> <p>Four payments were tested. The payment requests tested were sent from Service Managers to a Finance Officer, they then sent the request to Treasury Management for payment. A Treasury Management Officer sets up the payment, it's verified by another Treasury Management Officer and approval is made by an Accountant (Bank Signatory).</p> <p>Set up and Authoriser is noted on the paperwork.</p> <p>An audit trail is available which identifies the officers, and their part of the process, for each payment request.</p>
<p>Conclusion</p> <p>Recommendation Complete.</p>	

Audit Framework and Definitions

Assurance Definitions

None	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Reasonable	Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Definition of Corporate Risks

Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations

In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:

Priority 1	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

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Authors and Distribution

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