Audit and Scrutiny Committee

Wednesday, 22 August 2018

NOTICE IS HEREBY GIVEN that a Meeting of the **Audit and Scrutiny Committee** is to be held at **Council Chambers**, **Council Office, High Street, Elgin, IV30 1BX** on **Wednesday, 22 August 2018** at **09:30.**

BUSINESS

10   Question Time ***

Consider any oral question on matters delegated to the Committee in terms of the Council's Scheme of Administration.

Summary of Audit and Scrutiny Committee functions:

Audit Functions - Consider reports from the Council's internal auditor & Audit Scotland concerning Council Functions.

Scrutiny Functions - Scrutinising the policies of the Council and their effectiveness in meeting the action plans of the Council as set out in the Corporate Development Plan and evaluating the actions of Committees in implementing the action plans set out in the Corporate Development Plan.

Performance Monitoring - To receive reports on the performance of and trends within all of the Council's services in terms of service standards and performance information.

Standards - To ensure that the highest standards of probity and public accountability are demonstrated.

Any person attending the meeting who requires access assistance should contact customer services on 01343 563217 in advance of the meeting.

*   **Declaration of Group Decisions and Members Interests -** The Chair of the meeting shall seek declarations from any individual or political group at the beginning of a meeting whether any prior decision has been reached on how the individual or members of the group will vote on any item(s) of business on the Agenda, and if so on which item(s). A prior decision shall be one that the individual or the group deems to be mandatory on the individual or the group members such that the individual or the group members will be subject to sanctions should they not vote in accordance with the prior decision. Any such prior decisions will be recorded in the Minute of the meeting.

**   **Written Questions** - Any Member can put one written question about any relevant and competent business within the specified remits not already on the agenda, to the Chair provided it is received by the Proper Officer or Committee Services by 12 noon two working days prior to the day of the meeting. A copy of any written answer provided by the Chair will be tabled at the start of the relevant section of the meeting. The Member who has put the question may, after the answer has been given, ask one supplementary question directly related to the subject matter, but no discussion will be allowed.

No supplementary question can be put or answered more than 10 minutes after the Council has started on the relevant item of business, except with the consent of the Chair. If a Member does not have the opportunity to put a supplementary question because no time remains, then he or she can submit it in writing to the Proper Officer who will arrange for a written answer to be provided within 7 working days.

***   **Question Time -** At each ordinary meeting of the Committee ten minutes will be allowed for Members questions when any Member of the Committee can put a question to the Chair on any business within the remit of that Section of the Committee. The Member who has put the question may, after the answer has been given, ask one supplementary question directly related to the subject matter, but no discussion will be allowed.

No supplementary question can be put or answered more than ten minutes after the Committee has started on the relevant item of business, except with the consent of the Chair. If a Member does not have the opportunity to put a supplementary question because no time remains, then he/she can submit it in writing to the proper officer who will arrange for a written answer to be provided within seven working days.

Clerk Name: Caroline Howie
Clerk Telephone: 01343 563302
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THE MORAY COUNCIL

Audit and Scrutiny Committee

<u>SEDERUNT</u>

Councillor Marc Macrae (Chair)
Councillor Donald Gatt (Depute Chair)
Councillor James Allan (Member)
Councillor Frank Brown (Member)
Councillor Theresa Coull (Member)
Councillor John Cowe (Member)
Councillor Lorna Creswell (Member)
Councillor Tim Eagle (Member)
Councillor Ryan Edwards (Member)
Councillor Claire Feaver (Member)
Councillor Aaron McLean (Member)
Councillor Amy Patience (Member)
Councillor Derek Ross (Member)

Clerk Name: Caroline Howie
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Clerk Email: caroline.howie@moray.gov.uk

MORAY COUNCIL

MINUTE OF MEETING OF THE AUDIT AND SCRUTINY COMMITTEE

WEDNESDAY 23 MAY 2018

COUNCIL CHAMBERS, ELGIN

PRESENT

Councillors A McLean (Chair), T Coull (Depute Chair), F Brown, J Cowe, R Edwards, D Gatt, L Laing, G Leadbitter, M Macrae, and S Warren.

APOLOGIES

Apologies for absence were intimated on behalf of Councillor R McLean.

ALSO PRESENT

Councillors G Alexander (Ex-Officio) and L Creswell.

IN ATTENDANCE

The Chief Executive, the Audit Manager and Mrs Caroline Howie, Committee Services Officer as Clerk to the Meeting.

1.   DECLARATION OF GROUP DECISIONS AND MEMBER'S INTERESTS

In terms of Standing Order 20 and the Councillors' Code of Conduct, there were no declarations from Group Leaders or Spokespersons in regard to any prior decisions taken on how members will vote on any item on the agenda or any declarations of member's interests in respect of any item on the agenda.

2.   MINUTE OF MEETING DATED 28 MARCH 2018

The Minute of the meeting of the Audit and Scrutiny Committee dated 28 March 2018 was submitted and approved.

3.   WRITTEN QUESTIONS

The Committee noted the following written question submitted by Councillor Ross and the response thereto:

QUESTION SUBMITTED BY COUNCILLOR DEREK ROSS

Given the decision made at the Special Meeting of the Moray Council on Wednesday 16 May 2018 that the Council's Audit Department investigate and report on the history of management at Moray Leisure Centre and Council involvement in that process.

Is it now possible to establish a time frame in which this audit can take place and its findings reported back to Moray Council?

RESPONSE

Internal Audit will make time available from within the contingency allocation of time contained within its annual audit plan for 2018/19. The review will be carried out as soon as is practicable, with the aim of having a report to the first Moray Council meeting after the summer recess on 5 September 2018.

4. LOCAL GOVERNMENT IN SCOTLAND CHALLENGES AND PERFORMANCE 2018

A report by the Chief Executive informed Committee of Audit Scotland's report on the Challenges and Performance 2018, part of the Local Government in Scotland series of national reports.

In response to a query from Councillor Leadbitter the Chief Executive advised that as part of the wider transformation work that the Corporate Plan Steering Group is undertaking it is anticipated that information on income generation will be circulated in June.

Councillor Leadbitter, in referring to the cuts in the Education budget, sought clarification on change strategies to support realistic savings plans with long-term implications and mitigation against unintended impact on other services and communities.

The Chief Executive advised that management recognised the Equalities Impact Assessments (EIAs) carried out prior to the budget whilst justified for the purpose could be improved and training had been commissioned for budget holders who would be making budget proposals for the next budget.

The Chair, in highlighting positive areas of the report, noted Moray had improved performance in recycling and the housing repair service.

Councillor Warren raised concerns about the closure of public halls and the speed with which this was carried out. In referring to transformational change she sought clarification on how impacts would be considered and how staff could carry this out while continuing with their day-to-day workload.

In response the Chief Executive advised impact would be considered through the use of Equality Impact Assessments.

The Chair sought clarification on joint working with neighbouring councils.

The Chief Executive advised there were many examples of joint working and gave a number of examples. He further advised that joint working was part of the transformation plan referred to previously.

Councillor Warren sought clarification on what is being done through the Northern Alliance and within Moray to improve attainment for secondary school children as Moray has a lower attainment level than similarly deprived areas.

In response the Chief Executive advised this is one of the main issues the Alliance is addressing. The Alliance approach allowed one council to lead on an issue and share learning with the others allowing all to benefit.

Councillor Warren stated that in the Council's recent "Bridging the Gap" budget consultation there had been comment from communities that the consultation had been very social media based and a lot of people had found it difficult to respond. She sought clarification on the possibility of looking at clarifying what is put out to consultation as there had been errors in the information issued.

In response the Chief Executive advised he was of the understanding an apology had been made for the errors which had been corrected. He further advised that the geography of Moray provided its own challenges when consulting with the public and it was a difficult balance between using the most modern ways of communicating, often social media, and the more traditional methods i.e. face to face contact.

In referring to educational attainment Councillor Brown stated funding had been announced to help with the attainment gap, but despite the difficulties seen in attainment none of the funding was allocated to Moray and asked if the Chief Executive knew why this was the case.

In response the Chief Executive advised he understood figures were based on poverty indicators. The difficulty in this is that, as he understands it, the way in which poverty is calculated would seem to be more favourable to the urban areas of Scotland.

The Chair stated that all were aware of the challenges being faced and thereafter the Committee agreed to note Audit Scotland's Challenges and Performance 2018 report.

5.   INTERNAL AUDIT PLAN – YEAR ENDING 31 MARCH 2019

A report by the Acting Corporate Director (Corporate Services) provided Committee with details of the planned internal audit coverage for the year ending 31 March 2019.

In response to a query from Councillor Leadbitter the Audit Manager advised there was a degree of flexibility in the audit plan and that as an audit covering the leisure centre was now required (paragraph 3 of this minute refers) this would impact on the contingency time available and reduce the flexibility within the plan.

Councillor Leadbitter sought clarification on whether it would be possible to include an audit of ICT project management in the Plan as there had been issues with the roll out of ICT equipment to Councillors and he raised concerns that the issues experienced may be replicated in other projects.

In response the Audit Manager advised he could include an audit however the terms of reference would have to be agreed to allow focus on appropriate areas.

In response to a query from Councillor Warren the Audit Manager advised time was included for follow-up work and the Pupil Equity Funding follow-up would be included.

Councillor Brown sought clarification on the authority and scope available to the Audit Manager to enter the Moray Leisure Centre, as a private limited company, and execute the audit as required.

In response the Audit Manager advised that, due to the Council making a monetary contribution to the Centre, there was scope to access information for audit purposes.

Thereafter the Committee agreed to:

i)   note the proposed internal audit coverage for the remainder of the 2018/19 financial year; and

ii)   task the audit manager with including an audit of ICT project management in the audit plan.

6.   AUDIT PLAN 2017/18 – PROGRESS REPORT

A report by the Acting Corporate Director (Corporate Services) provided Committee with information on the current status of projects included in the Internal Audit plan for 2017/18.

Following consideration the Committee agreed to note the contents of the report, and note the reasons for slippage and the actions being taken to conclude the work on the audit plan.

7.   ACCOUNTS COMMISSION REPORT – DUNDEE CITY COUNCIL FRAUD

A report by the Acting Corporate Director (Corporate Services) provided Committee with details of a major fraud detected by officers at Dundee City Council and reported on widely by the Accounts Commission and by others; and to report on officers' consideration of the circumstances and potential lessons to be learned in this Council.

In response to a question from Councillor Cowe the Audit Manager advised that Moray Council has a fidelity guarantee insurance that covers employees and Members conduct.

Thereafter the Committee agreed to note the report on Moray Council's consideration of findings in the Accounts Commission report on a significant fraud perpetrated by a former employee of Dundee City Council.

8.   STATEMENT OF OUTSTANDING BUSINESS

A report by the Chief Executive asked the Committee to consider progress and timescales in relation to follow-up reports and actions requested at previous meetings.

Following consideration the Committee agreed to note progress and timescales in relation to follow-up reports and actions requested by the Committee.

9.   QUESTION TIME

There were no questions raised.

REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 22 AUGUST 2018

SUBJECT: AUDIT SCOTLAND – MANAGEMENT REPORT – 2017/18

BY: CORPORATE DIRECTOR (CORPORATE SERVICES)

1. REASON FOR REPORT

1.1 To provide Committee with a copy of the External Auditor's management report for 2017/18.

1.2 This report is submitted to Committee in terms of Section III (I) (8) of the Council's Scheme of Administration relating to consideration of reports produced by the Council's External Auditor.

2. RECOMMENDATION

2.1 It is recommended that the Committee considers and notes the contents of the External Auditor's Management Report for 2017/18.

3. BACKGROUND

3.1 A management report has been received from Audit Scotland and is attached as **Appendix 1** to this report. The report contains a summary of the key issues identified during the interim audit work undertaken to gain assurances over systems and processes used in the preparation of the financial statements.

3.2 The audit findings together with management responses to issues raised are detailed in the report.

3.3 The report also includes consideration of wider issues which impact on the Council, and highlights financial sustainability as the major challenge currently facing the Council, noting that there is a risk that the Council is unable to agree and implement a sustainable model for service delivery before the Council's reserves are exhausted.

4. **SUMMARY OF IMPLICATIONS**

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))

The work of the external auditor provides assurances on key elements of the council's governance arrangements; arrangements that are central to the delivery of community and council plans.

(b) Policy and Legal

The audit is conducted in terms of statutory powers afforded to the appointed External Auditor and in accordance with Audit Scotland's Code of Practice.

(c) Financial implications

No implications directly arising from this report.

(d) Risk Implications

Implementation of the audit recommendations will mitigate the risk issues identified in the External Auditor's report.

(e) Staffing Implications

Audit recommendations will be addressed using existing staffing resources.

(f) Property

No implications.

(g) Equalities/Socio Economic Impact

No socio economic impacts known at this time .

(h) Consultations

The report has been agreed with the Corporate Management Team, Head of Financial Services, Acting Joint Head of HR and ICT, Democratic Services Manager, Internal Audit Manager and Payments Manager, who contributed the management responses to issues raised during the audit.

5.   CONCLUSION

5.1   The Management Report forms part of the external audit reporting for 2017/18 and is submitted to the Audit and Scrutiny Committee for its consideration.

Author of Report: Atholl Scott
Background Papers: Held by external auditor
Ref: LP/AS/LJC/213-3139

Moray Council

Management Report 2017/18

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- the Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance

- the Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.
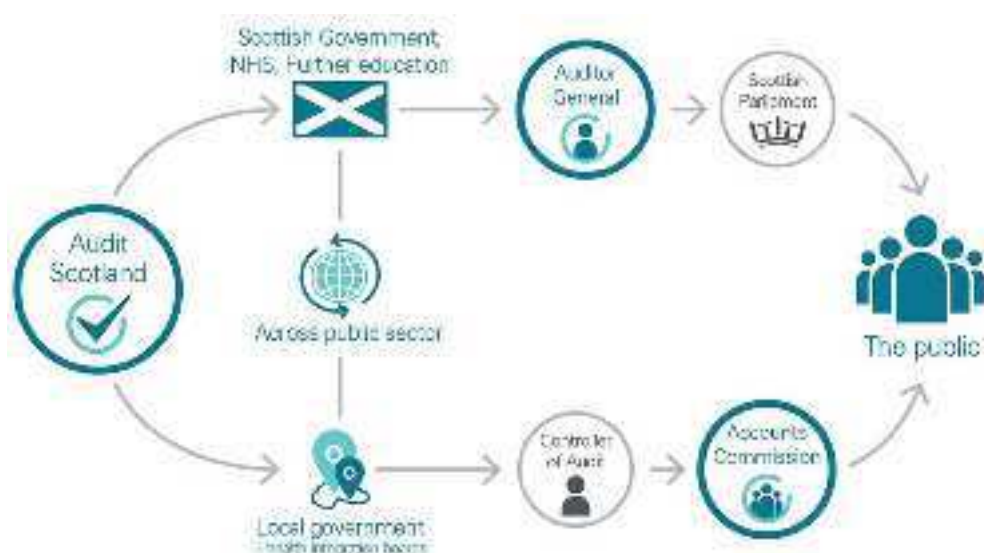
About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

Contents

Audit findings

Introduction

1. This report summarises the key issues identified from the interim audit work carried out at Moray Council. This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the annual accounts. We will consider the results of this testing when determining our approach to the audit of the 2017/18 annual accounts.

2. Our responsibilities under the *Code of Audit Practice* require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements

- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption

- complies with established policies, procedures, laws and regulations.

3. In addition, we carried out work on the audit dimensions as required by the Code of Audit Practice. This focussed on financial sustainability and governance and transparency. Areas where there is scope for improvement are set out in Exhibit 3.

4. Any weaknesses identified represent only those that have come to our attention during the course of our normal audit work and, therefore, are not necessarily all of the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to Moray Council.

5. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

6. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

Conclusion

7. Overall, we found that the key controls in place within Moray Council's main financial systems were operating satisfactorily with the exception of controls in operation over the council's payroll system and changes to supplier bank details. These control weaknesses are summarised in Exhibit 1 together with the additional work we will undertake to get the assurances we require to express our opinion on the 2017/18 financial statements. Exhibit 1 also includes an update on progress made in implementing the agreed recommendations included in our 2016/17 interim report.

8. In terms of our wider dimension audit work we identified areas where the council could improve current arrangements. These are summarised in Exhibit 3 and will inform our annual audit report which will be issued in September 2018.

Internal controls system and action plan

9. In accordance with ISA 330: the auditor's response to assessed risk, our audit judgements are based on current year testing of controls and, where appropriate, prior year results. Our risk based audit approach allows us to take a three-year cyclical approach to controls testing. This approach enables us to place reliance on previous years' audit work where controls remain unchanged and no significant weaknesses had been identified.

10. Our 2017/18 testing covered key controls in a number of areas including bank reconciliations, payroll validation and exception reporting, authorisation of journals, change of supplier bank details and IT access controls. Additionally, we tested controls in the following areas: budget monitoring and control; feeder system reconciliations and controls for preventing and detecting fraud in areas such as taxation receipts, welfare benefits, grants and other claims. We also assessed the financial controls within social work services to support the assurances required for the audit of Moray Integration Joint Board.

Bank reconciliations   **Payroll controls**   **IT access**   **Budgets**

11. The key control risks identified during the interim audit are detailed in Exhibit 1. These findings will inform our approach to the financial statements audit as detailed in the final column.

Exhibit 1
Key findings and action plan 2017/18

Issue identified	Management response, responsible officer and target date	Additional audit procedures
Audit findings		
1. Payroll validation A validation exercise to verify the existence of employees on the payroll system has not be undertaken since the introduction of the new payroll system on 1 April 2017. We have been advised that this is due to the organisational structure within the payroll system not being up to date (e.g. vacant posts not being removed from the system and some staff being allocated to the wrong posts). **Without confirmation, there is a risk that payments are made to people who are not employed by the council.**	The people manager module has still to be fully developed. Additional consultancy has been secured and a project plan developed outlining implementation work that remains to be completed during the 2018/19 financial year. A Business Objects report is being developed as an interim solution. This work will enable the circulation of establishment lists to managers to be re-introduced. **Responsible officers:** Head of Financial Services / Acting Head of HR and ICT **Target date:** October 2018	We will substantively test a sample of paid employees to ensure they are current employees of the council, through confirmation to other records/ management response.

Issue identified	Management response, responsible officer and target date	Additional audit procedures
2. Payroll system access Five members of staff have access to both the human resources and payroll system areas of iTrent enabling them to create a new employee and make payments through payroll. **There is a risk that weaknesses in segregation of duties could result in fraudulent payments.**	Changes have been made to some HR access levels to streamline duties and a comprehensive review will be part of the consultancy work referred to above. **Responsible officers:** Head of Financial Services / Acting Head of HR and ICT **Target date:** December 2018	We will substantively test a sample of new employees added by these five members of staff to confirm they are valid employees. We will also substantively test a sample of payments made to these five members of staff to ensure that they are valid.
3. Care home payments Care homes are required to submit a fortnightly return outlining any changes to the level of care provided prior to payment being made. Our interim testing identified that payment is not withheld if these care schedules are not returned. **There is a risk that payments have been made to care providers for care services they have not provided.**	Contracts with care homes are under the direction of Moray Integration Joint Board (MIJB) and the procedures for managing them, including verifying the accuracy of invoices and making payments, will be discussed with MIJB senior management and procedures agreed. **Responsible officer:** Head of Financial Services **Target date:** August 2018	We will substantively test a sample of payments to care homes who have not returned their fortnightly schedules and ensure that they are valid through confirmation to other records.

2016/17 Interim Report update

Issue identified	Management response, responsible officer and target date	Additional audit procedures
4. Changes to Supplier Bank Details All changes to supplier bank details require to be verified prior to processing. However, during our interim testing we identified instances whereby changes had not been verified in line with council procedures. **If procedures are not followed, there is a risk that unauthorised payments are made to third parties.**	**Management response 2016/17** The council recognises the risk of fraud occasioned by processing fictitious requests to change bank details and has instigated a policy which involves validating such requests before they are actioned. It is accepted that the recording of the validation steps could be improved and staff will be reminded of the importance of evidencing that agreed procedures have been followed. **Responsible officer:** Payments Manager **Target date:** August 2017 **Update from management:** A review of procedures has been carried out, including that of supplier account changes. A more robust new supplier authorisation process has been implemented that includes referral to Payments Officers.	We will substantively test a sample of supplier bank details to ensure that they have been verified in line with council procedures.

Issue identified	Management response, responsible officer and target date	Additional audit procedures
Update from 2017/18 testing: Our 2017/18 audit testing found that 8 of the 20 changes to suppliers' bank details tested had not been checked in line with council procedures and that a further 3 had no evidence that the change had been independently verified. **Ineffective controls over changes to supplier bank details increase the risk of fraudulent payments.**	**Management response 2017/18** 8 of the control weaknesses identified in 2017/18 related to 11 changes to suppliers' bank details which were carried out before the August 2017 action date. Council procedures are now being followed although not always evidenced and staff will again be reminded of the importance of evidencing that agreed procedures have been followed. **Responsible Officer:** Payments Manager **Revised Target date:** August 2018	
5. Authorisation of Journals There is no authorisation of journals posted to the ledger. **There is a risk that incorrect or fraudulent changes could be processed within the ledger system.**	In the opinion of management there is no risk of fraud as journals are used to amend coding or make internal recharges within the general ledger and cannot result in cash payments. However, journal types and processes will be reviewed to ensure that this is the case and consideration given to authorisation procedures. **Responsible officer:** Head of Financial Services **Target date:** January 2018 **Update from management:** A review was undertaken of month 10 journals. Following review, management remain of the view that the risk of incorrect or fraudulent changes processed within the ledger system is extremely low. The benefit of authorisation of journals is outweighed by the cost of implementation and no further action is proposed. **Risk accepted by management.**	We will use data analytics to identify and test a sample of high risk journals.
6. Changes to Chart of Accounts The council does not have a formal process in place for recording new/ amended ledger codes requests. Changes are made by the accountancy section following correspondence with the relevant department requesting the change but audit trails of changes were not evident. **There is an increased risk of misclassification of transactions if there is no audit trail evidencing the basis for changes.**	Nominals can only be created with the permission of a principal accountant and audit trail reports are available from the financial system This issue is considered to be low risk for the council however management will consider developing a procedure for review of amendments made to the chart of accounts and impact on disclosure. **Responsible officer:** Head of Financial Services **Target date:** March 2018	We will review the mapping of balance sheet codes from the ledger to the accounts using data analytics to identify any significant changes and to confirm that the mapping for the balance sheet is accurate and complete. This will confirm the overall net income/ expenditure.

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Issue identified	Management response, responsible officer and target date	Additional audit procedures
	Update from management: From January 2018 Accountancy is piloting a review of structure changes on a monthly basis. Nominal changes will be reviewed by a Principal Accountant and other structural changes reviewed by the accountants to confirm structure accuracy for management reporting and SeRCOP reporting **Recommendation implemented on a pilot basis.**	
7. Refunds Prior to issuing refunds, the council does not check other systems to identify whether the taxpayer or tenant has any outstanding debts. Checks of prior year accounts are made within individual systems. **There is a risk that the council does not receive all income due for the services provided.**	This has been considered in terms of the council's ability to legally set off credit balances against various sums that may be payable to the council. This is reflected in the council's Debt Management Policy approved by Policy and Resources Committee in 2015. The council intends to investigate the use of a corporate debt module within the Financial Management System. This would provide linked enquiries for debt across all services. **Responsible officer:** Head of Financial Services **Target date:** November 2017 **Update from management:** The work undertaken on the implementation of a corporate debt system established that considerable work would be required to automate the matching of accounts from three different systems. The current practice of offsetting Accounts Payable and Accounts Receivable will continue. **Risk accepted by management.**	N/A – value for money issue.

Source: Audit Scotland

Wider dimensions

Financial Sustainability

12. Financial sustainability is concerned with the robustness of the financial planning arrangements in place to identify and address financial risks in the medium (two to five years) and longer term (longer than five years). The Accounts Commission has stressed the need for long-term financial strategies, supported by medium-term financial planning, so that councils can respond to the acknowledged demographic and fiscal pressures.

13. Last year we reported that the council did not have a medium or long term financial strategy in place. The council has acknowledged, for a number of years, that its current level of service provision is not financially sustainable and since 2014/15 has balanced its annual revenue budget through the use of reserves.

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14. The council approved its 2017/18 budget in February 2017. The budget included a 3% increase in council tax and identified a funding gap of £11 million. In order to balance its budget, the council agreed to make £3.4 million of savings and use £7.6 million from its reserves. During 2017/18, the budgeted use of reserves was adjusted for additional approved expenditure, additional government grant announced during the year and additional approved savings resulting in a final budgeted use of reserves of £6.5 million. The council reported a year-end underspend for 2017/18 of £1.9 million, in the final Revenue Outturn report, with £4.6 million of reserves used to deliver this position.

15. The 2018/19 budget was balanced using £4.5 million of reserves (21% of the unearmarked general fund balance at 31 March 2017) and £6.5 million of identified savings. Current projections indicate that significant savings will need to be found to balance the budget in 2019/20 (£12.4 million plus £7 million reserves) and 2020/21 (£7.8 million), and that by 31 March 2020 reserves will be at the minimum level (£5 million) necessary to provide a contingency for emergencies and unforeseen financial pressures.

16. Work has begun to identify savings for 2019/20 but these will take time to develop and implement. The council has agreed to develop a list of short term savings options for consideration in September 2018. This is a challenging timescale, particularly given the recent change in administration, but it is essential that it is met if the council is to set a balanced budget for 2019/20 and beyond.

17. The council has made significant savings over recent years but continues to rely on short term one-year savings plans to deliver annual budgets. As part of its '*Modernisation and Improvement Programme*' it has begun to review how it operates but has yet to make the medium and long term transformational changes necessary to deliver sustainable services.

18. We reported last year that members must make difficult decisions about the services the council can afford to deliver. Since then, the council has experienced political instability with a number of members leaving the administration, and a new minority administration being formed in June 2018. Previous Best Value reports have highlighted the benefits of cross-party forums and, given the significant financial challenges facing members over the coming months, members should consider setting up a cross-party budget working group to discuss and agree budget priorities and actions.

19. We will continue to monitor the council's progress in developing a sustainable model for service delivery over the summer and report our findings in our annual audit report in September 2018.

Exhibit 3, no. 1

National Fraud Initiative
20. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error. The latest position for Moray Council is summarised in Exhibit 2.

21. Overall, our review of the council's NFI processes found that good progress had been made with the 2016/17 NFI exercise. In line with the NFI guidance, the council adopted a risk based approach to the NFI matching exercise, scanning all recommended matches and then testing those assessed as higher risk. A total of four errors (2 housing benefits and 2 duplicate payments) were found with a cumulative value of £7,774, all of which is being recovered. In addition, one case was identified where a deceased applicant had not been removed from the council's housing waiting list.

Exhibit 2

National Fraud Initiative

Total number of matches	Completed/closed investigations	Total number of recommended matches	Completed/closed recommended matches
2,817	555	807	338

Source: NFI website

22. Separately, the council reviewed all of the matches identified, as part of the 2016/17 NFI recheck exercise, for individuals in receipt of council tax single person discount, and wrote to them asking them to complete a council tax discount validation form. This identified more than 100 council tax payers who were no longer entitled to this discount resulting in a saving to the council of over £54,000. The council intends to do this as an annual exercise and has sent 170 validation forms following receipt of the latest matches in December 2017.

23. The results of the 2016/17 NFI exercise were reported to the Audit & Scrutiny Committee in November 2017.

Transparency

24. Internal Audit reports are not presented in full to the Audit & Scrutiny Committee, nor are they made available to members by some other means (for example, placing them on the members' portal). Instead a summary internal audit report is presented to the Committee. Generally, these summary reports include the executive summary for each main project completed by Internal Audit and accompanying action plan detailing recommendations made and management responses. We noted, however, that a number of projects were only reported in summary form (i.e. without the executive summary and action plan) during 2017/18. The majority of summary reports are presented in public session with only one 2017/18 internal audit report considered in private.

25. We believe that all internal audit reports should be available in full to audit committee members within a reasonable timescale of completion. It is acknowledged that some of these reports may require to have restricted public access in accordance with Schedule 7A of the Local Government (Scotland) Act 1973.

Exhibit 3, no. 2

Registers of Interests

26. In our 2016/17 Interim Report, we concluded that the council's register of interests met basic requirements, as set out in statutory guidance, for elected members. Arrangements for staff were less well developed, and we recommended that the council could make improvements to these arrangements by:

- asking all directors, and other key staff, to complete a register of interest return

- including a requirement to disclose family members interests as part of register of interest returns

- ensuring that registers of interest for members are refreshed and updated on the website and that this incudes "nil returns".

27. Following the council's response to our recommendations we have reviewed our assessment, and can confirm that a register of senior officers' interests has been prepared and is published on the council's website. Both the members' and senior officers' registers of interest are updated every six months. We noted, however, that there is no reference to the disclosure of family members' interests as part of the register of interest returns for members as required by section 5 of The Councillors' Code of Conduct.

Exhibit 3, no. 3

Wider dimension action plan

28. The wider dimension risks identified in the previous paragraphs are detailed in Exhibit 3. These findings will help inform our annual audit report conclusions on each of the wider dimension areas.

Exhibit 3
Key findings and action plan 2017/18

Issue identified	Management response	Responsible officer and target date
Audit findings		
1. Financial sustainability The current level of service provision is not financially sustainable. The council continues to rely on short term one-year savings plans and the use of its reserves to deliver annual budgets whilst maintaining services at previous levels. The council has not developed a transformational plan to deliver services sustainably over the medium and longer term. Previous Best Value reports have highlighted the benefits of cross-party forums and, given the significant financial challenges facing members over the coming months, members should consider setting up a cross-party budget working group to discuss and agree budget priorities and actions. **There is a risk that members are unable to agree and implement a sustainable model for service delivery before the council's reserves are exhausted.**	The Corporate Plan recognises the need for a programme of modernisation and improvement to support the council's priority of having a financially stable council. The report on Corporate and Financial Planning to council on 28 June referred to the need to develop a transformation programme and a separate report to that council meeting recommending the employment of advisers to assist the council in doing so was approved. The report identified the need for a short term financial plan to balance the 2019/20 budget to run in parallel with a medium-term approach to develop a transformation programme and a long term financial plan reflecting council priorities and building control of major risks. The council has recently had a change in administration. As the new administration is a minority administration then some form of cross party working will be vital. It is unclear at this early stage how that is likely to develop.	Corporate Management Team and Heads of Service Short term plan; report to council in September 2018 Initial diagnostic work: December 2018

Issue identified	Management response	Responsible officer and target date
2. Transparency Internal audit reports are not provided in full to members of the Audit & Scrutiny Committee. **There is a risk that members are unable to properly scrutinise internal audit's findings.**	Full internal audit reports will be placed on the members portal to mitigate the identified risk.	Internal Audit Manager October 2018
3. Registers of Interest Members' register of interest forms do not ask members to consider the need to declare the financial or non-financial interests of family members. **There is a risk that registerable interests of members are not adequately identified in the interests of openness and transparency.**	The forms used are considered to be set out in accordance with the Code of Conduct. The Standards Commission Guidance is provided to councillors to assist their declarations of interest and that guidance includes reference to declaring financial or non-financial interests relating to family. This element will be highlighted when the six-monthly reminders about keeping declarations up to date are sent to members.	Democratic Services Manager September 2018

Source: Audit Scotland

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Management Report 2017/18

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REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 22 AUGUST 2018

SUBJECT: REPORT ON THE WORK OF THE INTERNAL AUDIT SECTION IN THE PERIOD FROM 1 JANUARY 2018 TO 31 MARCH 2018

BY: CORPORATE DIRECTOR (CORPORATE SERVICES)

1.   REASON FOR REPORT

1.1   The report advises Committee on the work of the Internal Audit Section for the period from 1 January 2018 to 31 March 2018.

1.2   This report is submitted to Committee in terms of Section III (2) and (7) of the Council's Scheme of Administration relating to consideration of reports from the council's Internal Auditor and monitoring delivery of the audit service carried out by internal audit.

2.   RECOMMENDATION

2.1   That Committee consider the contents of this report, seeks clarification on any points noted and otherwise notes the report.

3.   BACKGROUND

3.1   This report provides details of the internal audit work concluded during the final quarter of the 2017/18 year and into the start of the current financial year; addressing slippage in the plan as a consequence of a staff vacancy

3.2   **Main Financial Systems – Housing Rents**

3.2.1   This scheduled review was designed to provide assurances on the accuracy and completeness of rent accounting systems established to manage income collected of some £18 million annually across the council housing estate of some 6000 properties. Extensive testing disclosed well managed processes by officers in the rent accounting team. A copy of the Executive Summary and Audit Action Plan for this project is provided as **Appendix 1.**

3.3 **Main Financial Systems – Procurement and Creditor Payments**

3.3.1 Throughout the year we sample payment invoices on an ongoing basis by extracting sample payments from the financial ledger and reviewing the costs incurred to ensure it is proper expenditure in terms of financial regulations, due and payable by the council. This process reviews a random sample of invoices, it also extracts multiple invoices with the same value as a check for duplicate payments, examines credit notes to establish the circumstances under which they have been issued, and also samples high value invoices which by definition are potentially higher risk. Our review of higher value invoices informed external audit testing in this area and there are no issues of concern to report.

3.4 **Departmental Systems – Elgin High School**

3.4.1 In continuing our cyclical coverage of secondary schools, an audit was completed at Elgin High School. Good systems were evident in the school, the principal issue noted being that there is a need centrally to update school fund regulations to incorporate guidance on use of online banking which is increasingly prevalent across the school estate. The audit was welcomed by the school's management and staff and a copy of the Executive Summary and audit action plan showing recommendations made and management responses are provided as **Appendix 2**.

3.5 **Departmental Systems – Cala Residential Centre**

3.5.1 The Internal Audit Manager visited the centre informally prior to its opening and was invited at the time to conduct an audit of the financial arrangements established once a settling-in period had taken place. The audit was undertaken under planned coverage on child care. A number of recommendations were made, the main issue being around use of purchasing cards, where although expenditures incurred were correct the regular use of cards by staff to facilitate the effective operation of the centre required improved management oversight. The Executive Summary and audit action plan for this project are given as **Appendix 3.**

3.6 **Departmental Systems – Social Care Information Governance**

3.6.1 This project started out as a review of system user access rights and over time was extended into social care and how information is recorded both in children's services within the council and Adult Services now part of the Integration Joint Board. Both areas use similar systems for recording information on service users. A high degree of awareness of the requirement to collect and use data judiciously was evident, recognising the challenge of ensuring that all data collected has to be accessible to those who need it yet restricted to others in supporting roles. Not an area without its challenges and topical as a consequence of the coming into force of the General Data Protection Regulation, consensus was achieved by the respective heads of service to review processes and give consideration to the audit recommendations made. A copy of the Executive Summary and audit action plan for this project are provided as **Appendix 4.**

3.7 **Risk Management**

3.7.1 During the period internal audit continued to support the corporate management team in the delivery of an updated corporate risk register and co-ordinated external support from the council's insurers to inform a multi-agency risk register for children's services. This work although not audit work per se, provides internal audit with an insight into what management considers are the significant risks which in turn informs the audit planning process.

3.7.2 The updated corporate risk register was presented to a meeting of Moray Council for consideration on 6 June 2018 (para 7 of the draft Minute refers).

3.8 **Stocks and Stores**

3.8.1 An end of year requirement for the annual accounts is to confirm the value of stocks held by the council across various depots taking in fleet services, roads and lighting and housing by testing quantities held and unit pricing as disclosed on the stock valuation sheets. This work was satisfactorily completed.

3.8.2 Additionally similar work was carried out covering Occupational Therapy stocks of aids and adaptations for use by individuals with disabilities. The service is meantime installing a new stores system for controlling these stocks and a report on same will be provided to the October meeting of this committee.

4. **SUMMARY OF IMPLICATIONS**

   (a) **Corporate Plan and 10 Year Plan (Local Outcome Improvement Plan (LOIP))**
   Internal audit work supports good governance and the delivery of efficient services.

   (b) **Policy and Legal**
   No implications.

   (c) **Financial Implications**
   No implications directly arising from this report.

   (d) **Risk Implications**
   The independent review of selected systems and procedures mitigates the risks associated with inadequate or ineffective control procedures.

   (e) **Staffing Implications**
   No implications.

   (f) **Property**
   No implications.

   (g) **Equalities/ Socio Economic Impacts**
   No implications.

(h)   Consultations

There have been no direct consultations during the preparation of this report.

5.   **CONCLUSION**

5.1   **This report provides Committee with a summary of findings arising from audit project completed during the review period.**

Author of Report: Atholl Scott
Background Papers: Internal audit files
Ref: AS/asc/220818

APPENDIX 1

AUDIT REPORT 19'009

HOUSING RENTS

EXECUTIVE SUMMARY

The annual audit plan provided for an audit review to be undertaken of the arrangements for accounting for Housing Rents income. The review forms part of the yearly audit coverage of core systems. With council housing rents within Moray raising £18.7 million per annum, in respect of approximately 6,000 properties, it is essential that robust controls are in place over rents administration and accounting.

The audit scope was to review the key controls in operation within the service with regard to rent determinations, maintenance of tenant accounts, rent collection and accounting arrangements. The aim of the audit was to look at the controls and processes existing over the administration of rent accounts in relation to the processing of annual rent reviews and property rent adjustments within year and accounting fully and promptly for monies collected by a number of methods and from a range of sources. The links and interfaces between the rents system and the main financial management system have also been studied.

The review has covered the systems in place within the current 2018/19 financial year to date, with reference made to the full 17/18 year where applicable. The systems and processes are complex however extensive audit testing has confirmed the application of sound controls and robust administrative practices. It is of note also that improvements have been made in the segregation of roles and responsibilities within the Housing Rents team since the last audit in this area. The level of internal control already evident in the systems examined has limited audit observations to the following points:-

- Occasionally notifications of required rent adjustments from Area Housing Offices have been by e-mail rather than by use of the standard notification form, which makes it more difficult to maintain a sound audit trail in support of any amendments;

- A relatively small variance of just under £10,000 has been reported in the year end reconciliation between the financial data on the Housing Rents System and the Council's Financial Management System. Although not significant given the value of rents administered, the variance remains unexplained at present and requires further investigation.

Moray Council

Internal Audit Section

Recommendations – Housing Rents

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.	Low		Lower level controls absent, not being operated as designed or could be improved.
No.	**Audit Recommendation**	**Priority**	**Accepted (Yes/ No)**	**Comments**	**Responsible Officer**	**Timescale for Implementation**
Key Control: Adjustments to rent accounts are supported, accurate and notified promptly to the tenant.						
5.01	The Rent Account Adjustment Request Form should be completed in support of all relevant rent adjustments to provide a clear record of the authorisation and a consistent audit trail.	Low	Implemented	All authorising officers have been emailed a link to the pro-forma and advised to use this for each adjustment request they sent to Rents Admin. These will be routinely saved by team members for future reference.	Rents Officer	

Moray Council

Internal Audit Section

Risk Ratings for Recommendations							
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.	Low		Lower level controls absent, not being operated as designed or could be improved.	
No.	**Audit Recommendation**	**Priority**	**Accepted (Yes/ No)**	**Comments**		**Responsible Officer**	**Timescale for Implementation**
Key Control: Housing Rents system transactions are reconciled on a regular basis to source documentation and to the Council's financial ledger content to ensure all monies have been properly accounted for.							
5.02	Work on identifying the cause for the imbalance in housing rents financial ledger accounting at year-end should continue to ensure this position does not persist within the current financial year.	Medium	Yes	A joint exercise will be carried out between Accountancy and Housing Rents to resolve the reconciliation issues.		Principal Accountant & Rents Officer	31/03/2019

AUDIT REPORT 19'010

ELGIN HIGH SCHOOL

EXECUTIVE SUMMARY

The annual Internal Audit plan for 2018/19 provides for a review to be undertaken of secondary school establishments as part of a rolling programme of audit visits. In consideration of previous secondary school audit coverage undertaken, Elgin High School was selected for review.

The purpose of the audit was to undertake a review of the operation of the Devolved School Management Scheme in terms of allocation of funding and the management of these funds at school level. Consideration was given to how budgets are affected by national, Council and school priorities and an assessment made of the extent to which school management can influence the allocation of financial resources.

In addition to undertaking an overview of how the school develops, monitors and controls its £2.9 million budget, the audit involved a study of the management of the significant staffing costs involved in delivering the curriculum, a review of procurement practices, an examination of the school's administration of income and also confirming accountability for School Fund monies. This audit work has focused on the practices in the current 2018/19 financial year to date and reference made to the full 17/18 year where relevant.

The review has found Elgin High School to be well managed with a sound appreciation generally held of policies, procedures and financial management processes. In terms of matters arising from this audit, the main issues which would benefit from management attention relate to:-

- the need to align online banking transaction authorisations with the traditional management authorisation structure in place for cheque disbursements from the school fund;
- strengthening of controls required in school fund income accounting to evidence a clear audit trail to supporting documentation and bank lodgements;
- the need to update the school's inventory register following the move to new premises.

The issues noted relating to use of online banking are likely to be mirrored in other schools across Moray given recent developments in banking practice, and there is no reference to this in current School Fund Regulations, which were last updated in 2011. This will require to be addressed centrally.

Moray Council

Internal Audit Section

Recommendations – Elgin High School

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium		Less critically important controls absent, not being operated as designed or could be improved.	Low	Lower level controls absent, not being operated as designed or could be improved.
No.	**Audit Recommendation**	**Priority**	**Accepted (Yes/ No)**	**Comments**	**Responsible Officer**	**Timescale for Implementation**
Key Control: Listings of equipment held by the School are kept up-to-date and secure with physical items appropriately identified.						
5.01	An up to date inventory listing should be maintained and regularly monitored, with a copy also kept off-site.	Medium	Yes	This will be actioned next session as all inventory has changed since the move to the new build in October 2017. School Support Co-ordinator will send email to Principal Teachers at start of next session asking them to complete a template to create a new inventory list for all moveable school property over the value of £500.	Head Teacher	31/10/2018
Key Control: School Funds are administered in compliance with the School Fund Regulations.						

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium		Less critically important controls absent, not being operated as designed or could be improved.	Low	Lower level controls absent, not being operated as designed or could be improved.
No.	**Audit Recommendation**	**Priority**	**Accepted (Yes/ No)**	**Comments**	**Responsible Officer**	**Timescale for Implementation**
5.02	The authorisation process for non-cheque payments must be strengthened to align with the established cheque payment process. This will require consideration to be given to arrangements for management authorisation of online payments within the online banking system, to ensure this approval exists prior to the funds being committed.	High	Yes	The school is in a period of transition with leavers and new senior staff starting next session. It will be investigated with the bank as to the possibility of adding additional levels of security to the online bank account at the same time as the authorised signatories are updated.	Head Teacher	31/12/2018
5.03	The School Fund Regulations should be updated centrally to include the required	High	Yes	School Fund Regulations will be updated to include online banking,	Administration Manager	31/07/2018

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium		Less critically important controls absent, not being operated as designed or could be improved.	Low		Lower level controls absent, not being operated as designed or could be improved.
No.	**Audit Recommendation**	**Priority**	**Accepted (Yes/ No)**	**Comments**	**Responsible Officer**	**Timescale for Implementation**
	controls to be applied when using online banking for payments from School Funds.			reconciliation of online payments received via IPay Impact and card transaction charges.		
5.04	Income administered by the school office, from whatever source, should be recorded in a manner to allow an audit trail from the source documents such as receipts, collection forms etc to banking lodgements.	Medium	Implemented	A new payment record sheet has been devised and issued to all staff asking them to make use of this for recording all income to the school with a specific column for noting receipt numbers.	Head Teacher	
5.05	A standardised income collection template should be developed for use when monies are collected outside the office environment. The	Medium	Implemented	As noted at 5.04 a new spreadsheet has been devised and when used by trip leaders will act not only as a receipt / income	Head Teacher	

Risk Ratings for Recommendations							
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium		Less critically important controls absent, not being operated as designed or could be improved.	Low		Lower level controls absent, not being operated as designed or could be improved.
No.	**Audit Recommendation**	**Priority**	**Accepted (Yes/ No)**	**Comments**		**Responsible Officer**	**Timescale for Implementation**
	collection record should document amounts received, their source and the date of receipt and should be copied to the office along with any passing of monies to verify the amount handed over between employees.			check sheet but also when printed will act as a signature sheet for money being handed over to the office for banking.			
5.06	Pupil trip contributions should be banked intact. When cash expenditure is required, a cash float should be issued to the responsible officer and documentation submitted to support each purchase	Medium	Implemented	All staff have been notified they must not hold back cash from income for 'cash expenditures' and that all cash must be banked intact. Any additional		Head Teacher	

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium		Less critically important controls absent, not being operated as designed or could be improved.	Low	Lower level controls absent, not being operated as designed or could be improved.
No.	**Audit Recommendation**	**Priority**	**Accepted (Yes/ No)**	**Comments**	**Responsible Officer**	**Timescale for Implementation**
	made.			cash required for trips will be withdrawn and accounted for separately by the provision of receipts.		

AUDIT REPORT 18'017

CALA RESIDENTIAL CENTRE

EXECUTIVE SUMMARY

A review was undertaken of Moray Council's sole Residential Care Home as part of the annual audit coverage of Education and Social Care services. Cala Residential Care Home became registered with the Care Inspectorate in December 2015 and consists of purpose-built residential accommodation for up to six children and young people aged 11 years and over. Prior to the opening of Cala, young persons with such needs had to be accommodated as out of area placements. This is the first internal audit review of the facility.

The study has covered areas such as budget management, control of staffing costs, a review of procurement practices and examination of the establishment's administration and accountability for monies and other assets.

This audit work has focused on the 2017/18 financial year and in terms of financial scale, the home had an operational budget of £944,000 for the year, 91% of which relates to staffing costs for the facility.

The main findings from the audit are as follows:-

- Extensive use is made of purchasing cards by establishment employees due to the need for immediate and 'in person' transactions inherent in the operation of a 24/7 facility. The Authority's Purchasing card guidelines require all transactions over £10 in value to be authorised by budget managers but this is not being undertaken. While individually this transaction value is low, card payments in the test month totalled some £3,400, hence the need for budget manager participation in the authorisation process.

- Also relating to the sample audit testing of purchasing card transactions, instances were identified where no supporting receipt could be located or where the receipt submitted did not provide adequate detail to verify the expenditure incurred. In some cases, the receipt was not in the required format in order for the Authority to reclaim VAT on the transaction.

- A system for recording a chronology of events within residential childcare has been installed and piloted without following standard Council procedures of ICT and Procurement involvement. Following a free trial period, the system is now being paid for from month to month. There is a need for a system of this type to be available on an ongoing basis, and a formalised contract agreement needs to be put in place.

A number of lower risk findings have also been reported for management attention in relation to issues such as employment terminations, petty cash, pocket money and inventory control.

Moray Council

Internal Audit Section

Recommendations: Cala Residential Centre

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.	Low		Lower level controls absent, not being operated as designed or could be improved.
No.	**Audit Recommendation**	**Priority**	**Accepted (Yes/ No)**	**Comments**	**Responsible Officer**	**Timescale for Implementation**
Key Control: Robust processes are in place to ensure expenditure is incurred through proper procurement channels, authorised and validated as appropriate.						
5.1	All purchasing card transactions over £10 must be scrutinised and authorised by the budget manager, on a prompt basis.	High	Yes	New admin support is in place who will log all transactions for the manager / in-absence authoriser to authorise on a weekly basis.	Residential Manager	31/07/2018

Moray Council

Internal Audit Section

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.	Low		Lower level controls absent, not being operated as designed or could be improved.
No.	**Audit Recommendation**	**Priority**	**Accepted (Yes/ No)**	**Comments**	**Responsible Officer**	**Timescale for Implementation**
5.2	For all purchasing card transactions incurred, an appropriate receipt should be available to support the transaction. This process may be assisted by the further investigation of attaching receipts electronically within the purchasing card system. Where the transaction is vatable, a valid VAT receipt must be submitted in order for the Authority to reclaim the VAT element.	High	Yes	Once the new manager is in post, scanning of receipts will be considered. Emphasis on the need for receipts will be discussed at Team Meetings and the new manager will liaise with the Payments Section to obtain advice on purchasing card administration.	Residential Manager	31/07/2018

Moray Council

Internal Audit Section

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.	Low	Lower level controls absent, not being operated as designed or could be improved.	
No.	**Audit Recommendation**	**Priority**	**Accepted (Yes/ No)**	**Comments**	**Responsible Officer**	**Timescale for Implementation**
5.3	The specification of requirements for the database recording system should be progressed at an early date in order to allow tender documents to be prepared and a formalised contract put in place for the supply.	Medium	Yes	Specification is currently with Legal Services, ICT & Procurement for comment before completion of contract.	Strategy Manager	30/06/2018

Moray Council

Internal Audit Section

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.	Low	Lower level controls absent, not being operated as designed or could be improved.	
No.	**Audit Recommendation**	**Priority**	**Accepted (Yes/ No)**	**Comments**	**Responsible Officer**	**Timescale for Implementation**
Key Control: Petty Cash funds are administered properly, used for their intended purpose and transactions are supported by receipts.						
5.4	Petty Cash vouchers completed in absence of a supporting receipt should be signed by the employee who is verifying appropriate application of the funds.	Low	Yes	Residential Senior / Manager to follow up any vouchers without receipts and raise via supervision.	Residential Manager	31/08/2018

Moray Council

Internal Audit Section

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.	Low		Lower level controls absent, not being operated as designed or could be improved.
No.	**Audit Recommendation**	**Priority**	**Accepted (Yes/ No)**	**Comments**	**Responsible Officer**	**Timescale for Implementation**
Key Control: Pocket money is controlled and accounted for appropriately						
5.5	The revised pocket money rates, dependent on age, should be paid to the young persons resident in the home.	Low	Yes	Pocket money rates have been agreed and will be implemented.	Residential Manager	31/08/2018
5.6	In order to improve transparency, a summary record of reparations income and expenditure needs to be maintained and regularly reconciled to the physical cash held.	Low	Implemented	A system has been established to ensure reparation money is fully accounted for.	Residential Manager	

Moray Council

Internal Audit Section

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.	Low	Lower level controls absent, not being operated as designed or could be improved.	
No.	**Audit Recommendation**	**Priority**	**Accepted (Yes/ No)**	**Comments**	**Responsible Officer**	**Timescale for Implementation**
Key Control: Valuable and sensitive items held are adequately safeguarded with access limited to appropriate personnel.						
5.7	A checklist template should be prepared for use in evidencing the withdrawal of all aspects of physical and system access in the event of an individual's termination of employment at Cala.	Low	Implemented	Checklist is now in place.	Residential Manager	
Key Control: Listings of equipment held by the establishment are kept up-to-date and secure with physical items appropriately identified.						
5.8	The inventory listings should be reviewed to ensure all areas of the building and its relevant contents are included on the record.	Low	Implemented	Office inventory has now been added to the existing list.	Residential Manager	

AUDIT REPORT 17'016

SOCIAL CARE - INFORMATION GOVERNANCE

EXECUTIVE SUMMARY

The annual internal audit plan for 2017/18 provides for a review to be undertaken of how information relating to social care service users is recorded, accessed and kept up to date. Effective controls in this area are particularly important due to the sensitive nature of much of the information held. In addition, the council has duties under data protection regulations, and breaches of these regulations can result in censure and substantial financial penalties being levied by the Information Commissioner's office.

This review focused on access controls around the management of case files. This included consideration of who can view, add, amend or delete information, recognising that restricted access has to be balanced with a need for prompt availability of information for those employees who require it for the effective delivery of services.

The council uses a system known as CareFirst to record and manage social care cases for both adult and children's services. CareFirst is a long standing widely used application within the public sector for recording social care data. Most of the service user data is available on CareFirst, with some data retained separately either on a council IT server or in paper files.

With large volumes of data collected by many different officers over an extended period, the holding of all information on a single system has not been possible. This increases the risk that not all information on any one service user will be readily accessible, although Case Recording Procedures have been implemented to provide guidance to officers on how service user data should be recorded and saved.

In terms of issues arising in the course of this audit the main points raised for management consideration and attention relate to:

- Evaluating whether, with improving technology, it is feasible to strengthen case recording procedures such that all data ultimately can be recorded in a single file for each service user.
- Reviewing the access arrangements for CareFirst to limit as far as is practicable access to case files only to those officers who need to see them.
- Improving procedures for auditing who has accessed files and the reason for that access through formal recording of supervisory reviews of system audit logs

- Strengthening password controls, both the format of the password (using a range of characters, digits, capital letters etc.) and making it a requirement to change passwords periodically
- Ensuring to the extent possible that the same processes are applied in respect of case files held both for adult services (now directed by the Integration Joint Board) and for children's services provided by the council.

This audit review is timely given the impending coming in to force of new General Data Protection Regulations in 2018, and provides management with an opportunity to reflect on current information management practice in services where large volumes of complex and sensitive data are held.

Recommendations – Social Care Information Governance

	Risk Ratings for Recommendations					
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.	Low	Lower level controls absent, not being operated as designed or could be improved.	
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
Key Control: Effective Information control systems in operation to protect and secure access to sensitive information.						
6.1	Investigation should be undertaken to explore the possibilities of developing a single case recording system.	High	Yes	Planning to begin upgrade to new version of CareFirst which includes document management. Adult and Children Services will jointly review their document management requirements with a view of upgrading to the new Care First System for the future recording	Commissioning & Performance Manager Head of Integrated Children's Serv	31/07/2020

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
				of all case documents.		
6.2	A review of access rights to CareFirst, Shared Drive and Paper Files should be undertaken with the purpose that officers should only be authorised to view case file information required to undertake their duties.	High	Yes	A review to meet the requirements of both Services will be undertaken, however, implementation may be dependent on the upgrade to the new Care First System.	Commissioning & Performance Manager on behalf of both services	31/12/2018
6.3	The Service should develop a more co-ordinated approach to ensure regular and effective information security practices are communicated across the Service.	Medium	Yes	Regular bulletin for teams.	Commissioning & Performance Manager for both services	31/12/2018

Internal Audit Section

	Risk Ratings for Recommendations					
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
6.4	A representative from the Integration Joint Board should attend the Information Assurance Group.	Medium	Yes	Invite for a representative to join the Information Assurance Group will be issued .to the Integration Joint Board.	Commissioning & Performance Manager	Complete
6.5	Any breaches in information security should be reported to the Information Assurance Group. This would allow the control environment to be reviewed and for recommending improvements to systems.	Medium	Yes	In consultation with the Information Assurance Group (IAG), procedures will be developed across both services for standard reporting of breaches in	Commissioning & Performance Manager	31/12/2018

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
				information security to the IAG.		
6.6	Regular reviews of Case Files to ensure completeness should be undertaken by Adult Services as is currently undertaken within Children and Criminal Justice Services.	High	Yes	Immediate re-introduction of regular audits of case files within Adult Services. However both Adult and Children Services to explore the possibility of agreeing a uniform case auditing and reporting system.	Head of Community Care Head of Integrated Children's Serv	30/06/2018
6.7	A "Summary Report on Case File Auditing" should be undertaken on a yearly basis.	Medium	Yes	Already actioned through QAPPT and single agency	Head of Integrated Children's Serv	Implemented

	Risk Ratings for Recommendations					
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.	Low		Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
				processes To be reported to Practice Governance Board	Commissioning & Performance Manager	31/08/2018
6.8	A reminder should be issued to all Managers and Senior Officers within Children's Services and Criminal Justice of the importance of completing Case File Reviews at the required intervals.	Medium	Yes	Already actioned – quarterly reports coming to ICS	Head of Integrated Children's Serv	Implemented
6.9	Service improvements highlighted from case file reviews should result in a documented improvement plan for implementation by the Service.	Medium	Yes	ICS working to improve communication of audit findings through PGG and developing PRISM. To be reported to Practice Governance	Head of Integrated Children's Serv Commissioning & Performance Manager	Ongoing 31/08/2018

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
				Board.		
6.10	Access to restricted case files within the CareFirst System should only be allowed after authority is obtained from a Team Manager.	Medium	Yes	Review process with a view of implementing new authorisation procedures.	Commissioning & Performance Manager	31/12/2018
6.11	Clear description should be detailed of why access is required by an officer to a Restricted Case File.	Medium	Yes	As 5.10	Commissioning & Performance Manager	31/12/2018

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
6.12	Access by any officer including IT Officers and Support should be clearly recorded within the Restricted Case File Access Report.	High	Yes	Investigate feasibility for amendment to report. Agreed in principle- Any access by officers out with SWS should be scrutinised by a senior member of SWS.	Commissioning & Performance Manager	30/06/2018
6.13	Evidence should be retained to confirm restricted Case File access report has been reviewed by a Senior Manager.	Low	Yes	Agreed in principle- Will review report distribution list and guidance across both Services. Closely linked to 5.10-5.13 above	Commissioning & Performance Manager Head of Integrated Children's Serv	30/06/2018
6.14	Authorisation should also be obtained from a senior manager of any access required to a restricted case file when information is stored	Medium	Yes	Review current process and investigate viability of new processes.	Commissioning & Performance Manager	31/12/2018

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
	within the Shared Drive or Paper File.				Strategy Officer	
6.15	The Service should develop clear guidelines regarding the use of mobile storage devices e.g. encrypted USB sticks.	Medium	Yes	Guidance will be issued to all officers incorporating Corporate Information Security Policies.\n\nAlso be incorporated into 6.3 using corporate guidance; ICS has issued recent guidance circulated from GDPR officer.	Commissioning & Performance Manager	31/12/2018
6.16	CareFirst Case Files should be deleted in accordance with the Council Document Retention Policy. Deletion of any case files	High	Yes	Procedures in both Services include a requirement for a Senior	Commissioning & Performance Manager	30/06/2018

	Risk Ratings for Recommendations					
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
	should only be actioned after authority of a senior manager within the Service is obtained.			Manager to delete a file. Any files highlighted for deletion by System Support will also require the authority of a Social Work Manager.	Head of Integrated Children's Serv	
6.17	Information held within the Shared Drive and Paper File should be deleted and destroyed at the same time as deleting the case file within CareFirst.	Medium	Yes	Procedures within both Services include this requirement- Ongoing review undertaken to ensure compliance.	Commissioning & Performance Manager Head of Integrated Children's Serv	30/06/2018
6.18	Access rights to the CareFirst System should be suspended where an officer has not accessed the system for a period of 3 months. Any reinstatement of	Medium	Yes	Agreed- System Support will retain evidence of Service/ Team Manager	Commissioning & Performance Manager	Implemented

Risk Ratings for Recommendations					
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.	Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
	access should require the authorisation of a Team or Service Manager.			authorisation for reinstatement of officer access to CareFirst. Review of compliance to be undertaken	Commissioning & Performance Manager	August 2018
6.19	The revised Case Recording Procedures within Adult Services currently in draft, should be agreed and issued.	Medium	Yes	Already actioned.	Performance Officer.	Implemented

Moray Council

Internal Audit Section

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
6.20	Reference should be made to the Information Security Policy within the Case Recording Procedure to ensure officers have a greater awareness of good information management practices.	Low	Yes	Implemented within Adult Services. Review recording policies to ensure reference to ISP's within Children Services	Head of Community Care Head of Integrated Children's Serv	31/12/18
6.21	The category index used for paper files should be reviewed and amended accordingly to reflect current information recording requirements.	Low	Yes	Short term working group from both adult & children's services to agree recording requirements.	Commissioning & Performance Manager	31/12/2018

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
6.22	The Information Security Policy should be reviewed and updated as required.	Medium	Yes	A review of the Corporate Information Security Policy will be included within the ICT Infrastructure Security Projects for 2018/19.	ICT Infrastructure Manager	31/03/2019
6.23	Documented assurance should be obtained from the CareFirst Software Supplier of the requirement for confidentiality of personal information when technical access is required for updates etc.	Medium	Yes	To follow up with OLM	Information Systems Officer	30/09/2018
6.24	Consideration should be given to providing all officers with regular briefing sessions regarding the recording, saving etc of service user information.	Medium	Yes	Annual staff briefing Regular bulletin (see also 5.3)	Head of Integrated Children's Serv Commissioning & Performance Manager	31/12/2018

Moray Council

Internal Audit Section

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
6.25	Consideration should be given in partnership with the ICT Applications Manager whether the Information Systems Team within the Community Care Service should be moved to be under the line management of the Corporate ICT Section.	Low	Yes	Investigate advantages/ disadvantages of this recommendation	Head of Integrated Children's Serv. Commissioning & Performance Manager Joint Head of HR and ICT	31/03/2019

REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 22 AUGUST 2018

SUBJECT: INTERNAL AUDIT ANNUAL REPORT – 2017/18

BY: CORPORATE DIRECTOR (CORPORATE SERVICES)

1. REASON FOR REPORT

1.1 To provide Committee with a copy of the Internal Audit Annual Report for the year ended 31 March 2018, together with the internal audit manager's opinion on the adequacy and effectiveness of the council's system of internal control.

1.2 This report is submitted to Committee in terms of Section III (I) (9) of the Council's Scheme of Administration–relating to considering the annual assurance statement provided by Internal Audit on the Council's control environment.

2. RECOMMENDATION

2.1 That Committee considers the contents of the annual report given as Appendix 1 to this report and seeks clarification on any matters relating thereto.

3. BACKGROUND

3.1 The Public Sector Internal Audit Standards applicable to local government require the Internal Audit Manager to deliver an annual internal audit opinion and report for use by the organisation to inform its governance statement. The governance statement is published with the annual accounts and draws on a wide range of sources to report on how the council is managed and controlled.

3.2 It is proposed that the Committee considers the contents of the annual report which provides a commentary on internal audit activity during the year and the opinion on the Council's control environment.

3.3 The report covers the year to 31 March 2018 and is provided as **Appendix 1**.

4. **SUMMARY OF IMPLICATIONS**

    (a)   **Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))**
Internal Audit assists the organisation to secure the control environment and provision of this annual report supports the Council's commitment to effective and accountable governance arrangements.

    (b)   **Policy and Legal**
The report supports the requirement under the Public Sector Audit Standards to deliver an annual opinion and report for use by the council to inform its governance statement.

    (c)   **Financial Implications**
No financial implications.

    (d)   **Risk Implications**
Audit work mitigates the risks arising as a consequence of inadequate internal control systems.

    (e)   **Staffing Implications**
No implications.

    (f)   **Property Implications**
No implications.

    (g)   **Equalities/ Socio Economic Impact**
No issues to report.

    (h)   **Consultations**
There have been no consultations in respect of this report.

5. **CONCLUSION**

5.1 **The Internal Audit annual report provides a summary overview of the nature and extent of audit work carried out during the year to inform the audit opinion on the internal control environment operating within the Council.**

Author of Report: Atholl Scott
Background Papers: Internal Audit Reports and Working Paper Files
Ref: AS/asc/220818

INTERNAL AUDIT

ANNUAL REPORT and OPINION

1 APRIL 2017 to 31 MARCH 2018

Background

This report is issued in compliance with the Public Sector Internal Audit Standards (PSIAS) which requires the Internal Audit Manager to deliver 'an annual internal audit opinion and report that can be used by the organisation to inform its governance statement', and which 'must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control'.

The annual report must incorporate:

- the scope, including the time period to which the opinion relates, and any scope limitations;
- consideration of all related requirements including reliance on other assurance providers
- a summary of the information that supports the opinion; and
- the risk or control framework or other criteria used as a basis for the overall opinion
- the overall opinion, judgement or conclusion reached

The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Basis of Opinion

The opinion takes the form of assurance, provided to the Audit and Scrutiny Committee, on the council's system of internal control. This opinion is based on my knowledge of the council's governance, risk and control processes and from audit work completed during the period to 31st March 2018.

There are limitations to the level of assurance that can be provided dependent on the scope and coverage of the audit work completed. This is reflected in the opinion provided below.

Risk or Control framework informing the Opinion

The annual audit plan presented to the Audit and Scrutiny Committee at the start of the year describes in some detail the framework around which audit work is developed. The selection of audit topics is informed having regard to corporate planning documents; budget data and information drawn from the corporate risk register, and takes into account input from senior management regarding possible areas for audit.

Committee agenda papers and minutes are also monitored to obtain an overview of policy developments across the council and to assess their potential impact on systems of control, and changes in key personnel and related risk impacts are also taken into account.

These processes take into account the strategies, objectives and risks of the organisation and meet the expectations of senior management and the Audit and Scrutiny Committee, thus creating a programme of work sufficient to inform the overall annual opinion.

An element of the plan each year covers work on main financial systems which are of key significance to the council in terms of good financial governance. These systems receive the greatest focus in terms of management control and are also reviewed on a cyclical basis by the external auditor to obtain assurances needed for the audit of the annual accounts. Internal audit takes account of planned external audit work to avoid duplication; and also undertakes work which external audit can use to inform its own work.

For 2017/18, these covered aspects of creditor payments and procurement; non domestic rates; and housing benefit payments. In addition, as well as considering internal audit's work on governance and risk management as outlined below the external auditor assessed Internal Audit's involvement in co-ordinating the council's participation in the National Fraud Initiative programme.

Aside from the main systems referred to above internal audit work was completed on housing rent accounting and stock control systems were reviewed and year end stock valuations confirmed. Payroll work was also undertaken on supply teacher costs and also featured in a number of other projects within service departments.

These other projects focusing on departmental systems included audits of waste management, fleet services, two secondary schools and a residential children's centre. Grant claims relative to town centre regeneration, strategic timber funding for strengthening rural roads and the bus service operator's grant were also examined in confirmation that the funding obtained had been claimed in accordance with relevant grant conditions.

On completion of audit fieldwork, individual audit reports are prepared together with action plans making recommendations for management consideration. An Executive Summary and completed action plan for each project are then presented to the Audit and Scrutiny Committee, and following on from an external audit recommendation full audit reports in future will be placed on the members' portal to further increase the transparency of the established reporting processes.

A separate programme of work was also undertaken in relation to social care; the outcomes and opinion in relation to these projects has been reported

separately to the Audit, Performance and Risk Committee of the Moray Integration Joint Board.

Summary of work that supports the Opinion

The audit assessment of the adequacy and effectiveness of the Council's system of internal control comprises the following elements:

- Governance – in supporting the preparation of the council's annual governance statement, sufficient information was obtained by Internal Audit to conclude that the council generally complies with the latest good governance practice issued by CIPFA / SOLACE during 2016/17, and that the Corporate Management Team (comprising the Chief Executive and three Corporate Directors) and Senior Managers have a good awareness of the challenges facing the council in the incoming period. The need to update the council's Local Code of Corporate Governance to reflect the new guidance has been recognised and further work is planned to obtain written formal assurances from senior managers acknowledging their role in securing good governance across all council services.

- Risk Management – procedures are well developed with a risk management policy and strategy in place and risk registers maintained at corporate and service levels. The format of the corporate risk register was amended during the year to provide greater transparency around the principal risks facing the organisation and the Corporate Management Team carefully considered how these risks could be managed. Political and financial risks figured highly given the acute challenges the council has faced and continues to face going forward and the reporting of the register to Policy and Resources Committee, albeit after the year end, engendered considerable debate among elected members. Risk management at service levels continued to the extent driven by individual managers in the absence of any supporting risk management resource, however plans are to reinvigorate the process through training as part of the Moray Management Methods initiative and part time staff resource has been identified to support this work.

- Internal Control Environment – the internal control environment is evaluated through completion of a range of audit projects contained within an annual audit plan agreed by the Audit and Scrutiny Committee. Internal audit operates independently within the organisation and there were no limitations imposed by management on the scope of audit work performed during the year. The limitations if any were restricted to the level of available staff resource, the need for an additional post having been identified during the audit planning process at the start of the financial year but remaining vacant until March 2018. For this reason the audit plan for the year was not completed at the year end it being agreed by the Audit and Scrutiny Committee that pending projects should be carried into the first quarter

of 2018/19. To the extent that audit work on these projects has been completed at the time of drafting this report any control issues identified have been taken into consideration in informing the internal audit opinion.

Statement on Conformance with the Public Sector Internal Audit Standards

The Local Authority Accounts (Scotland) Regulations 2014 require public bodies to operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing. These standards are designated as 'Public Sector Internal Audit Standards'.

The Scottish Local Authorities Chief Internal Auditors' Group, comprising the audit managers or equivalent of all Scottish Councils, has developed a checklist for assessing conformance with the Standards. This supports the requirement for periodic self assessments and external assessments as part of Internal Audit's Quality Assurance and Improvement programme. The checklist comprises 4 sections with thirteen assessment areas; all but two of these were self assessed as fully or generally conforming to the Standards.

Two were assessed as partially conforming, work being required to update job descriptions, formalise training plans and have a consistent approach to recording training undertaken, and issuing customer feedback surveys to recipients of audit services. These have not been seen as a priority given workloads generally. As noted elsewhere in this report the service now has additional staff resource and an audit management software package to improve the efficiency of the service. This should enable progress towards addressing these areas to be made. The other outstanding matter is completion of an external quality assessment of internal audit based on the same checklist used internally; originally scheduled for 2017/18, this will now take place in September 2018 and will be led by a qualified auditor from another Scottish Council.

Quality Assurance and Improvement Programme

Work relative to quality assurance and improvement during 2017/18 mainly involved the internal assessment process completed and reported on above; as noted there are several issues that require further work to enhance compliance with the Standards and these will be worked on along with any further issues that may emerge from the external review.

Opinion

Any system of control can only ever provide reasonable and not absolute assurances that control weaknesses or irregularities do not exist or that there is no risk of error, fraud, or breaches of laws or regulations. Furthermore, it is the responsibility of management to establish an appropriate and sound

system of internal control and to monitor the effectiveness of that system, and it is the responsibility of the Internal Audit Manager to provide an annual assessment of the robustness of the internal control system.

It is my opinion, based on audit work completed, that reasonable assurance can be placed on the adequacy and effectiveness of the council's internal control system for the year to 31 March 2018.

Atholl Scott
Internal Audit Manager
9 August 2018

REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 22 AUGUST 2018

SUBJECT: THE NATIONAL FRAUD INITIATIVE IN SCOTLAND

BY: CORPORATE DIRECTOR (CORPORATE SERVICES)

1.   REASON FOR REPORT

1.1   To provide Committee with information from Audit Scotland's recently published report on the National Fraud Initiative (NFI).

1.2   This report is submitted to Committee in terms of Section III (I) (3) of the Council's Scheme of Administration relating to considering reports from Audit Scotland concerning Council functions.

2.   RECOMMENDATION

2.1   **Committee considers and notes the outcome from the Audit Scotland report and notes the council's responses to recommendations therein, which generally are in satisfactory terms.**

3.   BACKGROUND

3.1   The National Fraud Initiative has been in place for a number of years and continues to generate positive benefits for the public sector.

3.2   Co-ordinated by the Cabinet Office on behalf of Audit Scotland, it is essentially a data matching exercise involving participants from across the public sector including local authorities.

3.3   Data from a range of council systems is matched with other information provided by the council or from other organisations. In the majority of cases matches occur for legitimate reasons; where they do not, participating bodies are invited to check the nature of the match and have it corrected.

3.4   This Committee has been provided with information on outcomes from work undertaken by internal audit in this council (paragraph 4 of the minute of 8 November 2017 refers), and the approach taken in general has been endorsed by the external auditor (as referenced in the separate management report in this agenda).

RECOMMENDATIONS –NATIONAL REPORT

3.5   The recommendations from the national report and council observations thereon are as follows (page six of the report refers – see http://www.audit-scotland.gov.uk/uploads/docs/report/2018/nr_180705_national_fraud_initiative.pdf):

(1) All participants should ensure that they maximise the benefit of their participation.

Council response: Agreed, a proportionate approach has been and will be taken.

(2) Consider using the NFI App check point of application service, the flexible matching service and the Equifax Public Sector Gateway service when planning their counter fraud activities.

Council response: The council already uses the flexible matching service and for the others there are additional costs that up to now the council has considered would outweigh any additional benefits to be derived. This will be kept under review.

(3) Consider whether it is possible to work more efficiently on the NFI matches by reviewing guidance.

Council response: This remains under review given the scarcity of resource and other priorities – we will continually look for ways to achieve the desired outcome at optimal costs.

(4) Audit Committees, or equivalent and officers leading the NFI should review the National Fraud Initiative self appraisal checklist.

Council response: This was done relatively recently but given the change in committee membership, the results of an updated review will be presented to a future meeting of the committee, with planning for the 2018/19 NFI exercise soon to get under way.

(5) Where local auditors have identified specific areas where improvement could be made, council should act on these as soon as possible.

Council response: There are no significant issues for this council; however, we have an ongoing dialogue with our local external auditor that will enable any issues arising to be considered.

(6) Council should investigate council tax single person discount matches to ensure that their awarded discounts are valid.

Council response: All such discounts awarded are checked, as work on this topic in the past has derived the greatest benefit for the council.

4. **SUMMARY OF IMPLICATIONS**

(a) **Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))**
No implications.

(b) **Policy and Legal**
No implications.

(c) **Financial implications**
There is a cost of participation; however, there are also benefits where correction of errors results in additional funding for the council, and additionally, assurances are obtained on the robustness of the systems.

(d) **Risk Implications**
The risk of not participating is that fraud or error occurs and is allowed to continue unchecked.

(e) **Staffing Implications**
No implications.

(f) **Property**
No implications.

(g) **Equalities/Socio Economic Impact**
No implications.

(h) **Consultations**
The Head of Financial Services as the NFI Senior Responsible Officer has been consulted, any comments made have been considered when writing the report.

5. **CONCLUSION**

5.1 **Audit Scotland's report on the National Fraud Initiative provides Committee with a commentary on its role and purpose and makes recommendations that are considered within this report.**

Author of Report: Atholl Scott

Background Papers: Audit Scotland NFI National Report
Ref: AS /asc/220818

REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 22 AUGUST 2018

SUBJECT: STATEMENT OF OUTSTANDING BUSINESS

BY: CHIEF EXECUTIVE

1. **REASON FOR REPORT**

1.1 The Committee is asked to consider progress and timescales in relation to follow-up reports and actions requested by this Committee at previous meetings.

1.2 This report is submitted to Committee in terms of Section III (I) (11) of the Council's Scheme of Administration relating to evaluating the actions of Committees and implementing the Action Plan set out in the Corporate Development Plan.

2. **RECOMMENDATION**

2.1 It is recommended that the Committee considers and notes progress and timescales in relation to follow-up reports requested by this Committee.

3. **BACKGROUND**

3.1 A listing of follow-up reports generated from previous meetings is maintained and progress recorded. At the request of the Chair of the Audit and Scrutiny Committee, in order to assist in programming the work of the Committee, this information is presented in **Appendix 1**.

4. **SUMMARY OF IMPLICATIONS**

  (a) **Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))**
  Performance reporting is linked to the Chief Executive's Office Service Plan in assisting with the monitoring and reporting of performance in line with the Council's Performance Management Framework.

  (b) **Policy and Legal**
  None.

  (c) **Financial implications**
  None.

(d) Risk Implications
None.

(e) Staffing Implications
None.

(f) Property
None.

(g) Equalities/Socio Economic Impact
An Equality Impact Assessment is not needed because the report is to inform the Committee on performance issues.

(h) Consultations
Relevant officers have been consulted in relation to the reports and actions listed in **Appendix 1** relating to their service, any comments received have been considered when compiling this report.

5. CONCLUSION

5.1 The Committee considers progress and timescales in relation to follow-up reports requested by this Committee.

Author of Report: Louise Marshall, Performance Management Officer
Background Papers:
Ref:

STATEMENT OF OUTSTANDING BUSINESS AT AUGUST 2018 – REPORTS

Date of Audit and Scrutiny Meeting	Subject & Committee Decision	Update	Responsible Officer	Date to be Completed	Completed
8 November 2017	**Contact Centre Information Update** Request an update report on performance within the Contact Centre in one year's time to complement the existing reports which the Policy and Resources Committee receive.	A report will be submitted to the meeting of this Committee in December.	Acting Corporate Director (Corporate Services)	December 2018	

STATEMENT OF OUTSTANDING BUSINESS – ANNUAL REPORTING

Date of Audit and Scrutiny Meeting	Subject & Committee Decision	Update	Responsible Officer	Date to be Completed	Completed
22 March 2017	**Local Government Benchmarking Framework 2016/17**	Final refresh of data from the Improvement Service published late March. Charts, tables and narrative being updated for 2016-17 Moray Annual Report.	Chief Executive	August 2018	**August 2018**
22 March 2017	**Update on Progress: Customer Focus Strategy and Charter**	Annual update on progress against strategy and charter	Corporate Director (Corporate Services)	October 2018	
28 September 2016	**Complaints - Scottish Public Services Ombudsman Recommendations Report**	Annual Complaints - Scottish Public Services Ombudsman requires annual 'learning and improvement statement'	Chief Executive	August 2017	**September 2017**
	Corporate Plan	Annual report across all priorities	Chief Executive	October 2017	**January 2018**
	Local Outcome Improvement Plan (LOIP)	Annual report across all priorities. LOIP and Performance Management Framework agreed. Partnership considering actions, measures and timescales against priorities.	Chief Executive	October 2018	