



Audit and Scrutiny Committee

Wednesday, 24 February 2021

NOTICE IS HEREBY GIVEN that a Meeting of the **Audit and Scrutiny Committee** is to be held at **remote locations via video-conference**, on **Wednesday, 24 February 2021** at **09:30**.

BUSINESS

1. **Sederunt**
2. **Declaration of Group Decisions and Members Interests ***
3. **Minute of Meeting of 14 October 2020** **5 - 8**
4. **Written Questions ****
5. **Internal Audit Planning for the Period to 31 March 2021** **9 - 14**
Report by Depute Chief Executive (Education, Communities and Organisational Development)
6. **Work on the Internal Audit Section Update** **15 - 20**
Report by Depute Chief Executive (Education, Communities and Organisational Development)
7. **National Fraud Initiative 2018-19** **21 - 26**
Report by Depute Chief Executive (Education, Communities and Organisational Development)
8. **Internal Audit Charter - Terms of Reference Update** **27 - 36**
Report by Depute Chief Executive (Education, Communities and Organisational Development)

9. 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.

Moray Council Committee meetings are currently being held virtually due to Covid-19. If you wish to watch the webcast of the meeting please go to:

http://www.moray.gov.uk/moray_standard/page_43661.html
to watch the meeting live.

* **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:

Clerk Telephone: 01343 563014

Clerk Email: committee.services@moray.gov.uk

THE MORAY COUNCIL

Audit and Scrutiny Committee

SEDERUNT

Councillor Donald Gatt (Chair)
Councillor George Alexander (Member)
Councillor Frank Brown (Member)
Councillor John Cowe (Member)
Councillor John Divers (Member)
Councillor Tim Eagle (Member)
Councillor Graham Leadbitter (Member)
Councillor Marc Macrae (Member)
Councillor Aaron McLean (Member)
Councillor Maria McLean (Member)
Councillor Shona Morrison (Member)
Councillor Derek Ross (Member)
Councillor Sonya Warren (Member)
Councillor Walter Wilson (Member)

Clerk Name:

Clerk Telephone: 01343 563014

Clerk Email: committee.services@moray.gov.uk

Minute of Meeting of the Audit and Scrutiny Committee

Wednesday, 14 October 2020

remote locations via video-conference,

PRESENT

Councillor George Alexander, Councillor Theresa Coull, Councillor John Cowe, Councillor Tim Eagle, Councillor Donald Gatt, Councillor Graham Leadbitter, Councillor Marc Macrae, Councillor Aaron McLean, Councillor Maria McLean, Councillor Shona Morrison, Councillor Derek Ross, Councillor Sonya Warren

APOLOGIES

Councillor Frank Brown, Councillor Walter Wilson

IN ATTENDANCE

Also in attendance at the above meeting were the Chief Executive, Internal Audit Manager, Senior Auditor and Tracey Sutherland, Committee Services Officer.

1. Declaration of Group Decisions and Members Interests *

In terms of Standing Order 20 and the Councillors' Code of Conduct, Councillor Morrison declared an interest in agenda items 6, 7 and 11 on the agenda as a Vice Chair of the Moray Integration Joint Board.

Councillor Leadbitter declared an interest in agenda items 6 and 10 as Chair of Grampian Valuation Joint Board.

Councillor Ross declared that he is a newly appointed member of the Grampian Valuation Joint Board but has not yet attended a meeting.

Councillor Coull declared an interest in agenda items 6, 7, 10 and 11 as a current member of the Moray Integration Joint Board and a past member of the Grampian Valuation Joint Board.

Councillor Eagle declared an interest in agenda items 6, 7 and 11 as a member of the Moray Integration Joint Board.

Councillors Morrison, Leadbitter, Coull and Eagle all indicated that they would take part in the consideration and decisions of those items in line with section 5.18.2 of the Councillors Code of Conduct.

There were no other 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 other declarations of Member's interests in respect of any item on the agenda.

2. Minute of Meeting of 29 January 2020

The minute of the meeting of 29 January 2020 was submitted and approved.

3. Internal Audit Annual Report 2019-20

A report by the Depute Chief Executive (Education, Communities and Organisational Development) provided the Committee with a copy of the Internal Audit Annual Report for the year ended 31 March 2020, together with the Internal Audit Manager's opinion on the adequacy and effectiveness of the Council's system of internal control.

Following consideration the Committee agreed to note the contents of the annual report given as Appendix 1.

4. Statement of Outstanding Business

A report by the Depute Chief Executive (Education, Communities and Organisational Development) asked the Committee to consider progress and timescales in relation to follow up reports and actions requested by this Committee at previous meetings.

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

5. Internal Audit Planning for the Period to 31 March 2021

A report by the Depute Chief Executive (Education, Communities and Organisational Development) asked the Committee to consider the effect of the pandemic on internal audit coverage, and how this has impacted on audit coverage for the past few months and on plans for the remainder of the financial year 2020/21.

Following consideration the Committee agreed to note the work already completed in the first six months of the year 2020/21 and the flexibility applied to the selection of audit projects for the remainder of the financial year given the constraints occasioned by the pandemic.

6. Work of the Internal Audit Section

A report by the Depute Chief Executive (Education, Communities and Organisational Development) provided Committee with an update on the work of the Internal Audit Section.

Following consideration the Committee agreed to note the contents of the report.

7. Accounts Commission Report

A report by the Depute Chief Executive (Education, Communities and Organisational Development) provided Committee with the last in a series of four reports considering issues raised in a recent Accounts Commission publication relating to 'safeguarding public money' covering the consequences of weak internal controls and the internal audit function.

Following consideration the Committee agreed to:

- i) note the final two of eight aspects of the Accounts Commission report on 'How Councils Work' entitled 'Safeguarding Public Money: are you getting it right?; and
- ii) the Council responses to the questions provided in the two checklists covering 'Consequences of weak controls' and 'the internal audit function'.

8. External Audit Plan for the Year Ending 31 March 2020

A report by the Depute Chief Executive (Education, Communities and Organisational Development) provided Committee with a copy of the External Auditor's annual plan for 2019/20.

Following consideration the Committee agreed to note the contents of the External Auditor's annual audit plan for 2019/20 and as a consequence of the pandemic in line with a revised timetable agreed for all Scottish local authorities, the date for reporting on the audit of the annual financial statements has been extended by two months to the end of November 2020.

9. Public Sector Internal Audit Standards - External Quality Assessment Update

A report by the Depute Chief Executive (Education, Communities and Organisational Development) provided Committee with an update relative to implementing recommendations arising from the external quality assessment of Internal Audit.

Following consideration the Committee agreed to note the progress towards addressing the recommendations arising from the external quality assessment of the internal audit service.

10. SPSO Recommendations Report

A report by the Chief Executive asked Committee to consider the Scottish Public Services Ombudsman (SPSO) Recommendations Report to demonstrate that SPSO recommendations are considered at a senior level.

Following consideration the Committee agreed to:

- i) note the content of the SPSO Recommendations Report; and
- ii) approve the contents of the report.

11. Question Time ***

Councillor Alexander, having read in the press that the new navy ship affiliated with Moray, HMS Spey, has completed her sea trials, sought an update on whether the ship would be paying a visit to the Moray Firth.

In response the Council Leader confirmed that he had received an invitation from the Commander of the vessel inviting him to Glasgow to visit the ship but had declined the invitation due to the current situation but it is hoped the ship will be visiting the area soon.

Councillor Alexander sought an update on the runway at the Kinloss Barracks following the completion of the new runway at RAF Lossiemouth.

In response, Councillor Gatt confirmed that it was his understanding that the runway would eventually be decommissioned.



REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 24 FEBRUARY 2021

SUBJECT: INTERNAL AUDIT PLANNING FOR THE PERIOD TO 31 MARCH 2021

BY: DEPUTE CHIEF EXECUTIVE (EDUCATION, COMMUNITIES AND ORGANISATIONAL DEVELOPMENT)

1. REASON FOR REPORT

- 1.1 This report outlines the planned audit activity for the remainder of the financial year 2020/21, noting the steps being taken to reduce the possibility of a 'limitation of scope' in respect of the annual assurance opinion to be provided by the Internal Audit Manager on governance, risk management and the system of internal control.
- 1.2 This report is submitted to Committee in terms of the Council's Administrative Scheme, paragraph III (I) (6) relating to reporting on Internal Audit's programme of work.

2. RECOMMENDATIONS

- 2.1 **The Committee is asked to consider and note the planned programme of audit activity to be completed in the incoming period in respect of the 2020/21 financial year, such programme being designed with the intention, if feasible, of being able to provide the standard internal audit assurances for inclusion with the annual accounts.**

3. BACKGROUND

- 3.1 In the normal course of events the Internal Audit Manager (IA Manager) brings forward an annual plan of internal audit work, the results of which inform his annual opinion on governance, risk management, and the Council's system of internal control. This is a requirement of the Public Sector Internal Audit Standards, (the Standards), which are mandatory for all local authorities.

- 3.2 At the meeting of this committee on 14 October 2020, (Item 5 of the draft minute refers), a report was considered which outlined the work already achieved in year, information on projects paused due to the pandemic, and details of planned work ongoing at that time. The Committee was advised that a further report would be presented to this meeting to consider the audit coverage for the remainder of the 2020/21 financial year.
- 3.3 In the interim, CIPFA guidance has been published on the provision of internal audit assurances for the 2020/21 financial year. This notes that in order to comply with the Standards, the IA manager is required to consider whether he can provide the 'normal' annual internal audit opinion or whether there needs to be a 'limitation of scope'. A 'limitation of scope' arises where the IA manager is unable to draw on sufficient assurances to issue a 'complete' annual opinion in accordance with the Standards
- 3.4 The guidance notes the importance of the early identification of the risk of a 'limitation of scope' and suggests a number of mitigating actions to avoid such a limitation where possible, as follows:
- The IA manager should plan to obtain sufficient assurances to support his annual opinion, taking into account both IA work and other sources of assurance, either internally from support services / teams or from other external inspectorates;
 - The IA manager should make best use of available resources. This is reflected in the plan for the remainder of the year and will involve devoting less time to audit reporting and more to undertaking testing work from which assurances can be derived;
 - CMT and the Audit and Scrutiny Committee should be advised of and review the approach being taken.
- 3.5 The guidance also calls for consideration as to whether or not there is a likelihood of a 'limitation of scope' applying. At the time of drafting this report in early February, it is difficult to judge with two months of the financial year remaining and typically a further two months thereafter in which to conclude year-end testing for 2020/21 year. This time will enable audit work to continue albeit uncertainty is likely to prevail throughout this period. A further update will be provided verbally at the meeting.
- 3.6 **Appendix 1** outlines a range of projects that are in scope to be taken forward as resources and circumstances permit. These are designed to secure the required assurances across the three headings outlined above, i.e. on governance, risk management and internal control including the provision of assurances on the effectiveness of key controls within the Council's main financial systems.

4. SUMMARY OF IMPLICATIONS

- (a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))**
No direct implications.
- (b) Policy and Legal**
The activities of Internal Audit assist the organisation to demonstrate the control environment and risk management arrangements are consistent with good practice.
- (c) Financial Implications**
No direct implications.
- (d) Risk Implications**
The work of internal audit mitigates the risk of dilution of controls established within systems to ensure best value is secured in the use of public resources.
- (e) Staffing Implications**
Staff working from home creates additional challenges for service delivery; these have been considered when developing this plan.
- (f) Property**
No implications.
- (g) Equalities/ Socio Economic Impact**
No impacts to report.
- (h) Consultations**
The Corporate Management Team, Chief Financial Officer and Monitoring Officer have been consulted and any comments incorporated into this report.

5. CONCLUSION

- 5.1 Internal audit continues to carry out its work with a view to providing the required assurance opinions at the year end. This report considers whether this is feasible and how this may be achieved, recognising the constraints and pressures on all services arising from the pandemic.**

Author of Report: Atholl Scott
Background Papers: Internal audit files
Ref: AS/asc/240221
SPMAN-1042990102-49
SPMAN-1042990102-48

MORAY COUNCIL**INTERNAL AUDIT SERVICE****INTERNAL AUDIT ACTIVITY COMPLETED AND PROPOSED FOR
FINANCIAL YEAR ENDING 31 MARCH 2021**

| WORK PROGRESSED | |
|--|---|
| Area | Type of coverage |
| Procurement and Creditor Payments | Sample testing of expenditure (non-payroll) to assess and ensure compliance with regulations |
| Payroll | Testing of sample transactions to ensure integrity of this main payment system. |
| Main financial ledger | Overview exercise to assess impact on budgets of the pandemic either through increased expenditure or reduction in income. |
| Covid 19 –business support grants - applications | Assisting with the initial processing of grant applications from businesses. |
| Covid 19 –business support grants - appeals | Consideration and determination of appeals lodged by unsuccessful applicants. |
| Personal Protective Equipment | A review of procurement /sourcing and costs of PPE, stock control and contingency planning looking forward. |
| Flexible Food Fund | Audit of the arrangements for allocation of monies from the Flexible Food Fund |
| Contractor Sustainability payments | Review to ensure compliance with regulations for funding awarded to council suppliers and contractors whose business model was severely impacted by lockdown |
| Environmental Services – Grant Claims | Certification of grant claim for bus service operators' grant for six month period to 30 September 2020 |
| PLANNED WORK PAUSED | |
| Environmental Services - Public Transport Unit | This audit was selected given issues re the retendering of school transport contracts; now overtaken by events. Deferred for further consideration until 2021/22 year |
| Cyber Security | Scheduled for completion during quarter 4 of 2020/21 |
| Corporate Services - ICT - Hardware Asset Management | This review remains valid given the large volume of new hardware being acquired to facilitate the expansion of |

| | |
|--|---|
| | homeworking –still to be scheduled at time of drafting this report. |
| Education and Social Care - Pupil Equity Fund in Schools | Deferred given further lockdown implications; will be further considered for 2021/22 audit plan. |
| PROJECTS SCHEDULED | |
| National Fraud Initiative | This exercise that the council participates in every two years has added significance with fraud risk elevated and additional data sets (including those for COVID grants) under consideration. Data submissions have been made and matches will be made available to the council for checking during Quarter 4. This exercise gives additional assurances on the accuracy of many different council databases. |
| Performance Management | There is a need to validate the accuracy of published performance indicators and a sample of these will be checked for accuracy |
| ALEO-Moray Leisure | An overview exercise will be undertaken to audit the ongoing relationship and support the council makes available to the Moray Leisure Centre |
| Risk Management | Development of processes- while the risks to the council are widely known there is a requirement to develop recording and reporting practices. A project plan will be prepared to facilitate this. |
| Health and Safety | High level overview to assess how the service is addressing additional risks associated with the pandemic. |
| Property Costs – Schools | A desk top review of costs incurred in the maintenance of school buildings. |
| School Funds | Desktop review of annual returns |
| Housing DLO | Overview of sub-contractor costs |
| Year-end processes | Contingent on circumstances applying as at 31 March |
| CONTINGENCY | |
| Further revisions/additions to plan | It remains prudent to monitor progress and to report on planned activity to future meetings of the Committee on variations to the plan that may arise as emerging issues.. |



REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 24 FEBRUARY 2021

SUBJECT: WORK OF THE INTERNAL AUDIT SECTION – UPDATE

BY: DEPUTE CHIEF EXECUTIVE (EDUCATION, COMMUNITIES AND ORGANISATIONAL DEVELOPMENT)

1. REASON FOR REPORT

- 1.1 The report provides Committee with an update on the work of the Internal Audit Section.
- 1.2 This report is submitted to Committee in terms of Section III I (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 **Committee is asked to consider the contents of this report; seek clarification on any points noted and otherwise note the report.**

3. BACKGROUND

- 3.1 Public Sector Internal Audit Standards require the internal audit manager to prepare and present reports to committee on internal audit's activity, performance relative to its audit plan and on any other relevant matters.
- 3.2 Usual reporting practice has been suspended during the pandemic with internal audit having to alter the focus of its work given restrictions arising from working from home and services subject to audit having to adapt sometimes significantly to prioritise immediate and pressing service demands. While the audit approach may have changed, the emphasis has remained on seeking to provide assurances around the proper use of public funds, and this is consistent with Audit Scotland's view that audit quality cannot be compromised.
- 3.3 This report provides an update on audit activity and projects progressed since the last meeting of committee noting that some of the work has involved validating the adequacy and effectiveness of controls within systems established on a temporary basis, i.e. for particular government funding streams distributed by the council to support businesses and individuals within the Moray area.

Main Financial Systems – Creditor Payments

- 3.4 The team has continued the review of creditor payments and extended this work to look not only at payments processed during the pandemic but also whether it has been feasible to maintain established procurement practices. This work has covered supplies and services and costs incurred within social care so as to provide assurances for both the council and the Integration Joint Board.
- 3.5 The process has been protracted with invoices being extracted direct from the ledger and requests then been made by email to services and the procurement team in respect of any queries arising. In consequence progress has been much slower than would normally be the case and this work continues, however from samples reviewed thus far the integrity of the systems and the rationale for payments made has been confirmed. .

Main Financial Systems – Payroll

- 3.6 Payroll is the council's other main financial system relative to expenditure and for this audit a sample of new starts and leavers was examined to ensure appropriate documentation was available and that the correct initial and final salary payments had been made, as appropriate. The audit also validated pay and allowances for a sample of continuing employees including verifying their employment status with relevant service managers.
- 3.7 In addition to the above tests the audit also looked at the reconciliation processes between payroll and the ledger and at the computation of amounts remitted monthly for PAYE (income Tax) National Insurance, and Pension Contributions. The audit was concluded in satisfactory terms, affirming the accuracy of the payroll system.

Departmental Systems – Schools – Operational Phase

- 3.8 In the previous update to this committee it was reported that an audit had been completed which looked at the operational stages of the contracts in schools funded through the Public Private Partnership – Elgin Academy and Keith Primary and the Design, Build, Finance and Maintain contract at Elgin High School. The report has been with the service for consideration but as a consequence of delays in progressing Asset Management change management plans and manager vacancies remaining unfilled a formal response to the audit has yet to be received. It is hoped this will be addressed shortly and the situation will continue to be monitored.

Integration Joint Board: Adaptations

- 3.9 An audit completed recently within the remit of the Integration Joint Board was Housing Adaptations which last year had a budget of £850,000. This was available for use in adapting both private sector and council housing to enable residents with assessed needs to continue living at home. Audit issues arising covered both Property Services which co-ordinates the works, and Social Care in terms of the contributions the policy makes to delivering objectives

relating to optimising care at home and linking more recently to 'Home First', a policy designed to enable people to remain at home wherever possible.

- 3.10 While the audit recommendations have been considered by the service managers in both areas, the programme has been stalled by the pandemic; the waiting list for adaptations has grown substantially and the audit finding that adaptations can take many months to complete is recognised as a limiting factor where there are sudden changes in service user needs. The adaptations governance group has not met for some time and the audit recommendations are unlikely to be formally signed off until a meeting of this group takes place.

Pandemic issues - overview

- 3.11 With regular audit work curtailed within departments, attention has been given to looking at the controls in place to account for various strands of funding or other resources made available for the council to administer. For the most part these were provided along with guidance the council was required to adopt, subject to being able to exercise discretion in certain cases. It should be appreciated that some of the controls had to be designed in a manner that secured prompt distribution of the resources to those entitled to receive them while not overriding the basic principle of being required to demonstrate sound management of public funds. It should also be noted that each of the paragraphs 3.9 to 3.12 below describes what essentially relates to one-off arrangements applicable for defined periods of time during the emergency, and this is reflected in the audit approach.

Personal Protective Equipment (PPE)

- 3.12 This was selected as a topical subject in the early stages of the pandemic the audit interest being primarily around acquisition and procurement as opposed to distribution and use. The review identified two principal sourcing methods:
- Direct sourcing from National Services Scotland at no cost of items for use by social care staff and onward distribution to other care providers;
 - Purchase of PPE for use by staff in other council departments at relatively low levels initially before being augmented to meet demand from schools reopening post lockdown.
- 3.13 While not downplaying the challenges faced in securing PPE of sufficient quality and in volumes required in the initial stages of the pandemic, a team of staff was established involving representatives from a number of services to engage with NSS and co-ordinate the ordering, receipt and distribution of supplies from a dedicated base established in Moray. This practice continued during the initial phase of the pandemic and on-going requirements are now being met through the department's store that also deals with the provision of aids for service users with disabilities.
- 3.14 Meanwhile for other services, the council store at Ashgrove, which already secures a wide range of protective clothing for use by staff in Direct Services, used established procurement arrangements to secure PPE, and while costs of supplies were subject to market forces, off contract spend that may have

increased the risk of acquiring inferior quality products at inflated prices was avoided.

3. Flexible Food Fund

- 3.15 The Flexible Food Fund was made available by Scottish Government to provide payments to individuals and families experiencing difficulties in accessing income to pay for food during the pandemic. The Government provided local authorities with basic principles of how to manage the funds, with flexibility permitted for each council to determine how best funds should be distributed. In broad terms, Moray Council provided grant funding in two tranches with funding awards dependent on the size of a household, with some £420,000 being allocated to 1200 households.
- 3.16 Managing the scheme involved the Money Advice Team which has experience in supporting individuals with their finances. Audit testing of a sample of payments was made against documentation developed and held by the council. From this it was concluded that the scheme had been effectively managed, indeed it was noted that Moray Council scheme has been recognised nationally as an exemplar of good practice.

Supplier Relief Programme

- 3.17 This programme was established in terms of a Scottish Procurement Policy Note, which provided guidance on payments councils could make to its suppliers and contractors facing hardship given disruption to services and contracts as a consequence of the pandemic. These extended to both loss of income where services were suspended as well as contributions to meet additional costs incurred. To date in excess of £2 million has been allocated in the form of discretionary payments or advance payments. In line with guidance, Social Care and Public Transport providers were the main recipients of financial relief through this programme.
- 3.18 A panel of officers from procurement and relevant departments was created to review and assess the reasonableness of submissions made by suppliers and contractors, and while a degree of judgement was required in assessing each application:
- There was good audit evidence held for each application tested, showing a clear audit trail from application to authorisation;
 - The judgement applied in each case was considered appropriate relative to the circumstance presenting;
 - Ultimately, authorisation to pay was given by the Chief Financial Officer of either the Council or Integration Joint Board as appropriate.

Other Grant Schemes

- 3.19 In addition to the schemes outlined above, significant Scottish Government funding has been provided to councils for onward distribution to businesses, mainly in the form of business support grants during the lockdown and to various sectors including Retail, Hospitality, Leisure, and Taxi/Private Hire Operators.

- 3.20 These schemes have not been subject to detailed audit review, however, internal audit has participated by ensuring, for example, that application forms issued met Scottish Government requirements and by dealing with appeals submitted by unsuccessful applicants. This approach has enabled Internal Audit to gain an understanding of the scope of the schemes, how they were to be applied and how they were administered by council officers.
- 3.21 This process, it is considered, was proportionate in the circumstances and given the need for urgent distribution of the funds. Details of amounts paid and of the recipients of Business Grant Support are being submitted through the National Fraud Initiative process and this should provide further assurances on the level of control exercised over this category of funding.

4. SUMMARY OF IMPLICATIONS

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

Internal audit work supports good governance and the delivery of efficient services.

(b) Policy and Legal

No implications directly arising from this report.

(c) Financial Implications

No implications directly arising from this report.

(d) Risk Implications

The independent review of selected systems and procedures mitigates the risk associated with inadequate or ineffective control procedures.

(e) Staffing Implications

No implications directly arising from this report.

(f) Property

No implications directly arising from this report.

(g) Equalities/Socio Economic Impact

No implications directly arising from this report

(h) Consultations

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

5. CONCLUSION

- 5.1 Internal audit continues to work under the limitations of the pandemic and this report provides committee with an update on internal audit work completed in the latest review period.**

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|--------------------|---|
| Author of Report: | Atholl Scott |
| Background Papers: | Internal Audit files |
| Ref: | AS /asc/240221 SPMAN-1042990102-52 |



REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 24 FEBRUARY 2021

SUBJECT: NATIONAL FRAUD INITIATIVE – 2018/19

BY: DEPUTE CHIEF EXECUTIVE (EDUCATION, COMMUNITIES AND ORGANISATIONAL DEVELOPMENT)

1. REASON FOR REPORT

- 1.1 To provide Committee with information on the outcomes from the National Fraud Initiative (NFI) exercise for 2018/19; in particular, to give a local context to the national results published within a recent Audit Scotland overview report.
- 1.2 This report is submitted to Committee in terms of Section III (I) (3) of the Council's Scheme of Administration relating to consideration of reports prepared by the Accounts Commission/Audit Scotland.

2. RECOMMENDATIONS

2.1 Committee is asked to consider and note:

- (i) **the outcomes from the National Fraud Initiative from both a national and local context, recognising that the exercise has preventive, detective and corrective elements which seek to minimise the impact of fraud and other irregularity on the public purse; and**
- (ii) **that the Council remains alert to the possibility of fraud, and endeavours to mitigate this through the application of effective internal controls within the systems and processes it operates.**

3. BACKGROUND

- 3.1 The National Fraud Initiative is a data matching exercise carried out by the Cabinet Office on behalf of Audit Scotland. It requires participating bodies, including all local authorities, to submit a range of prescribed data which is compared with other information received. Data matches are then created centrally which are returned to each local authority for checking. Most matches do not reflect fraud or error, but many require investigation to confirm that no corrective action is required.

- 3.2 The Audit Scotland report notes that the COVID 19 pandemic has seen the risk of fraud and error increase as organisations become stretched, and controls and governance systems are changing. This has been evident in some of the funding support schemes provided by government for those affected by the pandemic, and the council is alert to this increased risk.

A copy of the full report is available at: https://www.audit-scotland.gov.uk/uploads/docs/report/2020/nr_200709_national_fraud_initiative.pdf

- 3.3 The matches that are the subject of the Audit Scotland report predate the pandemic and indicate that the potential value of losses due to fraud or error across Scotland has fallen by £2.4 million to £15.3 million in the latest 2018/19 exercise; this despite an increase in the number of bodies participating in the NFI process. The report suggests this could be because there has been less effective detection of fraud and error, equally it acknowledges that for the review period there could have been less fraud and error in 'the system'. It also notes that most organisations demonstrate a strong commitment to counter fraud and the NFI.
- 3.4 It is important to note that the figure of £15.3million is a calculated figure which estimates the potential loss to the public purse that could occur should fraud or error continue undetected. By way of example, if a current blue badge is no longer required by its recipient, and is cancelled as a result of the NFI, an outcome (benefit to the public purse) of £575 is assumed. This is on the basis that the badge has the potential to be misused, resulting in lost parking and congestion charge revenues. While this is acknowledged as likely to apply in some cases; in others, the badge may lie unused until its expiry date has passed.
- 3.5 While £15.3 million is a calculated headline figure, actual losses identified are still substantial approximating £5.6 million across Scotland, with some 90% of this total, £5.1 million considered to be recoverable. Such recoveries apply where an individual has made a claim for an allowance or discount where there is no entitlement e.g. a recipient of a council tax single person discount in a non-qualifying household, an incorrect benefit claim, or a duplicate payment paid to a supplier in error.
- 3.6 For this council actual 'savings' identified and recoverable amounted to £65,588. This comprised:
- Entitlement to Single Person Discount for Council Tax cancelled (69 cases) **£34,530**
 - Housing Benefit claims that were disallowed (8 cases) **£30,008**
 - Creditor Payments- duplicate payment to supplier (1 case) **£1,050**
- 3.7 In addition 'notional' savings, of a type illustrated in paragraph 3.4 above, were reported in respect of blue badges cancelled – 45 cases (£25,875) and tenancy applications removed from the council housing waiting lists – 2 cases (£6,480). The steps for notifying the cancellation of blue badges are being reviewed in an effort to ensure these badges are cancelled when no longer

required. Housing waiting list issues are not considered material given that applicants are only asked if they wish to remain on the waiting list at six monthly intervals and may have secured alternative accommodation in the interim.

3.8 It should be noted that the council uses the NFI data in respect of Council Tax Single Person Discount not as an indicator of fraud but as a source of information on households that may be in receipt of this discount where there is no entitlement. The information is used to generate letters to households on the list. A follow-up process then takes place to confirm on-going entitlement or to cancel the discounts where applicable and recover any discount paid in error. The 69 cases referred to above have been identified by using the NFI data to inform a targeted administrative process which is an effective means of improving the accuracy of the council tax database.

3.9 The Audit Scotland report recommends:

- Participants should be aware of emerging fraud risks e.g. due to Covid-19;
- Participants should maximise the benefits they get from participation in the exercise;
- When improvements are identified, prompt action should be taken;
- Audit committees and staff leading the NFI should review the NFI self-appraisal checklist.

3.10 A copy of the checklist is provided as **Appendix 1**.

4. SUMMARY OF IMPLICATIONS

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

No direct implications beyond the contribution participation in the NFI makes to good governance and safeguarding public funds.

(b) Policy and Legal

The National Fraud Initiative operates under a strict legal and regulatory framework which is essential given the large volumes of personal data processed within the data matching exercise.

(c) Financial implications

The 2018/19 NFI exercise has resulted in a sum of £66,000 being identified as recoverable, and otherwise more generally has confirmed the robustness and accuracy of the council's main financial and other systems used for matching purposes.

(d) Risk Implications

Risk issues are mitigated by the council fully participating in the NFI process and ensuring that matches returned are risk assessed and investigated where appropriate.

(e) Staffing Implications

No implications directly arising from this report.

(f) Property

No implications directly arising from this report.

(g) Equalities/Socio Economic Impact

No implications directly arising from this report

(h) Consultations

The outcomes from the 2018/19 NFI exercise have been discussed with the Chief Financial Officer who is designated as the Senior Responsible Officer for NFI purposes. There have been no other consultations in respect of this report.

5. CONCLUSION

5.1 Participation in the National Fraud Initiative provides assurances on the accuracy of the council's main data systems and enables any errors to be considered and corrective action taken.

| | |
|--------------------|--|
| Author of Report: | Atholl Scott |
| Background Papers: | Audit Scotland National Fraud Initiative Report. |
| Ref: | AS /asc/240221 |
| | SPMAN-1042990102-51 |
| | SPMAN-1042990102-50 |

Audit Scotland

National Fraud Initiative: Self Appraisal Checklist

| Part A: For those charged with governance | Yes/No/Partly | Is action required? | Who by and when? |
|---|---|--|---|
| Leadership, commitment and communication | | | |
| 1. Are we aware of emerging fraud risks, e.g. due to Covid-19, and taken appropriate preventative and detective action? | Yes. | CMT/SMT and the Internal audit manager are aware of emerging risks and these have been and will be reflected in changes to internal control systems or in audit plans. | CMT/SMT, Managers to be alert to risks arising as consequence of changes in working practices; and to the opportunities for fraud and irregularity these may present. |
| 2. Are we committed to NFI? Has the council/board, audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff? | Yes, the council has fully participated in previous exercises and is committed to doing so for the currently ongoing 2020/21 exercise. | Staff have been advised, either where directly involved in the exercises, or via fair processing notices advising their data is used for NFI secure processing. | No further action required. |
| 3. Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error? | Yes, reference to the NFI is included within the Policy to Combat Fraud, Theft, Bribery and Corruption. | Participation provides assurance on the reliability and integrity of systems from which data is sourced for the matching exercises. | No further action required. |
| 4. Have we considered using the point of application data matching service offered by the NFI team, to enhance assurances over internal controls and improve our approach to risk management? | Yes, based on results to date and balancing cost, risk and return, it is considered doing so would not provide any additional benefit to the council. | No further action required. | |
| 5. Are NFI progress and outcomes reported regularly to senior management and elected/board members (e.g. | Yes this checklist is provided within a report that summarises national and local | This report constitutes the output report for senior | No further action required. |

| Part A: For those charged with governance | Yes/No/Partly | Is action required? | Who by and when? |
|---|--|--|---|
| the audit committee or equivalent)? | outcomes for the matching exercise completed for 2018/19. | management and elected members. | |
| 6. Where we have not submitted data or used the matches returned to us, e.g. council tax single person discounts, are we satisfied that alternative fraud detection arrangements are in place and that we know how successful they are? | N/A. The council does submit the required data and it is all checked on return for potential fraud /error. | Council tax single person discount data in particular is used to canvass recipients of the discount seeking positive confirmation from them that entitlement to the discount should continue and corrective action is taken where appropriate. | No change proposed to current practice. |
| 7. Does internal audit, or equivalent, monitor our approach to NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases? | Yes, the Internal Audit Manager is the key contact and co-ordinates the whole exercise for the council | No further action required. | |
| 8. Do we review how frauds and errors arose and use this information to improve our internal controls? | Yes, the reasons for any discrepancies identified are understood. | We could perhaps formalise reporting of these more, as contact with services on issues arising tends to be done on an 'as and when' basis. | Lower risk issue but to be considered by Internal Audit Manager. |
| 9. Do we publish, as a deterrent, internally and externally the achievements of our fraud investigators (e.g. successful prosecutions)? | N/A | Nothing of significance to be reported; benefits fraud is the main area where prosecutions occur and such cases are referred to the Department for Work and Pensions. | Internal Audit Manager to monitor depending on outcomes identified. |



REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 24 FEBRUARY 2021

**SUBJECT: INTERNAL AUDIT CHARTER (TERMS OF REFERENCE) -
UPDATE**

**BY: DEPUTE CHIEF EXECUTIVE (EDUCATION, COMMUNITIES AND
ORGANISATIONAL DEVELOPMENT)**

1. REASON FOR REPORT

- 1.1 To invite the Committee to review and approve the updated Internal Audit Charter (terms of reference) document.
- 1.2 This report is submitted to Committee in terms of the Council's Administrative Scheme, paragraph III (I) (4) relating to 'contributing towards making the Council, its Committees and Services more responsive to the audit function and its purpose'.

2. RECOMMENDATIONS

- 2.1 **The Committee is asked to consider and approve the updated version of the Internal Audit charter/terms of reference.**

3. BACKGROUND

- 3.1 The Public Sector Internal Audit Standards require the purpose, authority and responsibility of the internal audit activity to be formally defined in an internal audit charter, which should be periodically reviewed and approved by this Committee.
- 3.2 Last reviewed by Committee at its meeting on 4 December 2018, (paragraph 7 of the draft minute refers), the Charter was inspected during the External Quality Assessment of the service conducted by auditors from Fife Council. The inspection report noted that the charter was 'clear, concise, and easy to follow, with the purpose, authority and responsibility of Internal Audit, Senior Management, and this Committee being appropriately set out'.
- 3.3 The report noted that in the absence of separate documented agreements, reference should be made in the Charter to audit engagements undertaken for parties out with the council. Accordingly this has been added into the document acknowledging that internal audit also carries out work, applying

the same Standards, for the Moray Integration Joint Board and for the Grampian Valuation Joint Board. Otherwise, the Charter is considered to remain 'fit for purpose'.

- 3.4 The updated Charter is provided at **Appendix 1** for the Committee to consider and approve.

4. SUMMARY OF IMPLICATIONS

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

No direct implications.

(b) Policy and Legal

Public sector bodies are required to adopt mandatory standards for internal audit and these call for the regular review and updating of an internal audit terms of reference document.

(c) Financial Implications

No direct implications.

(d) Risk Implications

Not having a formally agreed charter could mean the role of internal audit within the council is not clearly defined and understood, and technically is a non-compliance with the required standards.

(e) Staffing Implications

No implications.

(f) Property

No implications.

(g) Equalities/ Socio Economic Impact

No impacts to report.

(h) Consultations

The Standards require the draft Charter to be discussed with senior management and such discussions have taken place with the Corporate Management Team. Separately, the Chief Financial Officer and Monitoring Officer have been consulted and any comments incorporated into this report.

5. CONCLUSION

- 5.1 **The Committee is asked to consider and approve the updated Charter document for internal audit to ensure ongoing compliance with recognised auditing standards.**

| | |
|--------------------|--|
| Author of Report: | Atholl Scott |
| Background Papers: | Public Sector Internal Audit Standards |
| Ref: | AS/asc/240221 |
| | SPMAN-1042990102-47 |
| | SPMAN-1042990102-46 |

APPENDIX 1



Corporate Services
Governance, Strategy and
Performance

Internal Audit Charter

December ~~2018~~2020

Introduction

The Local Authority Accounts (Scotland) Regulations 2014 at paragraph 7 (1) require the council to operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing. These standards are the Public Sector Internal Audit Standards (PSIAS).

Definition and Purpose of Internal Auditing

Internal Auditing is defined in the ~~Public Sector Internal Audit Standards (PSIAS)~~ as 'an independent, objective, assurance and consultancy activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Its mission, therefore, is to enhance and protect organisational value by providing risk based and objective assurance, advice and insight'.

CIPFA refines this slightly in its PSIAS Local Government Application Note, adding that Internal Audit 'may also undertake consulting services at the request of the organisation, subject to there being no impact on the core assurance work and the availability of skills and resources'. Consulting services are referred to below.

Public Sector Internal Audit Standards

The PSIAS were developed by a group of 'relevant standard setters' including government, accountancy and audit bodies and represent a common set of standards for all internal audit service providers in the public sector in the United Kingdom. The PSIAS comprises a definition and mission of internal auditing (as outlined above) together with a Code of Ethics and Professional Standards. Compliance with the PSIAS is mandatory.

Purpose and Responsibility

In terms of the council's financial regulations, the Depute Chief Executive (Education, Communities and Organisational Development) Corporate Director (Corporate Services) has responsibility for securing the provision of a continuous internal audit service to provide an independent and objective opinion on the control environment comprising risk management, internal control and governance.

This remit is delegated to the Internal Audit Manager whose duties are to review, assess and report on:

- the effectiveness of systems of financial and non-financial controls
- compliance with council policies, plans and procedures
- compliance with regulations and legislation
- the degree to which assets are properly accounted for and safeguarded

- the reliability and integrity of data and performance information; and
- the extent to which value for money can be demonstrated.

In determining the scope of audit work, the Internal Audit Manager prepares an annual audit plan and reports throughout the year on findings from the audit projects completed, together with recommendations made and management responses thereto. ~~The Plan includes topics directed by the Moray Integration Joint Board and assurances from these projects are shared with the Board's Audit, Performance and Risk Committee.~~ Internal Audit Annual Reports are prepared for the council ~~and the Board~~ which include an opinion on the adequacy and effectiveness of the system of internal control. The opinion informs the broader assurances on governance and risk management provided in the related Annual Governance Statements. The Council's Audit and Scrutiny Committee has responsibility for overseeing and supporting the work of the Internal Audit service.

Internal Audit responsibilities are not relieved in areas of the council's work that are subject to review by others, but reliance is placed on the work of other review agencies, principally the council's External Auditor, to avoid duplication, make best use of resources and inform the overall assessment of governance arrangements.

Organisational Status and Independence

The Internal Audit Manager reports administratively to the Head of Governance, Strategy and Performance Corporate Director (Corporate Services), who is a member of the Council's extended Corporate Management Team. This reporting line strengthens audit independence with, in the main, audit assignments being carried out on services and systems managed by other Heads of Service.

The PSIAS requires the Internal Audit Manager to report functionally to the Audit and Scrutiny Committee. Functional reporting is defined as that which enables the Internal Audit Manager to ensure that internal audit can fulfil its responsibilities.

The Audit and Scrutiny Committee is charged with responsibility for ensuring good stewardship of the Council's resources, enhancing the profile, status and authority of internal audit and affirming its independence. Specifically, in relation to audit matters, the committee;

- Contributes towards making the Council, its committees and services more responsive to the audit function and its purpose;
- Enhances good governance arrangements by promoting internal control and risk management, by supporting an anti-fraud culture, and by the review of revisions to financial procedures;
- Has responsibility for focusing audit resources through agreeing the annual programme of work;
- Monitors delivery of the audit service through receipt of quarterly reports on work carried out by Internal Audit;

- Considers the annual opinion provided by the Internal Audit Manager on the adequacy and effectiveness of the control environment.

Authority

The Local Authority Accounts (Scotland) Regulations 2014 at paragraph 7 (2) require that any officer or member of a local authority must, as required by those undertaking internal auditing:

- Make available such documents of that authority which relate to its accounting and other records for the purposes of internal auditing; and
- Supply such information and explanation as those undertaking internal auditing consider necessary for that purpose.

The council's Financial Regulations provide that Internal Audit staff, for the purposes of conducting their work, shall have authority to:-

- have a right of access to all records, assets, personnel and premises, including those of partner organisations in receipt of council funding or other resources,
- have access to all records, documents and correspondence relating to any financial and other transactions of the Council,
- require and receive such explanations as are necessary concerning any matter under examination,
- require any employee of the Council to produce cash, stores or any other Council property under his control, which is relevant to any investigation being carried out.

The Internal Audit Manager has unrestricted access to all officers of the Council (including the Chief Executive and other Senior Managers) and to Members of the Council as necessary.

Management Responsibilities

Responsibility for internal control rests with management, who must ensure that proper internal control arrangements are in place. Internal audit's role is to evaluate the effectiveness of such internal control arrangements. Management is responsible for accepting and implementing audit recommendations and bears any risk from not taking agreed action. Internal Audit is not a substitute for an effective system of internal control implemented by management.

Resources

Responsibility for resourcing the internal audit service rests with the Depute Chief Executive (Education, Communities, and Organisational Development)~~Corporate Director (Corporate Services)~~. The Depute Chief Executive~~Corporate Director~~ ensures that resources are sufficient to enable internal audit to conduct an ongoing review of governance, risk and control

processes based on an assessment of risk. The Internal Audit Manager is responsible for managing the resource provided and for delivery of the internal audit service.

Counter Fraud Work

The prevention and detection of fraud is a management function and management is responsible for implementing and maintaining suitable systems of control to mitigate the risk of fraudulent activity. Internal audit supports the Council's commitment to fraud prevention and detection by overseeing data matching exercises carried out under the National Fraud Initiative. The Internal Audit Manager oversees the work of the Corporate Investigations Officer. The council takes the threat of fraud or related malpractice seriously and has adopted a Policy to Combat Fraud, Theft, Bribery and Corruption. A Whistle-blowing Policy has been developed in consultation with the HR service to facilitate the reporting of any concerns.

The Financial Regulations provide that whenever any matter arises which involves, or is thought to involve, irregularities concerning cash, stores or other property of the Council or any suspected irregularity in the exercise of the functions of the Council, any Officer, having knowledge thereof, shall, as soon as possible, notify Internal Audit.

Objectivity and Conflicts of Interest

The Council's Code of Conduct for Employees sets out the required standards for the conduct for all employees and includes provisions for the declarations of interests, gifts and hospitality.

In addition, internal audit staff in line with the Code of Ethics forming part of the PSIAS are required to disclose any potential conflicts of interest which may impact on their audit work, for example, in relation to previous employment within the council, relatives employed with the council and other such similar circumstances.

Internal Audit has neither responsibility for, nor authority over, the subject areas it reviews. Internal Audit resources are applied exclusively to audit, risk and counter fraud processes. This limits any potential conflicts of interest and secures objectivity. Alternative sources of assurance are sought in relation to the effectiveness of these functions, for example, by utilising the work of other council internal audit teams for the external quality assurance process or by having regard to work completed by the external auditor.

Consultancy Work

Internal Audit provides advice on an ad-hoc basis on control related issues; otherwise its consultancy role extends primarily to the provision of advice, and guidance on matters relating to risk management. The team is not resourced

to routinely become involved in the assessment of controls in new systems prior to their installation or implementation.

Other Parties outwith the Council

The Council's Internal Audit Manager is also the Chief Internal Auditor for the Moray Integration Joint Board, and the Internal Auditor for the Grampian Valuation Joint Board. While separate and distinct governance arrangements apply to these bodies, the principles outlined in this Charter apply and are adopted in respect of all work completed by Internal Audit.

Review

The PSIAS requires that the chief audit executive periodically reviews the Internal Audit Charter and presents it to senior management and also to the Board for approval. In this context the chief audit executive is the Internal Audit Manager, senior management is the Corporate Management Team ~~Director (Corporate Services)~~ and the Board is the Audit and Scrutiny Committee.

Atholl Scott
Internal Audit Manager
December 202018

Approval of the Charter

This Internal Audit Charter was considered and approved at a meeting of the Audit and Scrutiny Committee on 24 February 2021 ~~December 2018~~.

Signed..... Councillor D Gatt~~M Macrae~~ Chair,
Audit and Scrutiny Committee

Dated.....