

A meeting of the Audit Committee will held on Tuesday 26 February 2019 at 3pm within the Municipal Buildings, Greenock.

GERARD MALONE
Head of Legal & Property Services

BUSINESS

1.	Apologies, Substitutions and Declarations of Interest	Page
PERFORMANCE MANAGEMENT		
2.	Internal Audit Progress Report – 3 December 2018 to 1 February 2019 Report by Corporate Director Environment, Regeneration & Resources	p
3.	External Audit Plan 2018/19 Report by Chief Financial Officer	p
NEW BUSINESS		
4.	The National Fraud Initiative in Scotland – 2018/2019 Exercise Report by Corporate Director Environment, Regeneration & Resources	p
<p>The documentation relative to the following item has been treated as exempt information in terms of the Local Government (Scotland) Act 1973 as amended, the nature of the exempt information being that set out in paragraph 6 of Part I of Schedule 7(A) of the Act.</p>		
PERFORMANCE MANAGEMENT		
5.	Appendix relative to Item 2 providing update on Special Investigation	p

Enquiries to – **Diane Sweeney** – Tel 01475 712147

Report To: Audit Committee Date: 26 February 2019
 Report By: Corporate Director Environment Regeneration & Resources Report No: AC/03/19/SA/APr
 Contact Officer: Andi Priestman Contact No: 01475 712251

Subject: Internal Audit Progress Report – 3 December 2018 to 1 February 2019

1.0 PURPOSE

- 1.1 The purpose of this report is to enable members to monitor the performance of Internal Audit, to discharge their scrutiny and performance monitoring roles and gain an overview of the overall control environment throughout the Council.
- 1.2 The Monitoring Report from 3 December 2018 to 1 February 2019 is attached as an Appendix to this report since its content is essential to the understanding of the Council's control environment. **Appendix 1**

2.0 SUMMARY

- 2.1 There was one internal audit report finalised since the last Audit Committee meeting in January 2019:
- Corporate Purchase Cards
- 2.2 This report contained 7 issues categorised as follows:

Red	Amber	Green
0	0	7

- 2.3 The fieldwork for the 2018/19 plan is underway and the current status of the plan is as follows:

Stage	Number of Reports
Final Report	3
Draft Report	1
Fieldwork Complete	0
Fieldwork in Progress	7
Planning	1
Not started	0
Total	12

- 2.4 In relation to Internal Audit follow up, there were no items due for completion by 31 January 2019. The current status report is attached at Appendix 2. **Appendix 2**
- 2.5 The CMT has reviewed and agreed the current status of actions.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that Members agree to note the progress made by Internal Audit in the period from 3 December 2018 to 1 February 2019.

Scott Allan
Corporate Director Environment, Regeneration and Resources

4.0 BACKGROUND

- 4.1 In April 2018, the Audit Committee approved the current Internal Audit Annual Plan which detailed a programme of activity to be undertaken during 2018-19.
- 4.2 Internal Audit regularly reports findings and action plans to relevant Council Officers and the Audit Committee as part of the annual audit plan. A follow up process is in place to allow follow up of current internal audit actions to be co-ordinated and updated by Internal Audit on a monthly basis with regular reporting to CMT and the Audit Committee.

5.0 CURRENT POSITION

- 5.1 There has been one internal audit report finalised since the last Audit Committee meeting in January 2019:
- Corporate Purchase Cards
- 5.2 The fieldwork for the 2018/19 plan is underway and the current status of the plan is as follows:

Stage	Number of Reports
Final Report	3
Draft Report	1
Fieldwork Complete	0
Fieldwork in Progress	7
Planning	1
Not started	0
Total	12

- 5.3 There are 10 current action points being progressed by officers. There were no action points due for completion by 31 January 2019.
- 5.4 The CMT has reviewed and agreed the current status of actions.

6.0 IMPLICATIONS

Finance

- 6.1 There are no direct financial implications arising from this report.

Financial Implications:

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
N/A					

Legal

6.2 There are no direct legal implications arising from this report.

Human Resources

6.3 There are no direct HR implications arising from this report.

Equalities

6.4 There are no direct equalities implications arising from this report.

Repopulation

6.5 There are no direct repopulation implications arising from this report.

7.0 CONSULTATIONS

7.1 Relevant officers have been consulted in the preparation of this report.

8.0 LIST OF BACKGROUND PAPERS

8.1 File of completed internal audit reports: Available from Andi Priestman, Chief Internal Auditor.



**Audit Committee Report
Report on Internal Audit Activity from
3 December 2018 to 1 February 2019**

Section	Contents	Page
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1 Audit work undertaken in the period

Reports issued since last update

1.1 In each audit, one of 4 overall opinions is expressed:

Strong	In our opinion there is a sound system of internal controls designed to ensure that the organisation is able to achieve its objectives.
Satisfactory	In our opinion isolated areas of control weakness were identified which, whilst not systemic, put some organisation objectives at risk.
Requires improvement	In our opinion systemic and/or material control weaknesses were identified such that some organisation objectives are put at significant risk.
Unsatisfactory	In our opinion the control environment was considered inadequate to ensure that the organisation is able to achieve its objectives.

1.2 Detailed findings and recommendations reported to management are currently graded using the following criteria:

Red	<ul style="list-style-type: none"> In our opinion the control environment is insufficient to address the risk and this could impact the Council as a whole. Corrective action must be taken and should start immediately. Overseen to completion by Corporate Management Team.
Amber	<ul style="list-style-type: none"> In our opinion there are areas of control weakness which we consider to be individually significant but which are unlikely to affect the Council as a whole. Corrective action must be taken (some exceptions may be agreed with IA) within reasonable timeframe. Overseen to completion by Head of Service.
Green	<ul style="list-style-type: none"> In our opinion the risk area is well controlled or our audit highlighted areas for minor control improvement and/or areas of minor control weakness. Process improvements/efficiencies may be actioned at management discretion in consultation with Internal Audit (IA). Managed by service owner.

1.3 There was one audit report finalised since the January Audit Committee, which are identified below, together with a summary of the gradings of the issues identified. In Section 2 we have provided a summary of the main findings from the review

Reports finalised since previous Audit Committee	Grading			Total Number of Issues
	Red	Amber	Green	
Corporate Purchase Cards	0	0	7	7
Total	0	0	7	7

Other activities

Risk Management

1.4 Risk Management is the subject of separate reporting to Audit Committee and a full report is submitted separately on an annual basis.

Internal Audit Action Plan Follow Up

- 1.5 The current status of Internal Audit Action plans is set out as an attachment at Appendix 2 to this report.

2 Summary of main findings from reports issued since previous Audit Committee

- 2.1 We have provided below a summary of the key findings from the final reports issued after 30 November 2018.

Corporate Purchase Cards

- 2.2 Corporate purchase cards are now widely used by many public and private organisations to order and pay for goods and services. Corporate purchase cards can provide Inverclyde Council with a simple to use, flexible system than can improve the efficiency of the order and payment process, reduce internal costs and allow goods to be obtained more quickly. Corporate purchase cards also help to improve expenditure controls and provide essential expenditure information.
- 2.3 The objective of this audit was to provide senior management and the Audit Committee with an assessment of the adequacy and effectiveness of the governance, risk management and controls surrounding the key risks in relation to corporate purchase cards.
- 2.4 The review focused on the high level processes and procedures in relation to the corporate purchase card process and concentrated on identified areas of perceived higher risk, such as procedures are not in place to adequately authorise the use of corporate purchase cards or to properly administer corporate purchase cards.
- 2.5 The overall control environment opinion for this audit review was **Satisfactory**. Seven GREEN issues were identified which if implemented by management would enhance the control environment.
- 2.6 The review identified 7 issues, none of which we consider to be individually significant and an action plan is in place to address all issues by 30 June 2019.

3. Audit Plan for 2018/2019 – Progress to 1 February 2019

Planned Audit Cover	Planning	TOR Issued	Fieldwork in Progress	Fieldwork Complete	Draft Report	Report Finalised	Reported to Audit Committee
Risk-Based Reviews							
General Data Protection Regulation	✓	✓	✓	✓	✓	✓	October 2018
Corporate Purchase Cards	✓	✓	✓	✓	✓	✓	February 2019
Mobile Phone Compliance	✓	✓	✓	✓	✓		
IR35 Compliance	✓	✓	✓				
Change Board Governance Arrangements	✓						
Limited Scope Financial Reviews							
FMS Logical Access Controls	✓	✓	✓				
BACS Payment Process	✓	✓	✓				
Regularity Audits							
Stock/Inventory Control – Quarterly Checks	✓	N/A	✓				
Employee Expenses – Quarterly Checks	✓	N/A	✓				
Council Tax Reduction Scheme/Discounts/Exemptions	✓	N/A	✓				
Education Control Self-Assessment (CSA)	✓	N/A	✓	✓	✓	✓	January 2019
Corporate Governance							
Annual Governance Statement 2017-2018	Complete - Input provided by CIA.						
Other Work							
National Fraud Initiative	2016/17 Data Matching Exercise Investigations are complete. Work on the 2018/19 Data Matching Exercise has started.						
SPOC Liaison with DWP	Ongoing – see section 4 for detailed activity						
Inverclyde IJB	Internal Audit annual audit plan for 2018/2019 was approved in September 2018 – 50 days allocated to IJB audit plan. Two audits have been agreed for the 2018/2019 Audit Plan. One audit is complete and fieldwork for the second audit is underway.						

4 Corporate Fraud Activity

4.1 The undernoted table sets out progress to date on corporate fraud activity in the period 3 December 2018 to 1 February 2019

Council Tax Reduction Scheme 3 December 2018 to 1 February 2019		
Number of Home Visits	Number of Errors Identified and Corrected	Total Overpayment/Future Savings
39	0	0
Council Tax Reduction Scheme 1 April to 1 February 2019		
Number of Home Visits	Number of Errors Identified and Corrected	Total Overpayment/Future Savings
219	32	£37,882.64/£17,260.10
National Fraud Initiative 2016-2017		
NFI exercise for 2016-2017 is now complete.		
National Fraud Initiative 2018-2019		
A separate report has been prepared and reported to the February Committee.		
Stock and Inventory Quarterly Checks		
Fieldwork is underway to review stock and inventory procedures within Services. A full report will be provided to April 2019 Audit Committee.		
Employee Expenses Quarterly Checks		
Testing is underway to review employee expense claims across the Council. A full report will be provided to April 2019 Audit Committee.		

4.2 Specific NFI cases being reviewed by Corporate Fraud since the last Audit Committee are set out below:

File Ref	Description	Status
18/19 18-09	CT SPD > Pension (Recheck report)	Passed to Finance for adjudication.
18/19 18-63	CT SPD > State Benefits (Recheck report)	Passed to Finance for adjudication.
18/19 18-72	CT SPD > State Benefits (Recheck report)	Passed to Finance for adjudication.
18/19 18-74	CT SPD > State Benefits (Recheck report)	Passed to Finance for adjudication.
18/19 18-78	CT SPD > State Benefits (Recheck report)	Passed to Finance for adjudication.
18/19 18-84	CT SPD > State Benefits (Recheck report)	Passed to Finance for adjudication.
18/19 18-91	CT SPD > State Benefits (Recheck report)	Passed to Finance for adjudication.
18/19 18-110	CT SPD > Taxi Drivers (Recheck report)	Passed to Finance for adjudication.

4.3 **SPOC Liaison 1/4/18 – 1/2/19**

DWP Referrals	4 this period	52 to date
LAIEF requests actioned	9 this period	86 to date

4 Corporate Fraud Activity (Continued)

4.4

Whistleblowing/Referrals

Whistleblowing and referral cases closed/being investigated since the last Audit Committee are as follows:

File Ref	Description	Status
17/18 17-96	Council Tax Exemption	Passed to Finance for adjudication.
17/18 17-147	Alleged misuse of Funds	Report issued to management. Follow Up work undertaken. See section 6.
18/19 18-82	Single Person Discount	Passed to Finance for adjudication.
18/19 18-90	Housing Benefits enquiry	Passed to Finance for adjudication.
18/19 18-92	Single Person Discount	Passed to Finance for adjudication.
18/19 18-135	CTR – Undeclared Assets	Closed – no fraud detected.
18/19 18-138	Single Person Discount	Passed to Finance for adjudication.
18/19 18-141	Single Person Discount	Ongoing investigation.
18/19 18-149	Single Person Discount	Passed to Finance for adjudication.
18/19 18-150	Misuse of Public Funds	Closed – no fraud detected.
18/19 18-155	Single Person Discount	Passed to Finance for adjudication.
18/19 18-159	Alleged non-charging for services	Ongoing investigation.
18/19 18-160	Single Person Discount	Referred to DWP.
18/19 18-161	Misuse of Blue Badge	Badge seized and referred to East Ayrshire Council.
18/19 18-162	Misuse of Expired Blue Badge	Expired badge volunteered by user.
18/19 18-163	CTR – Undeclared Income	Passed to Finance for adjudication.
18/19 18-164	Housing Benefit – Undeclared Partner	Referred to DWP.
18/19 18-165	Misuse of Blue Badge	Badge seized and BBIS database updated.
18/19 18-167	Potential Employee Conflict of Interest	Ongoing investigation.
18/19 18-169	Fraudulent Housing Benefit Claim	Referred to DWP
18/19 18-170	Misuse of Blue Badge	Badge seized and advice given.
18/19 18-171	Misuse of Expired Blue Badge	Badge seized and advice given.
18/19 18-172	Misuse of Expired Blue Badge	No misuse detected but badge seized and destroyed.
18/19 18-173	Misuse of Expired Blue Badge	Badge seized and advice given.
18/19 18-174	Misuse of Blue Badge	Ongoing investigation.
18/19 18-176	Misuse of Expired Blue Badge	Badge seized and advice given.

4 Corporate Fraud Activity (Continued)

File Ref	Description	Status
18/19 18-177	Misuse of Expired Blue Badge	Badge seized and advice given.
18/19 18-178	Misuse of Blue Badge	Badge seized and advice given.
18/19 18-179	Allegation – Employee working whilst on sick leave	Ongoing investigation. Referred to Service.
18/19 18-180	Misuse of Blue Badge	Badge seized and advice given.
18/19 18-181	Misuse of Organisational Blue Badge	Misuse established. Visit to organisation carried out and advice given to management.
18/19 18-183	Misuse of Expired Blue Badge	Badge seized and returned to North Ayrshire Council for destruction.
18/19 18/184	Non-payment of Council Tax	Ongoing investigation.
18/19 18/185	Misuse of Blue Badge	Visit carried out and badge seized.
18/19 18-186	Misuse of Expired Blue Badge	Badge seized and advice given.
18/19 18-188	Misuse of Expired Blue Badge	Badge seized and advice given.

5 Ad hoc activities undertaken since the previous Audit Committee

- 5.1 From time to time, management will request the assistance of Internal Audit in certain activities that are in addition to the annual Operational Plan. Examples of such activities include investigations of alleged irregularities, review of changes in system procedures etc.
- 5.2 Contingency has been made available in the Operational Plan for such ad hoc activities. Since the previous Audit Committee, ad hoc activity undertaken in the period is as follows:
- Providing relevant information in relation to FOI requests.
 - Review of SPT Grant Claims.

INVERCLYDE COUNCIL INTERNAL AUDIT
REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS (RED AND AMBER ONLY)
AT 31 JANUARY 2019

Summary: Section 1 Summary of Management Actions due for completion by 31/01/19

There were no actions due for completion by 31 January 2019.

Section 2 Summary of Current Management Actions Plans at 31/01/19

At 31 January 2019 there were no audit reports delayed due to management not finalising the action plan within agreed timescales.

Section 3 Current Management Actions at 31/01/19

At 31 January 2019 there was a total of 10 current audit action points.

Section 4 Analysis of Missed Deadlines

At 31 January 2019 there were no audit action points where the agreed deadline had been missed.

Section 5 Summary of Action Plan Points by Audit Year

**INVERCLYDE COUNCIL INTERNAL AUDIT
 REPORT TO AUDIT COMMITTEE ON
 STATUS OF INTERNAL AUDIT ACTION PLAN POINTS (RED AND AMBER ONLY)
 SUMMARY OF MANAGEMENT ACTION PLANS DUE FOR COMPLETION BY 31.01.19**

SECTION 2

Directorate	No. of Actions Due	No. of Actions Completed	Deadline missed Revised date set*	Deadline missed Revised date to be set*
Environment, Regeneration & Resources	0			
Health and Social Care Partnership (HSCP)	0			
Education, Communities and Organisational Development	0			
Total	0			

* These actions are included in the Analysis of Missed Deadlines – Section 4

**INVERCLYDE COUNCIL INTERNAL AUDIT
 REPORT TO AUDIT COMMITTEE ON
 STATUS OF INTERNAL AUDIT ACTION PLAN POINTS (RED AND AMBER ONLY)
 SUMMARY OF CURRENT MANAGEMENT ACTION PLANS AS AT 31.01.19**

SECTION 2

CURRENT ACTIONS BY DIRECTORATE

HSCP	
Due for completion March 2019	5
Total Actions	5
Environment, Regeneration and Resources	
Due for completion March 2019	1
Total Actions	1
Education, Communities and Organisational Development	
Due for completion April 2019	2
Due for completion August 2019	2
Total Actions	4
Total current actions:	10

**INVERCLYDE COUNCIL INTERNAL AUDIT
REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS (RED AND AMBER ONLY)
CURRENT MANAGEMENT ACTIONS AS AT 31.01.19**

SECTION 3

HSCP

Action	Owner	Expected Date
HSCP Commissioning (July 2018)		
<p>Developing themed strategic commissioning of HSCP services (Amber) Management will examine how to:</p> <ul style="list-style-type: none"> • reduce unnecessary differences in client assessment arrangements between Teams for those clients with two or more care needs. This exercise will aim to more closely co-ordinate overall client assessments with practically applying themed strategic commissioning arrangements; • avoid unintentionally providing clients with more care than their assessed needs require by focusing themed strategic commissioning activities on delivering positive outcomes for clients. These efforts will be undertaken alongside the ongoing development of preventative and early intervention activities; • place a greater emphasis on a “bottom-up” rather than “top-down” approach to themed strategic commissioning of services by focusing on trying to achieve positive outcomes for clients and so improve their lives; and • develop an effective mechanism for allocating client care costs across Team budgets for those clients with complex needs and so enhance the financial information which underpins commissioning activities. 	Commissioning Working Group	31.03.19
<p>Management will identify changes to procurement and commissioning policies and procedures which will adequately support themed strategic commissioning in practice.</p>	Commissioning Working Group	31.03.19
<p>Managing Strategic Commissioning practices (Amber) Management will promote the role of the Strategic Commissioning Team amongst relevant HSCP officers. This exercise will include encouraging operational managers to always make contact at an early stage whenever they need to:</p> <ul style="list-style-type: none"> • change commissioned services; • review grants paid to external organisations for commissioned services; and • review Service Level Agreements for commissioned services. 	Commissioning Working Group	31.03.19

* See Analysis of Missed Deadlines – Section 4

**INVERCLYDE COUNCIL INTERNAL AUDIT
REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS (RED AND AMBER ONLY)
CURRENT MANAGEMENT ACTIONS AS AT 31.01.19**

SECTION 3

HSCP (Continued)

Action	Owner	Expected Date
HSCP Commissioning (July 2018)		
Management will consult relevant Finance staff about how best to use FMS in a one-off exercise to identify and manage any pockets of HSCP expenditure which are not yet subject to approved commissioning arrangements.	Commissioning Working Group	31.03.19
Management will create a prioritised action plan of key tasks for the Market Facilitation & Commissioning Plan. This exercise will include an analysis of the risks to successfully implementing the plan.	Commissioning Working Group	31.03.19

Environment, Regeneration and Resources

Action	Owner	Expected Date
General Data Protection Regulation Arrangements (September 2018)		
<p>Managing GDPR training (Amber) The Information Governance Team will in close partnership with GDPR Champions:</p> <ul style="list-style-type: none"> • formally assess the impact of GDPR on service delivery and all relevant post-holders. In turn, those assessments will be used to inform the specific training needs of those post-holders; • fully analyse the specific GDPR training needs of all relevant post-holders and formally plan how best to meet those needs within available resources; • develop a formal mechanism for assessing the effectiveness of GDPR training arrangements; and • adequately utilise the operational knowledge of GDPR Champions to assess and develop GDPR training arrangements. 	Legal Services Manager (Procurement, Conveyancing & Information Governance)	31.03.19

* See Analysis of Missed Deadlines – Section 4

**INVERCLYDE COUNCIL INTERNAL AUDIT
REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS (RED AND AMBER ONLY)
CURRENT MANAGEMENT ACTIONS AS AT 31.01.19**

SECTION 3

Education, Communities and Organisational Development

Action	Owner	Expected Date
Education CSA (December 2018)		
<p>Managing GDPR and Information Governance (Amber) Management will develop and implement an Education wide action plan which appropriately manages GDPR and information governance requirements along with trying to minimise variances in local practice between Education establishments.</p>	Interim Head of Education	31.08.19
<p>Management will address specific issues regarding the implementation of GDPR.</p>	Interim Head of Education	30.04.19
<p>Managing School Meals Income using the “ParentPay” system (Amber) Management will review and update the policy and procedure for managing school meals income.</p>	Policy and Commissioning Team Leader	30.04.19
<p>Management will explore the operational aspects of writing-off debts and debt case management. This will include obtaining approval from Committee for an appropriate debt management policy once staff roles have been fully clarified.</p>	Policy and Commissioning Team Leader	31.08.19

* See Analysis of Missed Deadlines – Section 4

**INVERCLYDE COUNCIL INTERNAL AUDIT
REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS (RED AND AMBER ONLY)
SUMMARY OF ACTION PLAN POINTS BY AUDIT YEAR**

SECTION 5

The following table sets out the total number of agreed actions raised by audit year together with their completion status as at 31 January 2019.

Audit Year	Total Agreed Actions	Total Actions Completed	Total Current Actions Not Yet Due*		
			Red	Amber	Green
2012/2013	76	76	0	0	0
2013/2014	116	115	0	0	1
2014/2015	77	76	0	0	1
2015/2016	52	52	0	0	0
2016/2017	66	65	0	0	0
2017/2018	53	41	0	5	7
2018/2019	21	0	0	5	16
Total	461	426	0	10	25

*This part of the table sets out the total number of current actions not yet due at the date of the follow up report. The AMBER actions are included in Section 3 of the follow up report.

Report To:	Audit Committee	Date:	26 February 2019
Report By:	Chief Financial Officer	Report No:	FIN/24/19/AP
Contact Officer:	Alan Puckrin	Contact No:	01475 712223
Subject:	External Audit Plan 2018/19		

1.0 PURPOSE

- 1.1 The purpose of the report is to present the External Audit Plan for 2018/19 produced by Audit Scotland.

2.0 SUMMARY

- 2.1 Appendix 1 contains the Annual Audit Plan 2018/19 prepared by the Council's External Auditors, Audit Scotland.
- 2.2 Representatives from Audit Scotland will be in attendance at the meeting on order to present the Plan and answer any questions.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that Committee note the Annual Audit Plan 2018/19.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

- 4.1 The Council's External Auditors, Audit Scotland have submitted their plan for the audit of the 2018/19 annual accounts. This plan is attached at Appendix 1.
- 4.2 Representatives from Audit Scotland will be in attendance at the meeting on order to present the Plan and answer any questions.

5.0 FINANCIAL IMPLICATIONS

- 5.1 There are no financial implications arising from this report.

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From (If Applicable)	Other Comments
N/A					

5.2 Legal

There are no legal issues arising from the content of this report.

5.3 Human Resources

There are no direct staffing implications in respect of the report.

5.4 Equalities

There are no equalities implications in this report.

5.5 Repopulation

There are no repopulation implications in this report.

6.0 CONSULTATIONS

- 6.1 External Audit attended the Corporate Management Team to present the External Audit Plan and the Corporate Management Team would raise no issues regarding the content.

7.0 LIST OF BACKGROUND PAPERS

- 7.1 None

Inverclyde Council Annual Audit Plan 2018/19



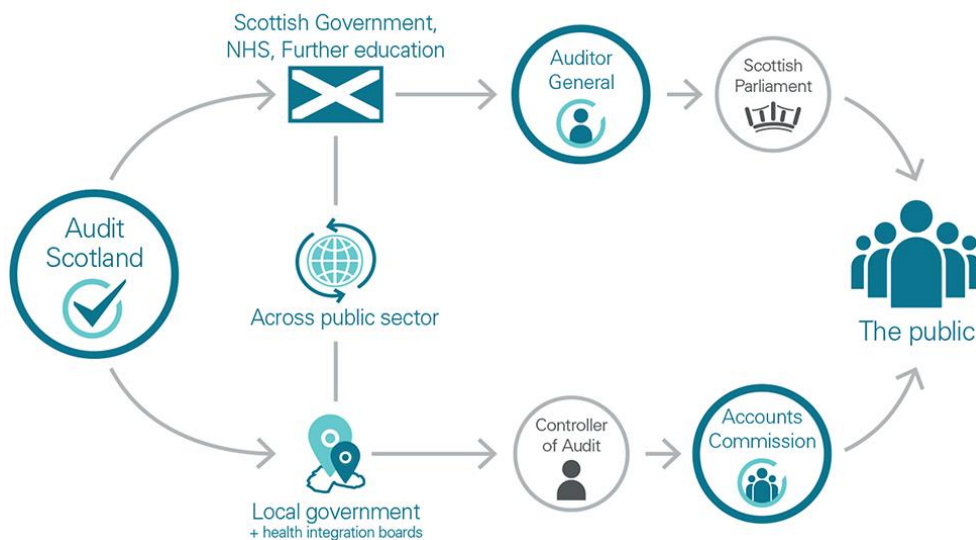
 AUDIT SCOTLAND

Prepared for Inverclyde Council
February 2019

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.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit [including the audit of Best Value].

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.


Adding value


3. We aim to add value to Inverclyde Council through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.


Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Inverclyde Council. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.
<p>2 Risk of fraud over income</p> <p>Inverclyde Council receives a significant amount of income from several sources including income from fee and charges funding. The extent and</p>	<p>The annual internal audit plan for 2018/19 includes reviews where the risk of fraud is considered, including:</p> <ul style="list-style-type: none"> • Stock and inventory procedures 	<ul style="list-style-type: none"> • Analytical procedures on income streams. • Detailed testing of revenue transactions focusing on the areas of greatest risk.

 Audit Risk	Source of assurance	Planned audit work
<p>complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> FMS logical access controls <p>Compliance with relevant financial policies and procedures is reviewed by management as part of the annual governance review.</p>	<ul style="list-style-type: none"> Review the process for undertaking care income assessments
<p>3 Risk of fraud over expenditure</p> <p>The Code of Audit Practice extends the assumptions within ISA 240 to the risk of fraud associated with areas of expenditure. Inverclyde Council incurs significant expenditure in areas such as welfare benefits, social care payments and grants and therefore there is an inherent risk of fraud.</p>	<p>The annual internal audit plan for 2018/19 includes reviews where the risk of fraud is considered, including:</p> <ul style="list-style-type: none"> Employee expenses Mobile phones Corporate purchase cards BACS payment process <p>The plan also allows for the oversight of arrangements for the National Fraud Initiative (NFI) exercise.</p> <p>Compliance with relevant financial policies and procedures is reviewed by management as part of the annual governance review.</p>	<ul style="list-style-type: none"> Walkthrough of controls over social care payments. Detailed substantive testing of expenditure including social care payments, grants and housing benefit transactions.
<p>4 Estimation and valuations</p> <p>There is a significant degree of subjectivity in the measurement and valuation of pensions and estimation of provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>The Council has clearly defined procedures in place, including, where appropriate the use of experts to make significant estimations and valuations.</p> <p>All estimations and valuations are reviewed by qualified finance staff.</p>	<ul style="list-style-type: none"> Assessment of the scope, independence and competence of the professionals engaged in providing estimates. Review appropriateness of actuarial results including comparison with other councils. Assessment of the appropriateness of the actuarial assumptions. Establish officers' arrangements for assessing the impact of any movement in fund values between the IAS19 valuation date and the year end. Review actual experience of significant estimates made at previous year end. Review officers' assessment of other significant accruals and provisions at the year end.
<p>5 Openness and transparency</p> <p>The importance of openness and transparency in reporting has been highlighted by the Accounts Commission and within the 2017/18 Local Government</p>	<p>Revenue monitoring is reported to committee on a bimonthly basis and reports include explanations of any significant over or underspend. In addition the outturn against budget position is reviewed by</p>	<ul style="list-style-type: none"> Detailed review revenue budget progress reports throughout the year. Detailed review of the management commentary against Finance Circular

 Audit Risk	Source of assurance	Planned audit work
<p>Overview. In particular, the management commentary in the annual accounts should clearly show:</p> <ul style="list-style-type: none"> the outturn against budget position for the year with the reasons for significant variances the outturn reported in the narrative reconciled to the movement in general fund contained in the financial statements and major differences explained progress against agreed savings specifically reported on in the accounts. <p>There is a risk that users of the annual accounts do not clearly understand the development of the budget throughout the year and how this is represented in the financial statements.</p>	<p>officers and reasons for significant variances are reported to committee.</p> <p>Capital Monitoring is also reported to Committee on a bi monthly basis with reports including explanations of variances. In addition the outturn against budget position is reviewed by Officers and reported to committee.</p> <p>A summary of this information is included within the management commentary.</p> <p>The management commentary currently reconciles the outturn to the movement in the general fund along with an explanation for any major differences.</p> <p>We will continue to review current guidance and update the management commentary to reflect any changes that will improve the openness and transparency of reporting within the annual accounts.</p>	<p>5/2015 and the recommendations in the Local Government Overview</p>

Wider dimension issues and risks

6 EU withdrawal

There are considerable uncertainties surrounding the implications of EU withdrawal and public bodies should assess the potential impact on their operations and identify specific issues and planned responses.

There is a risk that the council is not prepared for the impact of EU withdrawal on the delivery of services.

The Council activated the Crisis and Resilience Management Team in 2018 to review the risk posed by Brexit and develop responses. The CRMT is linking with the Regional Resilience Partnership and responding to guidance from Scottish Government and COSLA. A report was taken to CMT last year and a report on Brexit was approved at Committee in November 2018. A Chief Officer recently attended the COSLA Briefing on Brexit. A further report will be taken to the Environment and Regeneration Committee in March providing an update and responding to the Audit Scotland recommendations on Brexit. The Council is participating in the National review of readiness as organised by SOLACE/COSLA and our current status is Developing.

- Assess how the council has assessed and prepared for EU withdrawal, including the specific work on workforce impact and dependency on key suppliers.
- Consider how the council responds to any emerging issues after March 2019.

 Audit Risk	Source of assurance	Planned audit work
<p>7 Dependency on key suppliers</p> <p>Dependency on a key supplier could expose the council to service delivery issues should the supplier fail. Where a significant supplier dependency exists, there should be monitoring and business continuity arrangements to ensure the council is able to respond to significant issues.</p> <p>There is a risk that the council is unable to deliver services if it is not aware of its key supplier dependencies and / or fails to have sufficient business continuity arrangements in place.</p>	<p>Assessing the financial position of tenders prior to contract award is covered by Council policy on minimum contract value to turnover and the potential suppliers D&B rating. Policy and best practice is contained in the procurement manual and advice is given by Corporate Procurement.</p> <p>In assessing the financial sustainability of suppliers who have contracts, supplier risks are assessed by means of two segmentation exercises and followed by ongoing supplier and contract management processes:</p> <ul style="list-style-type: none"> • Contracts involving services that are specific to Social Care, Education and Regeneration where the contract entails service delivery directly to the public are included in a supplier management process known as the Governance of External Organisations. The suppliers who are found to be at high risk are contract managed with the results reported to the appropriate Committees. • Contracts that are more Corporate and nature and do not have a directly public facing element are segmented and managed via a supplier management process. 	<ul style="list-style-type: none"> • Undertake work to establish the extent, value and nature of key supplier dependencies, including considering the councils work planning for EU withdrawal. • Where issues are identified consider the robustness of the business monitoring and continuity arrangements in place.

Source: Audit Scotland

Reporting arrangements

5. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

6. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

7. We will provide an independent auditor's report to Inverclyde Council and Accounts Commission setting out our opinions on the annual accounts. We will provide the Accountable Officer and Accounts Commission with an annual report

on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2

2018/19 Audit outputs

Audit Output	Target date	Committee Date
Management Report	29 March 2019	23 April 2019
Annual Audit Report	30 September 2019*	26 September 2019
Independent Auditor's Report	30 September 2019*	26 September 2019

* These dates represent the certification deadline for the 2018/19 local government accounts. However, we will agree an audit timetable to report the findings from the audit to those charged with governance prior to the certification of the annual accounts

Audit fee

8. The agreed audit fee for the 2018/19 audit of Inverclyde Council is £248,140 (£243,450 in 2017/18). In determining the audit fee, we have taken account of the risk exposure of Inverclyde Council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package on 28 June 2019.

9. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Audit Committee and Accountable Officer

10. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

11. The audit of the annual accounts does not relieve management or the Audit Committee as those charged with governance, of their responsibilities.

Appointed auditor

12. Our responsibilities as independent auditors are established by the 1973 Act for local government and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

13. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual accounts

14. The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Inverclyde Council and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Inverclyde Council will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

15. We will give an opinion on whether the financial statements:

- give a true and fair view of the of the state of affairs of the council and its group as at 31 March 2019 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with the financial reporting framework.



characteristics



responsibilities



principal activities



risks



governance arrangements

Other information in the annual accounts

16. We also review and report on other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

17. We also read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

Materiality

18. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

19. We calculate materiality at different levels as described below. The calculated materiality values for Inverclyde Council are set out in [Exhibit 3](#).

Exhibit 3

Materiality values

Materiality	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2019 based on the latest audited accounts.	£3.4 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 50% of planning materiality.	£1.7 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 3% of planning materiality.	£100,000



Source: Audit Scotland

Timetable

20. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4

Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual accounts by those charged with governance	27 June 2019
Latest submission date of unaudited annual accounts with complete working papers package	28 June 2019
Latest date for final clearance meeting with Chief Financial Officer	6 September 2019
Issue of Letter of Representation and proposed independent auditor's report	September 2019
Agreement of audited unsigned annual accounts	September 2019
Issue of Annual Audit Report to those charged with governance	September 2019
Independent auditor's report signed	September 2019

Internal audit

21. Internal audit is provided by a team of staff managed by the Chief Internal Auditor. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS). Our assessment of the internal audit function concluded that it has sound documentation standards and reporting procedures in place and complies with the main requirements of the PSIAS.

Using the work of internal audit

22. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

23. From our initial review of internal audit plans we plan to place formal reliance on aspects of internal audit work in the following areas:

- FMS Logical Access Controls (financial systems review)
- BACS Payment Process (financial systems review)

24. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- General Data Protection Regulations (risk-based audit review)
- Corporate Purchase Cards (risk-based audit review)
- Council Tax Reduction Scheme – Discounts and Exemptions (regularity audit)
- Employee expenses – Quarterly Checks (regularity audit)

Audit dimensions

25. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5 Audit dimensions



Source: Code of Audit Practice

26. In the local government sector, the appointed auditor's annual conclusions on these four dimensions will help contribute to an overall assessment and assurance on best value.

Financial sustainability

27. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's

financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether Inverclyde Council can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

28. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether Inverclyde Council has arrangements in place to ensure systems of internal control are operating effectively
- whether Inverclyde Council can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how Inverclyde Council has assured itself that its financial capacity and skills are appropriate
- whether Inverclyde Council has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

29. Governance and transparency are concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether Inverclyde Council can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, others such as ALEOs)
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

30. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- Inverclyde Council can provide evidence that it is demonstrating value for money in the use of its resources
- Inverclyde Council can demonstrate that there is a clear link between money spent, output and outcomes delivered
- Inverclyde Council can demonstrate that outcomes are improving
- There is sufficient focus on improvement and the pace of it.

Best Value

31. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincided

with the new five-year audit appointments. Auditors started using the framework for their audit work from October 2016.

32. A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five-year audit appointment, both through the ongoing annual audit work, and through discrete packages of work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

- The Annual Audit Report for each council that will provide a rounded picture of the council overall.
- An annual assurance and risks report that the Controller of Audit will provide to the Commission that will highlight issues from across all 32 council annual audit reports.
- A Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five-year period.

33. The seven councils on which a BVAR will be published during the second year of the new approach are listed in [Exhibit 6](#). Reports will be considered by the Accounts Commission in the period between March and November 2019.

Exhibit 6

2018/19 Best Value Assurance Reports



North Lanarkshire Council

Highland Council

Stirling Council

Scottish Borders Council

South Lanarkshire Council

Perth and Kinross Council

Midlothian Council

Source: Audit Scotland

34. Inverclyde Council was the first to receive a BVAR under the revised arrangements to auditing best value in local government. The report was published in June 2017 and identified good progress across the council since previous best value reports. The work planned in Inverclyde Council this year focuses on the Council's response to issues identified in the BVAR published in June 2017. The work is integrated with our wider dimension responsibilities and is set out in the strategic plan at [Exhibit 7](#).

35. Specifically, we will review the BVAR action plan points that the Council have assessed as complete. We will also review the Council arrangements for ensuring equal opportunities, following up on work undertaken as part of the initial BVAR.

36. The work will involve us gaining an understanding of how effective the council's self-evaluation processes are in driving improvement across the council. The results of this work will be reported in the Annual Audit Report.

Strategic plan for the five-year appointment

37. As part of our responsibility to report on the audit dimensions over the current audit appointment we have identified the following areas of proposed audit work (this will be subject to annual review):

Exhibit 7 Strategic plan

Dimension	2016/17 to 2017/18	2018/19	2019/20 to 2020/21
Financial sustainability	Development of longer-term financial planning	Reserves	
Financial management	Financial governance and resource management	Succession planning	
Governance and transparency	Vision and Leadership Governance, decision making and scrutiny Community engagement / empowerment	Openness and transparency Equalities Corporate initiatives and outcomes	Community engagement / empowerment
Value for money	Performance / outcomes Transformational change Partnership working		Review of City Deals

Source: Audit Scotland

Independence and objectivity

38. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

39. The engagement lead (i.e. appointed auditor) for Inverclyde Council is Brian Howarth, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Inverclyde Council.

Quality control

40. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

41. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews.

Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

42. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Inverclyde Council

Annual Audit Plan 2018/19

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Report To: Audit Committee **Date:** 26 February 2019

Report By: Corporate Director Environment Regeneration and Resources **Report No:** AC/04/19/SA/APr

Contact Officer: Andi Priestman **Contact No:** 01475 712251

Subject: The National Fraud Initiative In Scotland – 2018/2019 Exercise

1.0 PURPOSE

- 1.1 The purpose of this report is to update Members on the current position with regard to the National Fraud Initiative in Scotland 2018/2019 Exercise.

2.0 SUMMARY

- 2.1 The National Fraud Initiative (NFI) is now well established with the 2018/2019 exercise, being the 7th biennial exercise since 2006. The NFI enables public bodies to take advantage of computer data matching techniques to detect fraud and error.
- 2.2 The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. A match does not automatically mean that there is a fraud or error and investigations are required to enable the correct conclusion to be drawn for each match. Bodies investigate these and record on a secure web application appropriate outcomes based on their investigations.
- 2.3 For 2018/2019, data matches were released on 31 January 2019. Inverclyde Council's matches are set out in the undernoted table:

Data Set	Fraud Risk Rating				Total
	H	M	L	Nil	
Blue Badge Parking Permit	159	42	0	0	201
Housing Benefit Claimants	45	27	144	141	357
Payroll	9	8	0	22	39
Personal Budgets	4	0	3	0	7
Private Residential Care Homes	23	22	0	0	45
Total	240	99	147	163	649

- 2.4 The Cabinet Office has advised of the late release of other datasets including Council Tax Reduction Scheme, Creditors and Procurement as work in ongoing to finalise the matches for these datasets. An updated will be provided to the April Audit Committee meeting.
- 2.5 The 2018/2019 NFI exercise will be monitored by Internal Audit as part of the 2018/2019 and 2019/2020 Annual Audit Plans and an update on progress will be provided on a regular basis to Audit Committee.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Audit Committee notes the contents of this report and agrees that further updates are provided to Audit Committee as part of the Internal Audit Progress report outlining the Council's progress with the 2018-2019 exercise.

Scott Allan
Corporate Director Environment, Regeneration and Resources

4.0 BACKGROUND

- 4.1 The NFI in Scotland is now well established with this being the 6th biennial exercise since 2006/07. The NFI enables public bodies to take advantage of computer data matching techniques to detect fraud and error. The NFI remains the largest national fraud detection and prevention scheme that can provide data matches within and between public bodies. Its key features are that it:
- acts as a deterrent to potential fraudsters.
 - identifies errors and fraud thus enabling appropriate action to recover money and/or press criminal charges.
 - can provide assurances, similar to a regular health check, that systems are operating well and can also identify where improvements are required.
 - operates across boundaries between public bodies in different sectors and countries.
 - represents value for money in terms of the efficiencies deliverable through centralised data processing and identifying targeted high priority matches.
- 4.2 The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. A match does not automatically mean that there is a fraud or error and investigations are required to enable the correct conclusion to be drawn for each match. Bodies investigate these and record on a secure web application appropriate outcomes based on their investigations.
- 4.3 Public bodies spend billions of pounds of taxpayers' money for the benefit of the Scottish population, providing services and financial assistance to all citizens including those that need them the most. Systems underpinning public spending can be complex and errors can happen. Unfortunately, there are also some individuals who seek to exploit the systems and fraudulently obtain services and benefits to which they are not entitled.
- 4.4 Data sharing enables bodies to match data internally and externally. Technology provides an efficient way to connect discrete data sets and can therefore limit the gaps available for fraudsters to manipulate and can help identify those that have. It also supports bodies to identify and implement process and control improvements that should reduce future errors and the costs of correcting these errors.
- 4.5 Audit Scotland, working closely with public bodies, external auditors and the Cabinet Office, has completed another major data sharing and matching exercise. The National Fraud Initiative (NFI) exercises make a significant contribution to the security and transparency of public sector finances by confirming that services are provided to the correct people and by reducing fraud and error.

5.0 CURRENT POSITION

5.1 For 2018/2019, data matches were released on 31 January 2019. Inverclyde Council's matches are set out in the undernoted table:

Data Set	Fraud Risk Rating				Total
	H	M	L	Nil	
Blue Badge Parking Permit	159	42	0	0	201
Housing Benefit Claimants	45	27	144	141	357
Payroll	9	8	0	22	39
Personal Budgets	4	0	3	0	7
Private Residential Care Homes	23	22	0	0	45
Total	240	99	147	163	649

5.2 The Cabinet Office has advised of the late release of other datasets including Council Tax Reduction Scheme, Creditors and Procurement as work in ongoing to finalise the matches for these datasets. An updated will be provided to the April Audit Committee meeting.

5.3 The 2018/2019 NFI exercise will be monitored by Internal Audit as part of the 2018/2019 and 2019/2020 Annual Audit Plans and an update on progress will be provided on a regular basis to Audit Committee.

6.0 IMPLICATIONS

Finance

6.1 There are no direct financial implications arising from this report.

Financial Implications:

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (if Applicable)	Other Comments
N/A					

Legal

6.2 There are no direct legal implications arising from this report.

Human Resources

6.3 There are no direct HR implications arising from this report.

Equalities

6.4 There are no direct equalities implications arising from this report.

Repopulation

6.5 There are no direct repopulation implications arising from this report.

7.0 CONSULTATIONS

7.1 Relevant officers have been consulted in the preparation of this report.

8.0 LIST OF BACKGROUND PAPERS

8.1 Internal Audit Progress Report AC/27/18/SA/APr