

A meeting of the Audit Committee will held on Tuesday 23 April 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 – 4 February To 29 March 2019 Report by Corporate Director Environment, Regeneration & Resources	p
3.	Internal Audit - Annual Strategy And Plan 2019-2020 Report by Chief Financial Officer	p
NEW BUSINESS		
4.	Management Report - 2018/19 Report by Chief Financial Officer	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 3 & 6 of Part I of Schedule 7(A) of the Act.</p>		
PERFORMANCE MANAGEMENT		
5.	Appendix relative to Item 2 providing update on Special Investigations	p

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

Report To: Audit Committee **Date:** 23 April 2019
Report By: Corporate Director Environment, Regeneration and Resources **Report No:** AC/05/19/SA/APr
Contact Officer: Andi Priestman **Contact No:** 01475 712251

Subject: Internal Audit Progress Report – 4 February To 29 March 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 4 February to 29 March 2019 is attached as an Appendix **Appendix 1** to this report since its content is essential to the understanding of the Council’s control environment.

2.0 SUMMARY

- 2.1 There were 2 internal audit reports finalised since the last Audit Committee meeting in February 2019:
- Mobile Phones
 - Stock and Inventory Procedures – Quarterly Checks
- 2.2 These report contained 10 issues categorised as follows:

Red	Amber	Green
0	1	9

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

Stage	Number of Reports
Final Report	7
Draft Report	0
Fieldwork Complete	1
Fieldwork in Progress	4
Planning	0
Not started	0
Total	12

- 2.4 In relation to Internal Audit follow up, there were 6 items due for completion by 31 March 2019 and all items have been reported as completed by management. 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 4 February to 29 March 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 were 2 internal audit reports finalised since the last Audit Committee meeting in February 2019:
- Mobile Phones
 - Stock and Inventory Controls – Quarterly Checks
- 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	7
Draft Report	0
Fieldwork Complete	1
Fieldwork in Progress	4
Planning	0
Not started	0
Total	12

- 5.3 There are 5 current action points being progressed by officers. There were 6 action points due for completion by 31 March 2019 and all actions have been reported as completed by management.
- 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
4 February to 29 March 2019**

Section	Contents	Page
1	Audit work undertaken in the period	1-2
2	Summary of main findings from reports issued since previous Audit Committee	2-3
3	Audit Plan for 2018-2019 – progress to 29 March 2019	4
4	Corporate Fraud Activity	5-8
5	Ad hoc activities undertaken since the previous Audit Committee	8
6	Special Investigations	9-19

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 were 2 audit reports finalised since the February 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 reviews.

Reports finalised since previous Audit Committee	Grading			Total Number of Issues
	Red	Amber	Green	
Mobile Phones	0	0	3	3
Stock and Inventory Controls – Quarterly Checks	0	1	6	7
Total	0	1	9	10

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 1 February 2019.

Mobile Phones

- 2.2 Mobile phones are provided to employees as a business tool to enable members of staff to carry out their work related duties. Use of mobile phones improves business communications and productivity. Vodafone provides the majority of mobile phone contracts to Inverclyde Council procured through the Scottish Government framework. Currently, there are 932 mobile phones in use throughout the Council with a budget set for mobile phones for 2018/19 of £46,000.

- 2.3 The objective of this audit was to provide management and the Audit Committee with an assessment of the adequacy and effectiveness of the governance, risk management and controls over the key risks faced by Inverclyde Council in relation to mobile phones.

- 2.4 The review focused on the high level processes and procedures in relation to mobile phones and concentrated on identified areas of perceived higher risk, such as value for money is not obtained for all mobile phone contracts and adequate arrangements are not in place to ensure mobile phone usage is valid for Council purposes.

- 2.5 The overall control environment opinion for this audit review was **Strong**. Three GREEN issues were identified which if implemented by management would enhance the control environment.

- 2.6 The review identified 3 issues, none of which we consider to be individually significant and an action plan is in place to address all issues.

2.7 Stock and Inventory Controls – Quarterly Checks

- 2.8 On an annual basis, Services purchase a wide variety of items of furniture and equipment. The Council's financial regulations set out procedures for recording of assets within Services which are supported by more detailed inventory procedures which set out how inventories should be managed and controlled. These procedures highlight that it is essential for proper control of such assets and for record purposes in the event of theft, fire and other risks covered by insurance that adequate inventory records are maintained on a continuous basis. In addition, the financial regulations set out the responsibility of Chief Officers for the custody of the stocks and stores in their Services and the requirement for periodic examination of stocks at least once in every financial year.

- 2.9 The objective of this audit was to provide management and the Audit Committee with an assessment of the adequacy and effectiveness of the governance, risk management and controls over the key risks faced by Inverclyde Council in relation to stock and inventory processes.

- 2.10 The audit approach included audit testing, particularly walkthrough tests, to confirm that stock and inventory controls and procedures were being followed and to highlight where controls are weak.

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

- 2.11 The overall control environment opinion for this audit review was **Satisfactory**. There was one AMBER issue identified as follows:

Adequacy of Stock Controls within Inverclyde Centre for Independent Living (ICIL)

ICIL stock includes aids, equipment and adaptations for people to assist them in their home to live independently. All stock is held in a central store. Through site visits to the equipment store to verify stock levels we identified that there are no appropriate stock control procedures in place. Specifically, the I-jems database used to record stock information is no longer fit for purpose due to significant limitations in functionality including a lack of management information relating to current stock levels and we understand that the database is not supported by ICT.

In addition, although a yearly stock check is carried out, the database is not routinely updated when stock is removed or returned. Audit testing identified that for 8 out of 10 items, the physical count of items did not agree to the stock record on file. Where adequate stock controls are not in place, there is a risk that stock may be misappropriated, misplaced or not returned.

- 2.12 The review identified 7 issues, one of which we consider to be individually significant and an action plan is in place to address all issues by 31 March 2020.

3. Audit Plan for 2018/2019 – Progress to 29 March 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	✓	✓	✓	✓	✓	✓	March 2019
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	✓	✓	✓	✓	March 2019
Employee Expenses – Quarterly Checks	✓	N/A	✓	✓			
Council Tax Reduction Scheme/Discounts/Exemptions	Visits are carried out on establish the validity of discounts and exemptions – see section 4						
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 is underway and will be completed during 2019/2020.						
SPOC Liaison with DWP	Ongoing – see paragraph 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 were agreed for the 2018/2019 Audit Plan and both audits are now complete and have been reported to IJB Audit Committee.						

4 Corporate Fraud Activity

- 4.1 The undernoted table sets out progress to date on corporate fraud activity in the period 4 February to 29 March 2019:

Council Tax Reduction Scheme 4 February to 29 March 2019		
Number of Home Visits	Number of Errors Identified and Corrected	Total Overpayment/Future Savings
43	15	£15,442.08/£10,094.24
Council Tax Reduction Scheme 1 April 2018 to 29 March 2019 (Full year)		
Number of Home Visits	Number of Errors Identified and Corrected	Total Overpayment/Future Savings
262	47	£53,324.72/£27,354.34
National Fraud Initiative 2016-2017		
NFI exercise for 2016-2017 is now complete.		
National Fraud Initiative 2018-2019		
Matches have now been received and a detailed review of matches is now underway by Internal Audit and Services. Internal Audit are providing training and support to Services as appropriate.		
Stock and Inventory Quarterly Checks		
The final report has been issued and has been included at paragraph 2 of this report.		
Employee Expenses Quarterly Checks		
The testing is now complete and the audit report is being drafted. Some further enquiries are being undertaken which will be reported to Audit Committee once complete.		

- 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)	Fraud established. Account updated and liable party rebilled.
18/19 18-72	CT SPD > State Benefits (Recheck report)	Fraud established. Account updated and liable party rebilled.
18/19 18-74	CT SPD > State Benefits (Recheck report)	Fraud established. Account updated and liable party rebilled.
18/19 18-78	CT SPD > State Benefits (Recheck report)	Fraud established. Account updated and liable party rebilled.
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)	Fraud established. Account updated and liable party rebilled.
18/19 18-110	CT SPD > Taxi Drivers (Recheck report)	Passed to Finance for adjudication.

4 Corporate Fraud Activity (Continued)

File Ref	Description	Status
18/19 18-189	CTR/HB > Taxi Drivers	Passed to Finance for adjudication 12/3/19
18/19 18-190	CTR/HB > Payroll	Fraud established. Account updated and overpayment recovered.
18/19 18-191	Fraudulent Application for CT Exemption	Passed to Finance for adjudication 13/2/19
18/19 18-196	CTR/HB > Payroll	Ongoing investigation.
18/19 18-197	CTR/HB > Student Loan	Ongoing investigation.
18/19 18-198	CTR/HB > Taxi Drivers	Closed – no fraud detected.
18/19 18-199	CTR/HB > Taxi Drivers	Ongoing investigation.
18/19 18-200	CTR/HB > Taxi Drivers	Passed to Finance for adjudication.
18/19 18-201	CTR/HB > Taxi Drivers	Closed – no fraud detected.
18/19 18-202	CTR/HB > Taxi Drivers	Passed to Finance for adjudication.
18/19 18-203	CTR/HB > Pensions	Fraud established. Overpayment of HB and CTR being recovered.
18/19 18-225	Recheck Report SPD > Electoral Register	Ongoing investigation.

4.3 **SPOC Liaison 1/4/18 – 29/3/19**

DWP Referrals	8 this period	60 to date
LAI EF requests actioned	34 this period	120 to date

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	Fraud Established. Account updated and liable party rebilled.
18/19 18-138	Single Person Discount	Passed to Finance for adjudication.
18/19 18-141	Single Person Discount	Closed – no fraud detected.
18/19 18-149	Single Person Discount	Passed to Finance for adjudication.

4 Corporate Fraud Activity (Continued)

File Ref	Description	Status
18/19 18-155	Single Person Discount	Fraud Established. Account updated and liable party rebilled.
18/19 18-159	Alleged non-charging for services	Report issued to management. See section 6.
18/19 18-163	CTR – Undeclared Income	Fraud established but due to low levels of income, no impact on benefit/CTR in payment.
18/19 18-167	Potential Employee Conflict of Interest	Ongoing investigation.
18/19 18-168	Missing i-Pad	Investigation concluded and recommendations made to management. See Section 6.
18/19 18-174	Misuse of Blue Badge	Closed – no misuse detected.
18/19 18-179	Allegation – Employee working whilst on sick leave	Ongoing investigation. Referred to Service.
18/19 18/184	Non-payment of Council Tax	Ongoing investigation.
18/19 18-191	Fraudulent Application for CT Exemption	Passed to Finance for adjudication 13/2/19
18/19 18-192	Misuse of Expired Blue Badge	Badge seized.
18/19 18-193	Business Rates – Money Laundering Scam	No fraud detected.
18/19 18-194	Misuse of Blue Badge	Badge seized and advice given.
18/19 18-195	Misuse of Blue Badge	Badge seized and advice given.
18/19 18-204	Fraudulent Resident's Parking Permit	Fraud established and permit cancelled.
18/19 18-205	Misuse of Blue Badge	Badge seized and misuse letter issued.
18/19 18-206	Misuse of Expired Blue Badge	Badge seized and advice given.
18/19 18-207	Employee smoking on duty	Matter referred to Service. Disciplinary action being taken.
18/19 18-208	Fraudulent HB/CTR claim	Closed – no fraud detected.
18/19 18-210	Misuse of Blue Badge	Badge seized and misuse letter issued.
18/19 18-211	Misuse of Blue Badge	Badge seized and misuse letter issued.
18/19 18-212	Single Person Discount	Passed to Finance for adjudication 13/3/19.
18/19 18-213	Sub-letting tenancy	Closed – no fraud detected.
18/19 18-214	Fraudulent CTR claim	Ongoing investigation.
18/19 18-215	Single Person Discount	Closed – no fraud detected.
18/19 18-216	Fraudulent use of non-UK Blue Badge	Misuse established and Blue Badge seized.
18/19 18-217	Non-payment of Council Tax	Ongoing investigation.

4 Corporate Fraud Activity (Continued)

File Ref	Description	Status
18/19 18-218	Fraudulent HB claim	Referred to DWP.
18/19 18-220	Change of Occupier	Passed to Finance to update occupier information.
18/19 18-221	CTR-HB – Undeclared Partner	Closed – no fraud established.
18/19 18-222	Misuse of Blue Badge	Ongoing investigation
18/19 18-223	Misuse of Blue Badge	Ongoing investigation
18/19 18-224	CTR/UC – Undeclared Partner	Ongoing investigation

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 MARCH 2019

Summary: Section 1 Summary of Management Actions due for completion by 31/03/19

There were 6 actions due for completion by 31 March 2019 and all actions have been reported as completed by management.

Section 2 Summary of Current Management Actions Plans at 31/03/19

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

Section 3 Current Management Actions at 31/03/19

At 31 March 2019 there was a total of 5 current audit action points.

Section 4 Analysis of Missed Deadlines

At 31 March 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 31.03.19**

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	1	1		
Health and Social Care Partnership (HSCP)	5	5		
Education, Communities and Organisational Development	0	0		
Total	6	6		

* 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 31.03.19**

SECTION 2

CURRENT ACTIONS BY DIRECTORATE

HSCP	
Due for completion December 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:	5

**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 31.03.19**

SECTION 3

HSCP

Action	Owner	Expected Date
Stock and Inventory Control (March 2019)		
Funding has been secured to procure a new stock control system which will be used for ICIL equipment. As an interim measure, managers have carried out a manual stock check and a year-end stock check will be carried out by end of March.	Service Manager (Innovation and ICIL)	31.12.19

Education, Communities and Organisational Development

Action	Owner	Expected Date
Education CSA (December 2018)		
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.	Interim Head of Education	31.08.19
Management will address specific issues regarding the implementation of GDPR.	Interim Head of Education	30.04.19
Managing School Meals Income using the "ParentPay" system (Amber) Management will review and update the policy and procedure for managing school meals income.	Policy and Commissioning Team Leader	30.04.19
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.	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)
ANALYSIS OF MISSED DEADLINES**

SECTION 4

There were no actions where the original action date had been missed at 31 March 2019.

**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 March 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	116	0	0	0
2014/2015	77	77	0	0	0
2015/2016	52	52	0	0	0
2016/2017	66	66	0	0	0
2017/2018	53	46	0	0	7
2018/2019	30	5	0	5	20
Total	470	438	0	5	27

*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.

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

Summary: Section 1 Summary of Management Actions due for completion by 31/03/19

There were 6 actions due for completion by 31 March 2019 and all actions have been reported as completed by management.

Section 2 Summary of Current Management Actions Plans at 31/03/19

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

Section 3 Current Management Actions at 31/03/19

At 31 March 2019 there was a total of 5 current audit action points.

Section 4 Analysis of Missed Deadlines

At 31 March 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 31.03.19**

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	1	1		
Health and Social Care Partnership (HSCP)	5	5		
Education, Communities and Organisational Development	0	0		
Total	6	6		

* 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 31.03.19**

SECTION 2

CURRENT ACTIONS BY DIRECTORATE

HSCP	
Due for completion December 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:	5

**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 31.03.19**

SECTION 3

HSCP

Action	Owner	Expected Date
Stock and Inventory Control (March 2019)		
Funding has been secured to procure a new stock control system which will be used for ICIL equipment. As an interim measure, managers have carried out a manual stock check and a year-end stock check will be carried out by end of March.	Service Manager (Innovation and ICIL)	31.12.19

Education, Communities and Organisational Development

Action	Owner	Expected Date
Education CSA (December 2018)		
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.	Interim Head of Education	31.08.19
Management will address specific issues regarding the implementation of GDPR.	Interim Head of Education	30.04.19
Managing School Meals Income using the "ParentPay" system (Amber) Management will review and update the policy and procedure for managing school meals income.	Policy and Commissioning Team Leader	30.04.19
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.	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)
ANALYSIS OF MISSED DEADLINES**

SECTION 4

There were no actions where the original action date had been missed at 31 March 2019.

**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 March 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	116	0	0	0
2014/2015	77	77	0	0	0
2015/2016	52	52	0	0	0
2016/2017	66	66	0	0	0
2017/2018	53	46	0	0	7
2018/2019	30	5	0	5	20
Total	470	438	0	5	27

*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:	23 April 2019
Report By:	Corporate Director Environment, Regeneration and Resources	Report No:	(AC/06/19/SA/APr)
Contact Officer:	Andi Priestman	Contact No:	01475 712251
Subject:	Internal Audit - Annual Strategy And Plan 2019-2020		

1.0 PURPOSE

- 1.1 The purpose of this report is to present the Internal Audit Annual Strategy and Plan for 2019-2020 to Members for approval.

2.0 SUMMARY

- 2.1 The Public Sector Internal Audit Standards include the requirement for the Chief Internal Auditor to prepare a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.
- 2.2 The Audit Universe contains all areas that have been identified for review and an assessment has been undertaken of the risk relating to each area based on a number of criteria. Account has also been taken of the risks identified in the Council's Corporate, Directorate and Service Risk Registers and risks identified by external scrutiny bodies through the Local Scrutiny Plan.
- 2.3 It is intended that audit work will be focused on areas of greater risk taking into account management's own view of risk and meetings have been held with Corporate Directors and Heads of Service as appropriate. Each area has been assessed against a broad range of risk criteria and a risk score has been generated based on probability factors such as current control environment, results of last audit and time since the last audit.
- 2.4 In addition, the annual audit plan includes areas of proactive work in relation to corporate fraud reviews.
- 2.5 Furthermore, to meet the requirements of External Audit, the Annual Plan will include limited scope reviews of financial systems that are not subject to a full scope review or will not be covered in the External Audit Annual Audit Plan to maximise audit coverage and reduce duplication.
- 2.6 The proposed Annual Audit Strategy and Plan for 2019-20 is attached at Appendix 1. The Plan contains a contingency provision that will be utilised during the year in response to unforeseen work demands that arise e.g. special investigations and provision of ad hoc advice. Appendix 1
- 2.7 The risk scoring system is maintained on a real-time basis and is altered as circumstances change. Regular reviews of the risk scores allow Internal Audit to address the changing risk exposure of the organisation more effectively and ensure audit effort is focused on those areas identified as higher risk.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that Members approve the Internal Audit Annual Strategy and Plan for 2019-2020.

Scott Allan
Corporate Director
Environment, Regeneration and Resources

4.0 BACKGROUND

- 4.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising governance, risk management and control by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- 4.2 The requirement for an Internal Audit function derives from local government legislation, including Section 95 of the Local Government (Scotland) Act 1973, which requires authorities to make arrangements for the proper administration of their financial affairs. Proper administration includes Internal Audit.
- 4.3 The Public Sector Internal Audit Standards include the requirement for the Chief Internal Auditor to prepare a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.

5.0 CURRENT POSITION

- 5.1 It is intended that audit work will be focused on areas of greater risk taking into account management's own view of risk and meetings have been held with Corporate Directors and Heads of Service as appropriate. Each area has been assessed against a broad range of risk criteria and a risk score has been generated based on probability factors such as current control environment, results of last audit and time since the last audit.
- 5.2 Account has also been taken of the risks identified in the Council's Corporate, Directorate and Service Risk Registers and risks identified by external scrutiny bodies through the Local Scrutiny Plan.
- 5.3 Outlined below are the current risk factors influencing our proposed audit coverage for 2019-20:
 - The Council has an annual budget for grants to community groups/organisations to assist in the delivery of their organisations' activities which positively impact on the Corporate Priorities. Internal Audit will review the adequacy and effectiveness of the governance arrangements that are in place over the provision of grants to community groups/organisations.
 - As part of the safe recruitment process, pre-employment verification checks are undertaken by Human Resources. Internal Audit will review the adequacy and effectiveness of arrangements that are in place in relation to these checks.
 - The Council participates in national refugee resettlement schemes. Internal Audit will review the adequacy and effectiveness of the arrangements to ensure a robust framework and infrastructure is in place in relation to the resettlement schemes.
 - The Council has a number of waste management streams eg, general waste and recycling of materials such as wood, cardboard and glass etc. Internal Audit will review the adequacy and effectiveness of the governance, risk management and control procedures that are in place to ensure value for money services are being provided.
 - The updated HSCP Contract Management Framework was approved by Committee in February 2019. Internal Audit will review the operational impact of the new Framework to ensure that it is adequate and effective to ensure compliance with relevant regulations.
 - Corporate Fraud Reviews will be undertaken in relation to Tipping Permits and Residential Parking Scheme to ensure procedures in place are adequate and effective to reduce the risk of fraud.
 - A number of key projects are underway within HSCP. Project assurance support will be provided by Internal Audit in relation to the SWIFT Replacement System and Business Support Redesign.

- 5.4 The proposed Annual Audit Strategy and Plan for 2019-20 is attached at Appendix 1. The Plan contains a contingency provision that will be utilised during the year in response to unforeseen work demands that arise eg special investigations and provision of ad hoc advice. The plan also includes proposed resources for providing Internal Audit support to the Integrated Joint Board.
- 5.5 The risk scoring system is maintained on a real-time basis and is altered as circumstances change. Regular reviews of the risk scores allow Internal Audit to address the changing risk exposure of the organisation more effectively and ensure audit effort is focused on those areas identified as higher risk.

6.0 IMPLICATIONS

Finance

- 6.1 The work required to deliver the Annual Internal Audit Plan will be contained within the existing Internal Audit budget.

Financial Implications:

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
Internal Audit	Various	2019-2020			

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 Discussions have taken place with Corporate Directors and Heads of Service as appropriate in relation to the proposed annual audit plan coverage.
- 7.2 There will be regular ongoing discussion with External Audit to ensure respective audit plans are reviewed as circumstances change in order to minimise duplication of effort and maximise audit coverage for the Council. In their annual audit plan for 2018-2019 External Audit intend to place reliance on a number of areas of Internal Audit work carried out during 2018-2019.

8.0 LIST OF BACKGROUND PAPERS

- 8.1 Internal Audit Annual Plan 2019-2020. Available from Andi Priestman, Chief Internal Auditor.

INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2019-2020

1. Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) set out the requirement for the Chief Internal Auditor to prepare a risk-based audit plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.
- 1.2 The Chief Internal Auditor must review and adjust the plan as necessary in response to changes in the organisation's business, risks, operations and priorities.
- 1.3 The audit plan must incorporate or be linked to a strategic or high-level statement of how the Internal Audit Service will be delivered and developed in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities.
- 1.4 The strategy shall be reviewed on an annual basis as part of the audit planning process.

2. Internal Audit Objectives

- 2.1 The definition of internal auditing is contained within the PSIAS as follows:

"Internal auditing is an independent, objective assurance and consulting 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."

- 2.2 The primary aim of the internal audit service is to provide assurance services which requires the Chief Internal Auditor to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.
- 2.3 The internal audit service also provides advisory services, generally at the request of the organisation, with the aim of improving governance, risk management and control and contributing to the overall opinion.
- 2.4 The internal audit service supports the Chief Financial Officer in his role as Section 95 Officer.

3. Risk Assessment and Audit Planning

- 3.1 The internal audit approach to annual audit planning is risk-based and all areas which may be subject to audit review are contained within an Audit Universe which is subject to formal review, at least annually.
- 3.2 The risk scoring system is maintained on a real-time basis and is altered as circumstances change. Regular reviews of the risk scores allow Internal Audit to address the changing risk exposure of the organisation more effectively and ensure audit effort is focused on those areas identified as higher risk.

INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2019-2020

- 3.3 The Audit Universe is risk assessed each year to determine the Annual Audit Plan and ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk. Each area within the Audit Universe is assessed for impact against a number of broad risk categories as follows:
- Strategy Risks associated with the setting and achievement of strategic objectives.
 - Economy Risks associated with the economy in which Inverclyde Council operates.
 - Reputation Risks associated with threats to Inverclyde Council's name and standing in the sector.
 - Customer Risks associated with customer relationships.
 - Legal/Regulatory Risks associated with the requirement to comply with a wide range of statute.
 - Financial Risks associated with financial loss or inefficiency.
 - Technology Risks associated with application systems, their integrity, security and development.
 - Management Information Risks associated with the provision of information for decision-making purposes.
 - Human Resources Risks associated with people, eg recruitment, succession, development, motivation and morale etc.
 - Operations Risks associated with the business operating process.
 - Business Continuity/Resilience Risks associated with disaster scenarios which would threaten the continuing operation of Inverclyde Council.
 - Security Risks associated with security over customer and Inverclyde Council's assets.
 - Stakeholder Risks associated with management of stakeholder expectations (eg Government or local communities)
 - Fraud Risks associated with asset misappropriation, corruption and financial statement fraud.
- 3.4 Account has also been taken of the risks identified in the Council's Corporate, Directorate and Service Risk Registers and risks identified by external scrutiny bodies through the Local Scrutiny Plan for 2019-2020.
- 3.5 There will be regular ongoing discussion with External Audit to ensure respective audit plans are reviewed as circumstances change in order to minimise duplication of effort and maximise audit coverage for the Council.

INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2019-2020**4 Service Delivery**

- 4.1 The provision of the internal audit service is through a directly employed in-house team.
- 4.2 In relation to the total staff days allocated to the 2019-2020 plan, each member of staff completes a resource allocation spreadsheet for the year which is split between annual leave, public holidays, training days, general administration and operational plan days. This spreadsheet is reviewed and updated each period by each member of staff against time charged to timesheets.

The combined operational plan is 760 days which will be resourced as follows:

Team Member

Audit Practitioner – 190
Audit Assistant – 190
Senior Corporate Fraud Officer – 190
Corporate Fraud Officer – 190

The Chief Internal Auditor does not directly carry out the assignments included in the annual audit plan but provides the quality review and delivery oversight of the overall plan. As such, no direct time is included within the plan. Where there are any resource issues which may impact on delivery of the plan, this will be reported to Audit Committee at the earliest opportunity.

- 4.3 Given the range and complexity of areas to be reviewed it is important that suitable, qualified, experienced and trained individuals are appointed to internal audit positions. The PSIAS requires that the Chief Internal Auditor must hold a professional qualification such as CMIIA (Chartered Internal Auditor), CCAB or equivalent and be suitably experienced. The internal auditor posts must also be CMIIA/CCAB or equivalent with previous audit experience.
- 4.4 Internal audit staff members identify training needs as part of an appraisal process and are encouraged to undertake appropriate training, including in-house courses and external seminars as relevant to support their development. All training undertaken is recorded in a personal training record for CPD purposes.
- 4.5 Internal audit staff members require to conform to the Code of Ethics of the professional body of which they are members and to the Code of Ethics included within the PSIAS. An annual declaration is undertaken by staff in relation to specific aspects of the Code.
- 4.6 Following each review, audit reports are issued in draft format to agree the accuracy of findings and agree risk mitigations. Copies of final audit reports are issued to the Corporate Director, Head of Service and Service Manager responsible for implementing the agreed action plan. A copy of each final audit report is also provided to External Audit.
- 4.7 The overall opinion of each audit report feeds into the Internal Audit Annual Report and Assurance Statement which is presented to the Audit Committee and is used by the Chief Financial Officer in the preparation of the Annual Governance Statement.

INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2019-2020

5 Proposed Audit Coverage 2019-2020

5.1 The proposed audit coverage is set out in the table below. This includes a range of risk based reviews, limited scope financial reviews and regularity audits.

5.2 The Plan contains a contingency provision that will be utilised during the year in response to unforeseen work demands that arise eg special investigations and provision of ad hoc advice.

Audit Area	Service	Risk Score	Staff Days
Risk-Based Audit Reviews			
Governance of Community Groups	Communities	7050	30
Safe Recruitment – Pre Employment Checks	OD/HR, Policy and Communications	6144	30
Refugee Integration Scheme Arrangements	Corporate	5760	40
Waste Management	Environment and Public Protection	5400	30
HSCP Contract Management	HSCP	4896	35
Total			165
Limited Scope Financial System Reviews			
Sundry Debtors	Corporate	3808	30
Total			30
Project Assurance Reviews			
SWIFT Replacement System	HSCP	7488	15
Business Support Redesign	HSCP	6480	15
Total			30
Corporate Fraud Reviews			
Tipping Permits	Environment and Public Protection	1248	25
Residents Parking Scheme	Environment and Public Protection	1170	25
Employee Expenses – Quarterly Checks	Corporate	960	50
Total			100
Regularity Audits			
Education – Control Self-Assessment	Education	-	30
Stock/Inventory Control – Quarterly Checks	Corporate	-	30
Corporate Purchase Cards – Quarterly Checks	Corporate	-	50
Total			110
Corporate Governance Reviews			
Annual Governance Statement (2018/2019)	Corporate	-	10
Total			10
Other Work			
Audit follow up	Corporate	-	10
National Fraud Initiative	Corporate	-	80
CTRS – Discounts and Exemptions	Corporate	-	60
SPOC Liaison with DWP	-	-	5
Fraud Awareness Training	Corporate	-	10
IJB – Internal Audit Service	-	-	45
Contingency	-	-	65
Grant Verification	Roads and Transportation	-	10
C/f from 2018-2019 Audit Plan	-	-	30
Total			315
Total Staff Days			760

INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2019-2020

6 Quality and Performance

- 6.1 The PSIAS require each internal audit service to maintain an ongoing quality assurance and improvement programme based on an annual self-assessment against the Standards, supplemented at least every five years by a full independent external assessment.
- 6.2 In addition, the performance of Internal Audit continues to be measured against key service targets focussing on quality, efficiency and effectiveness. For 2019-2020 these have been set as follows:

Measure	Description	Target
1. Final Report	Percentage of final reports issued within 2 weeks of draft report.	100%
2. Draft Report	Percentage of draft reports issued within 3 weeks of completion of fieldwork.	90%
3. Audit Plan Delivery	Percentage of audits completed v planned.	85%
4. Audit Budget	Percentage of audits completed within budgeted days.	80%
5. Audit Recommendations	Percentage of audit recommendations agreed.	90%
6. Action Plan Follow Up	Percentage of action plans followed up – Internal and External Audit.	100%
7. Customer Feedback	Percentage of respondents who rated the overall quality of internal audit as satisfactory or above.	100%
8. NFI recommended matches	Percentage of National Fraud Initiative recommended matches investigated within timescales.	100%
9. NFI other matches	Percentage of National Fraud Initiative other matches investigated within timescales.	80%
10. DWP liaison	Percentage of cases referred to/ actioned for DWP within DWP timescales.	100%
11. Staff compliance with CPD	Number of training hours undertaken to support CPD	140
12. Management engagement	Number of meetings with CMT and DMTs as appropriate	1 per quarter

- 6.3 Actual performance against targets will be included in the Internal Audit Annual Assurance Report for 2019-2020.

Report To:	Audit Committee	Date:	23 April 2019
Report By:	Chief Financial Officer	Report No:	FIN/47/19/AP/CA
Contact Officer:	Alan Puckrin	Contact No:	01475 712223
Subject:	Management Report - 2018/19		

1.0 PURPOSE

- 1.1 The purpose of this report is to bring to the Committees attention the Management Report issued by Audit Scotland following a review of the internal controls and financial systems as part of the 2018/19 Annual Audit.

2.0 SUMMARY

- 2.1 Each year the Councils External Auditor issue a Management Report in respect of interim audit work carried out to date. Appendix 1 is the management report received from Audit Scotland for 2018/19.
- 2.2 The report covers work carried out testing key controls within financial systems. The 2018/19 testing covered key controls in a number of areas including bank reconciliations, payroll validation and exception reporting, authorisation of journals, change of supplier bank details, budget monitoring and control and IT access controls.
- 2.3 The Management Report identifies two issues; one issue in relation to payroll validation and another regarding payroll system access. Management responses regarding these two issues are included in the Appendix and progress will be monitored via the regular updates to Committee.
- 2.4 A representative of Audit Scotland will be present at Committee to answer any questions which Members may have on the contents of the Management Report.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that Committee note the contents of the Management Report received from Audit Scotland and the matters arising.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

4.1 Audit Scotland are required to assess the systems of internal control put in place by management. Each year the Council's External Auditor will issue a Management Report in respect of work carried out to date. Appendix 1 is the Management Report received from Audit Scotland for 2018/19.

5.0 DRAFT MANAGEMENT REPORT

5.1 The overall conclusion of the report is that the Council has in general, appropriate and effective internal controls in place for the systems reviewed.

5.2 The Management Report identifies two issues; one issue in relation to payroll validation and another regarding payroll system access. Management responses regarding these two issues are included in the Appendix and progress will be monitored via the regular updates to Committee.

6.0 IMPLICATIONS

6.1 Finance

There are no financial implications arising from this report.

Financial Implications

Any financial implications are highlighted in the 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					

6.2 Legal

There are no legal implications.

6.3 Human Resources

There are no HR implications arising from this report.

6.4 Equalities

The report has no impact on the Council's Equalities policy.

6.5 Repopulation

There are no repopulation implications arising from this report.

7.0 CONSULTATIONS

- 7.1 The contents of the Management Report have been discussed and agreed with the Chief Financial Officer and Officers from Human Resources.

8.0 BACKGROUND PAPERS

- 8.1 None

Inverclyde Council

Management report 2018/19

Appendix 1



 AUDIT SCOTLAND

Prepared for Inverclyde Council
April 2019

Audit findings

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Inverclyde Council. This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the annual accounts. We will consider the results of this testing when determining our approach to the audit of the 2018/19 annual accounts.
2. Our responsibilities under the [Code of Audit Practice](#) require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:
 - has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
 - has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
 - complies with established policies, procedures, laws and regulations.
3. Also, we are currently carrying out work on the audit dimensions as required by the [Code of Audit Practice](#). This focusses on financial management, financial sustainability, governance and transparency and value for money.

Conclusion

4. Two significant key control weaknesses were identified from our interim audit work as summarised in [Exhibit 1](#) overleaf. We will be carrying out additional work in response to these findings. This will enable us to take planned assurance for our audit of the 2018/19 annual accounts.
5. In general, appropriate and effective arrangements were in place for all key financial systems. Work on some systems is ongoing but we do not anticipate any other significant weaknesses in addition to those in [Exhibit 1](#).
6. In terms of our wider dimension audit work, this is ongoing and will inform our Annual Audit Report which will be issued in September 2019.

Work summary

7. Our 2018/19 testing covered key controls in a number of areas including bank reconciliations, payroll validation and exception reporting, authorisation of journals, change of supplier bank details and IT access controls. Additionally, we tested controls in the following areas: budget monitoring and control; feeder system reconciliations and controls for preventing and detecting fraud in areas such as taxation receipts, welfare benefits, grants and other claims.



Bank reconciliations



Payroll controls



IT access



Budgets

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

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

Risks identified

10. The key control risks identified during the interim audit are detailed in [Exhibit 1](#). These findings will inform our approach to the financial statements audit where relevant.

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

Exhibit 1 Key findings and action plan 2018/19

Issue identified	Management response, responsible officer and target date	Additional audit procedures
<p>1. Payroll validation</p> <p>Payroll validation is no longer performed by payroll or HR staff. Service managers are expected to review payroll standing data and report any errors or changes to payroll on an ad hoc basis.</p> <p>Nil returns are not required therefore there is no evidence that this control is operating.</p> <p>Without positive confirmation, there is an increased risk of incorrect payments being made due to inaccurate payroll records.</p>	<p>A quarterly temporary workers report is sent out to services detailing anticipated end dates so services can identify and take action where necessary. As part of the Bottom Up Budgeting process, information is collated annually on all employees by service and cross referenced with CHRIS information so any discrepancies can be highlighted.</p> <p>A six monthly validation template report will be set up on CHRIS (with information on Post, Designation, Grade, Salary, Hours, Term Time) – a six monthly email will be sent out to Service Managers asking them to run the report, check, and advise of amendments, or submit a nil return.</p> <p>HR Manager/Payroll and Admin Team Leader,</p>	<p>We will substantively test a sample of paid employees to ensure they exist as current employees of the council, through confirmation to other records / management response.</p>

Issue identified	Management response, responsible officer and target date	Additional audit procedures
First Validation Report July 2019		
<p>2. Payroll system access</p> <p>Sample testing identified one member of HR staff who had inappropriate read/write access to the CHRIS system. The permissions reflected those a Manager would have.</p> <p>There is a risk that users have inappropriate access rights and are able to make unauthorised changes to the payroll system which could result in fraud or financial loss.</p>	<p>The service have commenced a full review of menu roles and access privileges to highlight any anomalies and will use this User Privileges Report on a six monthly basis going forward.</p> <p>HR Manager/Payroll and Admin Team Leader,</p> <p>Initial Review complete, first 6 monthly review June 2019</p>	<p>We will consider the review undertaken by management and extend our testing of employees who have access to the Council's payroll system to ensure that these permissions have only been granted to appropriate members of staff. We will also review a sample of changes made to payroll data.</p>

Source: Audit Scotland

2017/18 risks and action plan update

12. Our 2017/18 interim audit identified one control weakness which was reported to the Audit Committee in August 2018. [Exhibit 2](#) outlines the progress made by management where planned action was agreed in response to the audit recommendations made.

Exhibit 2 Key findings and action plan 2017/18

Issue identified	Management response, responsible officer and target date	Progress
Audit findings		
<p>Key control reconciliations</p> <p>Testing identified instances where control account reconciliations had not been adequately signed off by the preparer or confirmed as authorised. A failure to properly document and/or authorise reconciliations increases the risk of error in the system.</p> <p>There is an increased risk of error in the system not being identified.</p>	<p>The Finance Manager will formally remind all those involved in the preparation and approval of reconciliations that signatures are required in all cases.</p> <p>Finance Manager, July 2018</p>	<p>Testing of key control reconciliations in 2018/19 did not identify any instances where the preparer or person authorising had not appropriately evidenced this. However, monthly payroll reconciliations had not been authorised until up to two months after being prepared.</p> <p>Recommendation partly implemented.</p>

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

Inverclyde Council

Management report 2018/19

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk