

RISK AND AUDIT SCRUTINY FORUM

Minutes of meeting held in Committee Room 2, Council Offices, Almada Street, Hamilton on 20 September 2017

Chair:

Councillor Graeme Campbell

Councillors Present:

Andy Carmichael, Poppy Corbett, Mary Donnelly, Isobel Dorman (*substitute for Councillor Horsham*), George Greenshields, Julia Marrs, Carol Nugent, Margaret B Walker, Jim Wardhaugh

Councillor's Apology:

Mark Horsham

Attending:

Finance and Corporate Resources

P Manning, Executive Director; Y Douglas, Audit and Compliance Manager; P MacRae, Administration Officer; G McCann, Head of Administration and Legal Services; C McGhee, Audit Adviser; J Taylor, Head of Finance (Strategy)

Also Attending:

Audit Scotland

F Mitchell-Knight, D Richardson and R Smith, External Auditors

1 Declaration of Interests

No interests were declared.

2 Minutes of Previous Meeting

The minutes of the meeting of the Risk and Audit Scrutiny Forum held on 14 June 2017 were submitted for approval as a correct record.

The Committee decided: that the minutes be approved as a correct record.

3 Internal Audit Activity as at 31 August 2017

A report dated 31 August 2017 by the Executive Director (Finance and Corporate Resources) was submitted on work completed by Internal Audit during the period 27 May to 31 August 2017.

Details were given on the progress of audit assignments and the performance of Internal Audit which highlighted that:-

- ◆ 93% of assignments had been delivered within budget against a target of 80%
- ◆ 76% of draft reports had been delivered on time against a target of 80%
- ◆ 86% of the 2017/2018 Quarter 1 Internal Audit Plan had been started
- ◆ 50% of audit assignments had been concluded to a signed action plan within 4 weeks of the issue of a draft report against a target of 80%, although year end work priorities had impacted on target achievement
- ◆ 96% of Internal Audit recommendations had been delivered on time against a target of 90%

The findings from assignments completed in the period 27 May to 31 August 2017 were detailed in Appendix 2 to the report. A significant assignment completed in the period was detailed in Appendix 3 to the report.

The Forum decided: that the report be noted.

[Reference: Minutes of 14 June 2017 (Paragraph 3)]

4 Internal Audit Plan 2017/2018

A report dated 30 August 2017 by the Executive Director (Finance and Corporate Resources) was submitted on the Internal Audit Plan 2017/2018.

At its meeting on 7 March 2017, the Forum had endorsed a proposal to defer a programme of assignments as detailed in Appendix 3 to the report from 2016/2017 into Quarter 1 of 2017/2018. It noted that a further Plan covering Quarters 2 to 4 would be submitted in Quarter 2 of 2017/2018, covering the remainder of the year together with a Strategic Plan through to 31 March 2020.

A total of 1,053 audit days, inclusive of 250 days which had been allocated to external clients, had been provided for in Quarters 2 to 4 of the 2017/2018 Audit Plan. The outline scope of assignments contained in Quarters 2 to 4 of the Plan was detailed in Appendix 1 to the report.

The focus of the 2017/2018 Plan was the delivery of a programme of work which would inform the annual audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control arrangements. A contingency list of audit assignments would be prepared. Assignments from this list could be delivered if time was available or if significant risks in those areas emerged during the course of the year.

The 2017/2018 Audit Plan would be delivered within the context of the Internal Audit Charter, attached as Appendix 2 to the report, and in accordance with the Public Sector Internal Auditing Standards (PSIAS). A Strategic Plan of work for 2018 to 2020 was attached as Appendix 6 to the report. This would assist in coordinating audit work with the Council's external auditors, Audit Scotland. The Strategic Plan would be reviewed at the start of 2018/2019 and 2019/2020 to determine the resources available to deliver the Plan and to reassess the risks. An Annual Plan would continue to be submitted to the Forum.

Officers responded to a member's question on the potential inclusion of pupil capacity within some of the Council's secondary schools as one of the Council's top risks.

The Forum decided: that the proposed Internal Audit Plan for Quarters 2 to 4 of 2017/2018 be endorsed and submitted to the Executive Committee to be held on 27 September 2017.

[Reference: Minutes of 7 March 2017 (Paragraph 2)]

5 Internal Audit Annual Assurance Report 2016/2017

A report dated 31 August 2017 by the Audit and Compliance Manager (Finance and Corporate Resources) was submitted providing:-

- ◆ a summary of progress and performance of Internal Audit for the financial year 2016/2017
- ◆ an opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control systems based on audit work undertaken in 2016/2017

Details were given on:-

- ◆ Internal Audit performance
- ◆ Council-wide performance in relation to the delivery of audit actions
- ◆ workload analysis
- ◆ links to the Council's objectives and top risks
- ◆ management of fraud risks
- ◆ financial controls and findings
- ◆ operational controls and findings

The overall opinion expressed was that there was a good level of assurance over the financial controls in operation across the Council and an adequate level of assurance over the Council's operational control system for the financial year 2016/2017. The Internal Audit findings had informed the Council's 2016/2017 Governance Statement.

A summary of the report would be submitted to the meeting of the Executive Committee to be held on 27 September 2017.

The Forum decided:

- (1) that the positive Internal Audit performance during 2016/2017 be noted;
- (2) that the level of assurance on the Council's control environment be noted; and
- (3) that it be noted that the overall findings from Internal Audit work had informed the Council's 2016/2017 Annual Governance Statement.

[Reference: Minutes of 30 August 2016 (Paragraph 4)]

6 Efficiency Savings 2016/2017

A report dated 14 August 2017 by the Executive Director (Finance and Corporate Resources) was submitted on the Council's Efficiency Savings figure for 2016/2017.

As part of the Scottish Government's efficiencies agenda, councils had been asked to return information on efficiencies generated in the year.

The level of efficiencies achieved by the Council in 2016/2017 was £22.496 million. This figure took account of the removal of any savings which were not considered to be efficiencies achieved in the year. The efficiency savings did, however, include efficiencies achieved through improved procurement practices and efficiencies identified by the Lanarkshire Valuation Joint Board.

The Council continued to recognise the ongoing requirement to demonstrate efficiency, with continuous improvement remaining a key principle of Best Value.

The Efficiency Statement, which was attached as an appendix to the report, had been forwarded to the Scottish Government by the due date of 18 August 2017.

The Forum decided: that the Efficiency Savings figure of £22.496 million for 2016/2017, which had been submitted to the Scottish Government by the due date of 18 August 2017, be noted.

[Reference: Minutes of the Executive Committee of 30 August 2017 (Paragraph 14)]

7 Fraud Statistics Annual Report 2017

A report dated 31 August 2017 by the Executive Director (Finance and Corporate Resources) was submitted on fraud statistics for the year to 31 March 2017 and comparing those figures with the previous year's statistics.

The number, types, outcomes and costs of fraud investigations, together with performance measures for the year to 31 March 2017, were detailed in Appendices 1 and 2 respectively to the report. A comparison to the statistics for the same period in 2015/2016 was also provided. The fraud statistics for 2016/2017 highlighted that:-

- ◆ 179 fraud investigations with a total value of £739,000 had either been reported in the period or carried forward from 2015/2016, representing an increase in both number and value from the previous year
- ◆ of the 179 cases, 62 (35%), valued at £377,000, had been closed within the period, representing a slight decrease of 3% when compared with the previous year's results
- ◆ 56% of cases investigated were founded
- ◆ 88% of founded cases related to benefit fraud or fraud committed by a third party
- ◆ the majority of work in progress (95%) related to benefit cases identified from Benefits and Revenues investigations and passed to the Department for Work and Pensions' (DWP) Fraud and Error Service (FES)

An action plan on the management of fraud risk, based on the latest CIPFA guidance, Fraud Risk Evaluation Diagnostic 2 (FRED 2), had been prepared as a result of a self assessment exercise undertaken by Internal Audit against good practice guidance in fraud management. The action plan was attached as Appendix 3 to the report, together with details of progress against each action.

Officers responded to members' questions on various aspects of the report.

The Forum decided: that the report be noted.

[Reference: Minutes of 20 September 2016 (Paragraph 5)]

8 National Fraud Initiative 2016/2017

A report dated 31 August 2017 by the Executive Director (Finance and Corporate Resources) was submitted on the 2016/2017 National Fraud Initiative (NFI).

The NFI matched similar data in different public sector systems and identified possible inconsistencies. Those inconsistencies, known as matches, required to be investigated by local authorities with a view to detecting fraud. Until 2014, the focus of the initiative alternated annually between a limited and a full exercise. The full exercise would continue to be undertaken every 2 years, however, the limited Single Person Discount (SPD) exercise, where the electoral register and council tax data were compared to detect cases where Single Person Discount was being claimed and there was more than 1 person over 18 in the household, would now be carried out annually. The 2016/2017 NFI had been a full exercise and involved Council wide comparisons including:-

- | | |
|--------------------------------|-------------------------------------|
| ◆ benefits | ◆ insurance claims |
| ◆ payroll | ◆ blue badge holders |
| ◆ creditors | ◆ recipients of direct funding |
| ◆ licences | ◆ private nursing home residents |
| ◆ rents | ◆ travel passes and parking permits |
| ◆ right to buy | ◆ UK Border Agency |
| ◆ housing waiting list | ◆ procurement |
| ◆ council tax reduction scheme | |

In addition, records had also been matched to the Department for Work and Pensions' deceased persons' records.

Details were given on the results of the 2016/2017 exercise which showed that:-

- ◆ there was a total of 22,299 matches, however, it had not been possible to carry out a meaningful comparison between the total number of matches from the previous year as there had been 66 new reports containing 10,883 matches in the 2016/2017 exercise
- ◆ the greatest increases in the number of matches related to blue badges and right to buy
- ◆ the greatest decreases in the number of matches related to housing benefit, insurance claims and creditors

The Housing Benefit Fraud Section had transferred to the Department for Work and Pensions' Fraud and Error Service (FES), therefore, housing benefit fraud was no longer investigated by the Council. Initial investigations still required to be undertaken by the Council and, if this indicated potential fraud, the case would be passed to FES for further investigation. This could result in a delay to the conclusion of investigations and it was, therefore, anticipated that the full exercise would not be concluded until 2018.

It was anticipated that the Council would investigate a minimum of 4,136 matches, excluding SPD matches.

The Forum decided: that the report be noted.

[Reference: Minutes of 8 November 2016 (Paragraph 9)]

9 Financial Resources Scrutiny Forum Activity

A report dated 21 August 2017 by the Executive Director (Finance and Corporate Resources) was submitted on reports considered by the Financial Resources Scrutiny Forum in the period from October 2016 to September 2017.

A report on the business considered by the Financial Resources Scrutiny Forum would be submitted to the Risk and Audit Scrutiny Forum on an annual basis.

The Forum decided: that the report be noted.

10 External Auditor's 2016/2017 Annual Report on the Audit of South Lanarkshire Council

The following documents were submitted by Audit Scotland, the Council's external auditors:-

- ◆ letter and appendices relating to the 2016/2017 Annual Audit report on South Lanarkshire Council and registered charities administered by South Lanarkshire Council
- ◆ 2016/2017 South Lanarkshire Council proposed Annual Audit report to members of the Council and the Controller of Audit

Prior to consideration of the external auditor's Annual Report, the Chair and members of the Forum expressed concern regarding the late receipt of the report and the resultant time available to members to examine its content. Having heard the Executive Director (Finance and Corporate Resources) and the external auditors on the reasons for the delay in issuing the report, the Forum concluded that consideration be given to the report but reiterated that reports should be received within the recognised timescale. Assurances were given that, in future, this would be the case.

The Assistant Director of Audit Services, Audit Scotland, introduced the report and the Senior Audit Manager, Audit Scotland, spoke on the Annual Audit report and highlighted the following:-

- ◆ the audit of the 2016/2017 Annual Accounts
- ◆ financial management
- ◆ financial sustainability
- ◆ governance and transparency
- ◆ value for money
- ◆ key messages
- ◆ 2016/2017 action plan on recommendations for improvement

The external auditors' opinion on the Council's Annual Accounts 2016/2017 and those of the 3 charities administered by the Council was unqualified.

The external auditors and officers responded to members' questions on various aspects of the report.

The Forum decided: that the report be noted.

11 Forward Programme for Future Meetings

A report dated 22 August 2017 by the Executive Director (Finance and Corporate Resources) was submitted on the outline forward programme for the meeting of the Risk and Audit Scrutiny Forum to 21 March 2018.

As part of future arrangements, members were invited to suggest topics for inclusion in the Forum's forward programme.

The Forum decided: that the outline forward programme for the Risk and Audit Scrutiny Forum to 21 March 2018 be noted.

12 Urgent Business

There were no items of urgent business.