



Council Offices, Almada Street
Hamilton, ML3 0AA

Tuesday, 20 March 2018

Dear Councillor

Risk and Audit Scrutiny Forum

The Members listed below are requested to attend a meeting of the above Forum to be held as follows:-

Date: Wednesday, 21 March 2018

Time: 10:00

Venue: Committee Room 2, Council Offices, Almada Street, Hamilton, ML3 0AA

The business to be considered at the meeting is listed overleaf.

Members are reminded to bring their fully charged tablets to the meeting

Yours sincerely

Lindsay Freeland
Chief Executive

Members

Graeme Campbell (Chair), Poppy Corbett, Mary Donnelly, Mark Horsham, Martin Lennon, Julia Marris, Monique McAdams, Carol Nugent, Margaret B Walker, Jim Wardhaugh

Substitutes

Janine Calikes, Margaret Cowie, Isobel Dorman, Lynne Nailon, Bert Thomson, Jared Wark,

BUSINESS

- 1 **Declaration of Interests**
- 2 **Minutes of Previous Meeting** 3 - 6
Minutes of the meeting of Risk and Audit Scrutiny Forum held on 24 January 2018 submitted for approval as a correct record. (Copy attached)

Item(s) for Consideration

- 3 **Internal Audit Activity as at 2 March 2018** 7 - 14
Report dated 2 March 2018 by the Executive Director (Finance and Corporate Resources). (Copy attached)
- 4 **2018/2019 Internal Audit Plan** 15 - 36
Report dated 7 February 2018 by the Executive Director (Finance and Corporate Resources). (Copy attached)
- 5 **Fraud Statistics and National Fraud Initiative Six Monthly Update** 37 - 46
Report dated 1 March 2018 by the Executive Director (Finance and Corporate Resources). (Copy attached)
- 6 **External Quality Assessment of Internal Audit Service** 47 - 66
Report dated 7 March 2018 by the Executive Director (Finance and Corporate Resources). (Copy attached)
- 7 **Annual Audit Plan 2017/2018** 67 - 84
Report dated February 2018 by Audit Scotland, External Auditors. (Copy attached)
- 8 **Audit Scotland Report - Performance and Challenges 2017** 85 - 90
Report dated 1 March 2018 by the Executive Director (Finance and Corporate Resources). (Copy attached)
- 9 **Audit Scotland Report - Equal Pay in Scottish Councils** 91 - 120
Report dated 13 February 2018 by the Executive Director (Finance and Corporate Resources). (Copy attached)
- 10 **Forward Programme for Future Meetings** 121 - 124
Report dated 6 March 2018 by the Executive Director (Finance and Corporate Resources). (Copy attached)

Urgent Business

- 11 **Urgent Business**
Any other items of business which the Chair decides are urgent.

For further information, please contact:-

Clerk Name: Pauline MacRae

Clerk Telephone: 01698 454108

Clerk Email: pauline.macrae@southlanarkshire.gov.uk

RISK AND AUDIT SCRUTINY FORUM

Minutes of meeting held in Committee Room 2, Council Offices, Almada Street, Hamilton on 24 January 2018

Chair:

Councillor Graeme Campbell

Councillors Present:

Poppy Corbett, Mary Donnelly, Mark Horsham, Julia Marrs, Carol Nugent, Jim Wardhaugh

Councillors' Apologies:

Margaret Cowie, Martin Lennon, Margaret B Walker

Attending:

Y Douglas, Audit and Compliance Manager; S Dunsmore, Insurance and Risk Manager; T Little, Head of Corporate Communications and Strategy; P MacRae, Administration Officer; G McCann, Head of Administration and Legal Services

Also Attending:**Audit Scotland**

R Smith, External Auditor

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 1 November 2017 were submitted for approval as a correct record.

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

3 Internal Audit Activity as at 29 December 2017

A report dated 29 December 2017 by the Executive Director (Finance and Corporate Resources) was submitted on work completed by Internal Audit during the period 14 October to 29 December 2017.

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

- ◆ 87% of assignments had been delivered within budget against a target of 80%
- ◆ 77% of draft reports had been delivered on time against a target of 80%
- ◆ 90% of the 2017/2018 Internal Audit Plan had been started
- ◆ 74% 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%
- ◆ 98% of Internal Audit recommendations had been delivered on time against a target of 90%

The findings from assignments completed in the period 14 October to 29 December 2017 were detailed in Appendix 2 to the report. The proposed Audit Plan for 2018 to 2020 was attached as Appendix 3 to the report. Forum members were invited to consider the work plan for 2018/2019 and advise of any significant areas which they considered were not included in the Plan.

To evidence that the Internal Audit Assurance report informed the draft Governance Statement, the Internal Audit Plan would now be concluded to draft report stage by 31 March instead of 30 April each year. This would allow the annual Internal Audit Assurance report to be submitted to the Forum at the same time as the draft Governance Statement. As a result, and for the reasons detailed in the report, it was proposed to delay work on the following 3 assignments until 2018/2019:-

- ◆ Community Payback Order review
- ◆ mobile working
- ◆ financial strategy

The Forum decided:

- (1) that the report be noted; and
- (2) that the amendments to the 2017/2018 Audit Plan be endorsed.

[Reference: Minutes of 1 November 2017 (Paragraph 3)]

4 Good Governance Action Plan 2017/2018 - Quarter 2 Progress Report

A report dated 20 December 2017 by the Executive Director (Finance and Corporate Resources) was submitted on the Good Governance Action Plan for 2017/2018.

The 2017/2018 Good Governance Action Plan highlighted improvement areas which had been identified through the annual governance assessment. The Action Plan had been developed in parallel with, and informed, the Governance Statement which was included in the Annual Accounts. The Quarter 2 Update of the Good Governance Action Plan 2017/2018, attached as an appendix to the report, was based on the IMPROVe performance management reporting system and provided details of the governance control measures and actions undertaken by Resources. The monitoring system was traffic light based, with red, amber, green and 'to be reported later' categories. Of the 142 control measures identified, 135 had been categorised as green, 1 had been categorised as amber and 6 would be reported later.

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

The Forum decided: that the report be noted.

[Reference: Minutes of 31 January 2017 (Paragraph 4)]

5 Review of the Council's Top Risks

A report dated 4 January 2018 by the Executive Director (Finance and Corporate Resources) was submitted on the outcome of a review of the Council's top risks.

Details were given on the process for, and results of, the 2017 annual review of the Council's top risks.

Details of the revised top 20 risks, with both the inherent and residual risk scores, together with examples of associated risk controls and an assessment of the adequacy of controls, were given in Appendix 1 to the report.

The Council's overall risk exposure for 2017/2018 had shown a slight improvement on the position for 2016/2017, however, this was largely due to a higher proportion of risks categorised as low.

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

The Forum decided: that the report be noted.

[Reference: Minutes of 31 January 2017 (Paragraph 5)]

6 Performance and Review Scrutiny Forum Annual Update

A report dated 28 November 2017 by the Executive Director (Finance and Corporate Resources) was submitted on reports considered by the Performance and Review Scrutiny Forum in the period from January to December 2017.

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

The Forum decided: that the report be noted.

[Reference: Minutes of 31 January 2017 (Paragraph 7)]

7 Corporate Governance - Review of the Adequacy of Internal Audit

A letter dated 15 December 2017 by Audit Scotland, the Council's External Auditor, was submitted on the External Auditor's assessment of the adequacy of the Council's Internal Audit function for 2017/2018.

The objectives of the assessment were to:-

- ◆ establish the effectiveness of Internal Audit arrangements as part of the Council's wider governance arrangements
- ◆ identify areas of Internal Audit work on which Audit Scotland could place formal reliance

Details were given on the areas of Internal Audit's work on which Audit Scotland planned to place formal reliance in relation to:-

- ◆ financial statements
- ◆ governance and performance

Audit Scotland had concluded that the Council's Internal Audit Service operated in accordance with the Public Sector Internal Audit Standards (PSIAS) and had sound documentation standards and reporting procedures in place. However, 2 findings and their associated risks had been recorded as follows:-

- ◆ inclusion of Internal Audit within the remit of the Executive Director (Finance and Corporate Resources)
- ◆ slippage in the 2016/2017 Internal Audit Plan and the resultant rephrasing of a number of reviews to the first quarter of 2017/2018

Audit Scotland would also consider the outcome of the external review of Internal Audit's compliance with PSIAS to ensure that no issues were identified which would impact on their ability to place reliance on the work of Internal Audit.

The Forum decided: that the information be noted.

8 Forward Programme for Future Meetings

A report dated 9 January 2018 by the Executive Director (Finance and Corporate Resources) was submitted on the outline forward programme for the meetings of the Risk and Audit Scrutiny Forum to 13 June 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 13 June 2018 be noted.

9 Urgent Business

There were no items of urgent business.

Report

3

Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	21 March 2018
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Internal Audit Activity as at 2 March 2018
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Update the Risk and Audit Scrutiny Forum on progress by, and performance of, the Internal Audit service in the period to 2 March 2018

2. Recommendation(s)

2.1. The Forum is asked to approve the following recommendation(s):-

- (1) that progress and performance is noted

3. Background

3.1. Findings from internal audit assignments are reported to the Forum throughout the year. The last progress report to the Forum was in January 2018. This reported on work completed in the period 14 October to 29 December 2017. This report covers all work completed in the period 30 December 2017 to 2 March 2018. Performance information is also included.

4. Performance

4.1. As at 2 March 2018, approximately 97% of the 2017/2018 Audit Plan has been started and 72% of reports are at draft stage. The other key performance indicators reflecting quality, on time and within budget for the period to 31 January 2018 are summarised in Appendix One together with explanations. 71% of draft reports have been delivered on time and 84% within budget against targets of 80% respectively. Quality continues to be monitored through internal quality control procedures.

4.2. Client contributions to the delivery of the audit plan take the form of responding to draft reports, agreeing to closing meetings and signing reports quickly, once agreed. 71% of audit assignments were concluded to a signed action plan within four weeks of the issue of a draft report against a target set of 80%.

4.3. Forum members are asked to note performance.

5. Findings

5.1. Appendix Two lists all assignments completed in the period 30 December 2017 to 2 March 2018 and the key messages, in respect of the following significant assignments completed in this period, have been appended to this report:

- ◆ I217050 Debtors System (Appendix Three)
- ◆ I541015 Cyber Security Malware Protection (Appendix Four)
- ◆ I343041 Completion and Snagging Process (Appendix Five)

5.2. Forum members are asked to note findings.

6. Progress against Strategy

6.1. The Public Sector Internal Audit Standards (PSIAS) requires progress against the audit strategy to be monitored and reported to the Forum as part of regular monitoring reports that are presented at each meeting.

6.2. Delivery of the strategy will be evidenced by completion of the 2017/2018 Plan and this will be monitored through the performance indicators regularly reported to the Forum. Any subsequent changes to the Plan will be presented to the Forum which will include an assessment as to the impact such changes would have on the delivery of the overall audit strategy.

7. Independent Review of Compliance with PSIAS

7.1. This review has now concluded and the final report included later in the agenda for noting.

8. Employee Implications

8.1. There are no employee issues.

9. Financial Implications

9.1. At present a breakeven position is forecast to the end of the financial year for the Internal Audit section.

10. Other Implications

10.1. The main risks to the delivery of the Audit Plan are vacancies and team up-skilling requirements, unforeseen service demands and delays with client sign-off. These are mainly mitigated by coaching and training, regular meetings and escalation processes as well as inclusion of contingency time within the annual plan.

10.2. There are no implications for sustainability in terms of the information contained in this report.

11. Equality Impact Assessment and Consultation Arrangements

11.1. There is no requirement to equality assess the contents of this report.

11.2. Heads of Service are consulted on each and every audit assignment.

Paul Manning

Executive Director (Finance and Corporate Resources)

2 March 2018

Link(s) to Council Objectives/Ambitions/Values

- Achieve results through leadership, good governance and organisational effectiveness

Previous References

- ◆ Internal Audit Plan 2017/2018 to RASF 7 March 2017
- ◆ Progress report to RASF 14 June 2017
- ◆ Progress report to RASF 20 September 2017
- ◆ Internal Audit Plan 2017/2018 to RASF 20 September 2017
- ◆ Progress report to RASF 1 November 2017
- ◆ Progress report to RASF 24 January 2018

List of Background Papers

- ◆ Figtree extracts of Action Plans

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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Key audit performance indicators as at 31 January 2018

Appendix One

Indicator	Numbers	Percentage	Target	Comment
Assignments delivered within budget	32/38	84%	80%	
Draft reports delivered within 6 weeks of file review	22/31	71%	80%	Anticipate target will be met by 31 March 2018.
2017/2018 Audit Plan completed to draft by 31 March 2018	14/79	18%	100%	Approximately 97% of 2017/2018 Audit Plan has been started and 72% of reports are at draft stage as at 2 March 2018.
Internal Audit recommendations delivered on time	67/68	99%	90%	
Client to agree findings and actions within 4 weeks of draft issue	20/28	71%	80%	Anticipate that target will be met by 31 March 2018.

List of assignments completed 30 December 2017 – 2 March 2018 **Appendix Two**

Job no.	Assignment name	Draft Issue	Final Issue	Assurance Info
Prior Year				
I217050	Debtors System	23/11/2017	08/01/2018	See Appendix Three
I541015	Cyber Security – Malware Protection	20/11/2017	08/01/2018	See Appendix Four
I214048	Care Homes General Fund	28/04/2017	15/01/2018	Adequate assurance was obtained that the General Fund Account at each sampled Care Home and Day Care Centre was being administered mainly in compliance with procedures but not fully. Issues were identified within each Unit which required to be improved. Recommendations have been made to address these issues and will be followed up in due course.
I343041	Completion and Snagging Process	31/03/2017	16/02/2018	See Appendix Five
I676091	Whistle Blowing – Conflict of Interest	03/11/2017	16/02/2018	Allegation around conflict of interest which resulted in disciplinary action being taken against a number of employees. Procedures and controls required to be improved across all procurement practices. An action plan has been developed and will be followed up in due course.

2017/2018				
I914072	SLLC Formal Follow Up 2017/2018	22/01/2018	22/01/2018	Reported to SLLC.
I924078	LVJB Formal Follow Up 2017/2018	30/01/2018	30/01/2018	Reported to LVJB.
I256065	Waste Contract Scrutiny Group	31/01/2018	31/01/2018	Participation in contract scrutiny group.
I916076	SLLC Fraud Alerts	16/02/2018	16/02/2018	Reported to SLLC.

Objective

The objective of the audit was to confirm that the Debtors system employs effective and robust controls over the authorisation and approval of invoices, credit notes and write offs, that access to the system was controlled and managed and that effective support mechanisms were in place to ensure the systems stability and efficient operation.

Key Summary

Overall there is a good level of assurance that the system controls that govern the processing and authorisation of transactions are in place and operational. Sample testing of invoices, credit notes and write offs confirmed that duty segregation was in place and effective workflow protocols were operating to escalate transactions for approval.

Access to the system is controlled and new users are required to document any request for access. A user's access within the system is effectively managed and permissions are granted appropriate to their role. Some issues were identified with regards to the visibility of user's entry and exit to the system and the ability to extract this data for analysis. Recommendations have been made to investigate this with IT services and the system vendor.

It was noted that system cleansing checks and reviews are only in place for user accounts and it is recommended that standing data relating to debtors accounts is also routinely periodically reviewed.

Though transactions are authorised, it was noted that the audit trail of the reasons behind the transaction could be improved with greater use of the system notes and document-linking functionality.

There is comprehensive documentation of the support mechanisms in place provided by the system vendor.

The issues that were identified have no impact on the system controls within the system; actions have been recommended which, if adopted and implemented, will add to the controls and processes already in place.

Identification of Key Findings

- All transactions within the system are authorised and duty segregation is in place.
- Routine data cleansing is restricted to user accounts
- Underutilisation of system functionality to support transactions

Areas for Improvement

- Process to extract user login activity
- Wider use of the system note and document attachment functionalities
- Regular and routine cleansing of debtor accounts for accuracy and completeness

Good Practice

- Segregation of duties implemented and operational
- System based controls in place to manage data input through mandatory fields
- User processes are documented and effective system support is in place.

Objective

The objective of the audit was to assess the policies in place in relation to malware prevention and confirm that they were robust and comprehensive. There was consideration of the risks around removable media devices, external attack and the management of incidents and the controls, processes and protocols in place to mitigate these risks.

Key Summary

Overall, there was adequate assurance that the security policy in relation to malware protection is comprehensive and considers the processes to mitigate the risks in relation to removable media, external attack and incident management.

It was confirmed that the use of removable media is controlled and protocols to monitor the use of these devices are in place.

The risk of infiltration of the Council's network either by an infected removable device or through an external attack is mitigated by the implementation of comprehensive anti-virus and security protocols. There was further assurance that these measures are regularly independently tested.

An incident management plan is currently in place and works in conjunction with the wider corporate contingency plan. Despite the incident management plan not having been tested in full there was assurance that individual IT related incidents have been effectively and efficiently dealt with and any risk to the Council's IT infrastructure mitigated.

The recommendations made in the action plan relate to documentation and policy issues at the periphery of the control environment and do not reflect on the adequacy of the technical controls in operation.

Identification of Key Findings

- Comprehensive suite of policy documentation.
- Technical controls in place are robust and there is effective monitoring of the control environment.
- IT related incidents are effectively and efficiently addressed.

Areas for Improvement

- Policy documentation to be reviewed and updated as necessary.
- IT Services to facilitate a refresh of the awareness of the risks and consequences of malware compromise with employees.
- Continuity planning documentation to be reviewed for the use of officer's personal information.

Good Practice

- An IT Acceptable Use policy is in place and is agreed by all employees when they login to the Corporate Network.
- Malware protection rules are appropriate, up to date, tested and monitored.
- IT incidents are addressed with minimum disruption to the Corporate IT estate.

Objective

The audit objective was to review the snagging/defects/completion process for primary schools modernisation projects and to confirm that expected controls were in place and working effectively and highlight any recurring issues in terms of delays.

Key Summary

The defined Housing and Technical Resources procedure for the snagging/defects/completion process generally represents best practice controls in this area, with expected controls identified. However, assurances that the controls were in operation was hindered by a lack of audit trail to substantiate the actions and/or decisions taken on some of the sample projects.

There was evidence of delays in works/repairs. Some of these are deemed unavoidable given the time pressures associated with new school terms, the involvement of third parties or requirements to carry out work outwith school terms.

Identification of Key Findings

- There are Housing and Technical Resources procedures and retention schedules in place to support the process, but there is some inconsistency in the application of the prescribed stages/documentation.
- In some instances, schools in the sample were occupied with outstanding snags.
- There were some delays in the completion of defects work.
- Certificates of making good defects were issued with exceptions although Final Certificates were not being granted whilst the exceptions were outstanding.

Areas for Improvement

- Updates to the procedural documents and retention schedules to support consistency in practice and robust audit trail

Good Practice

- Defined processes to be followed, as prescribed by Housing and Technical Resources, is generally in line with construction industry best practice.

Report

4

Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	21 March 2018
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	2018/2019 Internal Audit Plan
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Present the proposed Internal Audit Plan for 2018/2019

2. Recommendation(s)

2.1. The Forum is asked to approve the following recommendation(s):-

- 1) that the proposed Internal Audit Plan for 2018/2019, attached as Appendix 3, is endorsed for onward approval by the Executive Committee

3. Background

3.1. Public Sector Internal Auditing Standards (PSIAS) require a specific risk based approach to be taken when preparing audit plans. All requirements have been followed in preparation of the 2018/2019 Internal Audit Plan. The internal audit function's compliance with PSIAS has been independently assessed during 2017/2018 to fulfil the requirement for such an independent assessment to be undertaken once every five years. A report on the outcome of this assessment has been finalised and no significant issues identified. The final report is included later in the agenda for noting.

3.2. The content of the Audit Plan each year is determined by the requirement to deliver a programme of work that will inform the annual audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control arrangements. The preparation of the annual Audit Plan has focussed on the delivery of this objective.

3.3. For 2018/2019, this has translated into a strategy that aims to deliver the key objective of the Service to provide general assurance in relation to governance, risk management and control arrangements through:-

- ◆ linking to the organisation's objectives and priorities providing assurance in relation to the top risks that have been identified by the Council
- ◆ undertaking a balanced programme of work delivered in compliance with PSIAS that maximise resources available
- ◆ committing resources to support corporate activity
- ◆ prioritising assignments to ensure key areas of work are completed in year

3.4. During preparation of the 2018/2019 Audit Plan, the Council's external auditor, Audit Scotland, has been consulted and their input reflected in the draft Plan.

4. Internal Audit Plan 2018/2019

- 4.1. The Plan will inform the overall audit opinion for 2018/2019 which will be expressed in an annual report as either 'good', 'adequate' or 'poor', the definitions of which are detailed in Appendix One. These audits will be conducted in accordance with the revised PSIAS and within the context of the Internal Audit Charter, which is attached at Appendix Two. This Charter sets out the role and remit of Internal Audit and has been updated¹ to reflect actions arising from the independent assessment of the function's level of compliance with PSIAS.
- 4.2. A copy of the proposed Internal Audit Plan for 2018/2019 is attached at Appendix Three. This shows the name of the proposed assignment, the lead Resource (if relevant) and a brief outline scope for each proposed assignment. Objectives and scopes will be refined by auditors prior to the commencement of work and once a full risk analysis has been completed and key controls identified. Clients will be involved in this initial risk and control assessment and will be consulted prior to the preparation of the audit remit for each assignment.
- 4.3. The suggested Plan provides time to deliver a range of assignments that aligns to corporate objectives as well as seeking to provide assurance around the general control environment of the Council. The focus of the 2018/2019 Plan is to assess how adequately the Council's top risks are mitigated together with an assessment of the management of emerging risks and whether these responses are sufficient to mitigate against loss to the Council. This is considered to provide adequate focus around the significant risks and challenges the Council faces.
- 4.4. A number of top risks are not covered by the Plan:
- ◆ Failure to maintain the required pupil/teacher ratio
 - ◆ Failure to work with key partners to achieve the outcomes of the Local Outcome Improvement Plan
 - ◆ Lack of capacity and skills to meet increased Service demands

These risks (or related risks) have been the subject of audits in either 2016/2017 or 2017/2018 and will be covered by follow-up work in 2018/2019 as required.

- 4.5. A further group of risks are not covered by the Plan on the basis that an audit may not necessarily add significant value:
- ◆ Increasing levels of adverse weather
 - ◆ Failure to fulfil emergency response commitments befitting the Council's status as a Category One (emergency) responder
 - ◆ Death or injury to employees, service users or members of the public affected by Council Operations

As the year progresses if work is required in any of these areas, assignments within the Plan will require to be re-prioritised and a revision to the Plan presented to the Forum for endorsement. An extract of the Council's top risk register is attached at Appendix Four.

¹ To clarify the position re auditing of areas where the Audit and Compliance Manager has operational responsibilities and to update the section re escalation to move non-relevant paragraphs and note the role of the Chair of the RASF in the escalation process.

- 4.6. Capacity planning estimated at the outset that 1,170 audit days are available in 2018/2019 (see 5.1), of which 250 have been allocated to external clients. Of the remaining 920 days, 50 days have been allocated to general contingency and 170 days to fraud contingency. A further report will be presented to the Forum, after the 2017/2018 annual report has been prepared, proposing a programme of work to be delivered using fraud contingency days.
- 4.7. In terms of best practice, a contingency list has also been prepared. Assignments from this may be delivered if resources are available or if significant risks in such areas emerge as the year progresses. The Forum is asked to endorse the use of a contingency list, if required.
- 4.8. Progress against the audit strategy will be monitored and reported to the Forum as part of regular monitoring reports that are presented at each meeting. Delivery of the strategy will be evidenced by the completion of the 2018/2019 Plan. Any subsequent changes to the Plan, arising from a change in the organisation's priorities or risks, will be agreed with the Executive Director (Finance and Corporate Resources) and presented to the Forum to endorse. Key performance indicators will continue to be reported to the Forum within routine activity reports and as part of the annual assurance report presented to the Forum.
- 4.9. During 2017, External Audit highlighted an expectation that the annual Internal Audit Assurance report should be considered by the Forum at the same meeting as the draft annual Governance Statement. Historically, the Internal Audit opinion on the adequacy of financial and operational controls expressed within the draft Governance Statement each year was drawn from annual Internal Audit Assurance report albeit the annual audit report was not presented in full until a subsequent meeting of the Forum.
- 4.10. To formally evidence that the annual Internal Audit Assurance report informs the draft Governance Statement, moving forward, the Internal Audit plan will now be concluded to draft report stage by 31 March as opposed to the previous 30 April deadline. This will facilitate the earlier preparation of the annual Internal Audit Assurance report allowing this to be presented to the Forum by the end of June each year at the same time as the draft Governance Statement.
- 4.11. The Forum is asked to endorse the draft Plan for onward submission to the 28 March 2018 meeting of Executive Committee.

5. Employee Implications

- 5.1. A full employee capacity plan was prepared at commencement of the audit planning process. This was based on a number of assumptions around the projected 2018/2019 saving requirements. This is currently being reviewed and any revisions to capacity will be presented to the Forum at a later meeting (see 4.6).
- 5.2. Target commencement and completion dates will be fixed shortly and will be agreed with Resources within the constraint of the need to deliver the Plan by 31 March 2019.

6. Financial Implications

- 6.1. The detailed 2018/2019 budget for Internal Audit has not been finalised and capacity planning has been based on a prudent projected budget. This is considered to provide sufficient resources to deliver the Audit Plan.

7. Other Implications

- 7.1. Specific time has been allocated within the Plan to map all sources of assurance throughout the Council. This will be used in the periodic review of the Plan presented to the Forum, as required by PSIAS, and to inform the audit opinion expressed within the annual Statement of Assurance.
- 7.2. To mitigate against the risk of non delivery of the Plan, the progress of every assignment is monitored using the Council's risk management software, Figtree. In addition, Executive Directors have been asked to remind their teams of specific audit responsibilities and timescales.
- 7.3. There are no sustainability issues in terms of the information contained in this report.

8. Equality Impact Assessment and Consultation Arrangements

- 8.1. There is no requirement to conduct an equality impact assessment on the proposed Audit Plan. As part of the process, there has been extensive consultation during preparation of the Plan and consultation invitations were extended to the following main consultees:

- ◆ Internal Audit Team
- ◆ Finance and Corporate Resources Management Team
- ◆ Executive Directors
- ◆ Audit Scotland, the Council's external auditors
- ◆ Members of the Risk and Audit Scrutiny Forum

All returned suggestions were included within the initial "audit universe" for risk evaluation.

Paul Manning

Executive Director Finance and Corporate Resources

7 February 2018

Link(s) to Council Objectives/Ambitions/Values

- Achieve results through leadership, good governance and organisational effectiveness

Previous References

- Internal Audit Plan 2017/2018 – RASF 7 March 2017
- Internal Audit Plan 2017/2018 – RASF 20 September 2017

List of Background Papers

- Internal Audit planning documentation

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

Yvonne Douglas

Audit and Compliance Manager

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E-mail: yvonne.douglas@southlanarkshire.gov.uk

Audit opinion	Definition
Good	Expected controls are in place and non-compliance, weakness nor adverse governance impact have not been identified.
Adequate	Expected controls are in place but some non-compliance, weaknesses, areas for improvement or governance impacts of a minor or moderate nature have been identified.
Poor	Expected controls are not in place or are in place but are not working in the intended manner resulting in more significant weaknesses with material room for improvement. This level also applies where there has been a material impact on the governance of the authority.

**South Lanarkshire Council
Internal Audit Charter**

Purpose

Internal Audit is an in-house, independent assurance function that provides an objective opinion and consultative guidance to South Lanarkshire Council and external clients on how well risks are controlled within their operations.

Internal Audit provides managers and elected members with assurance on how well processes and procedures in place are controlling the associated risks and recommends actions for improvements to ensure controls are effectively managed.

This complies with the definition of Internal Audit included within the Public Sector Internal Audit Standards:

“Internal Audit 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.”

Compliance with the Public Sector Internal Audit Standards (PSIAS) is mandatory from 1 April 2013.

The Standards were revised from 1 April 2017 to incorporate new and revised international standards resulting in additional public sector requirements and interpretations.

The Internal Audit service reports to the Executive Committee through the Risk and Audit Scrutiny Forum (RASf) who for the purposes of PSIAS are defined as the Board . This Forum serves as the Audit Committee for SLC and independently provides assurance on the soundness of the Council’s control environment and the adequacy of the risk management framework. It also delivers scrutiny and oversees external financial reporting processes. The Forum is made up of ten members of the Council. Membership changes with each new Council to ensure political balance and the Forum is chaired by a member of the opposition party.

An Annual Statement of Assurance is provided to this Forum and elected members by the Audit and Compliance Manager, to report on the effectiveness of the control environment and governance arrangements in place. Assurance is based on the professional practices outlined within Internal Audit’s Audit Manual.

The authority to deliver an internal audit service is contained within SLC’s Financial Regulations, Standing Orders and Scheme of Delegation (all of which are available on the intranet) as well as in the Anti-Fraud and Corruption Strategy.

For internal audit work delivered to external bodies, authority is provided by the Accounts Commission’s ‘Code of Guidance on Following the Public Pound’ as well as Service Level Statements agreed with clients.

As well as professional standards Internal Audit will be bound by SLC local standards including the Employee Code of Conduct and the Code of Corporate Governance.

Relationship with the Risk and Audit Scrutiny Forum

The Executive Director Finance and Corporate Resources and the Audit and Compliance Manager should seek to maintain sound working relationships with appropriate elected members and ensure that good channels of communication are maintained. Within South Lanarkshire Council, the Audit and Compliance Manager is considered to be the Chief Internal Auditor. The Chair of the RASF and the Audit and Compliance Manager may meet privately from time to time to discuss audit findings, the performance of the Forum and other related matters. Internal Audit report all findings from concluded assignments via progress reports to the Risk and Audit Scrutiny Forum. Lines of communication between the Chairs of all Committees and the Audit and Compliance Manager will be open at all times.

All elected members are free to raise concerns directly with the Audit and Compliance Manager and input to the audit plan but these will be assessed in terms of risk prior to any audit work being undertaken.

Enquiries from elected members will follow the Council's protocols and guidance.

Objective

Internal Audit's objectives are to:

- improve internal control through provision of advice and guidance on preventative measures and good governance
- safeguard public expenditure and ensure control over Council capital, revenue and project expenditure and minimise loss through a programme of routine and contract audits
- promote compliance with all corporate standards and frameworks, ensure that management information is produced accurately and safeguard the Council's computer and on-line transactions with particular emphasis on security, efficiency and sustainable service delivery
- deliver objective assurance over controls within operational and financial systems and governance arrangements
- contribute to efficiency by identifying opportunities and leading the management of the fraud risk
- promote risk awareness and plan risk based audit work within available resources
- meet agreed targets directing all efforts towards sound performance in all areas

In delivering the above objectives, Council values and Performance and Development requirements will be adhered to.

Role and Scope of Work

To provide the assurance of controls in place within processes and procedures across the entire control environment of the organisation, Internal Audit work will:

- independently review and appraise all systems of financial and operational control in terms of their adequacy and application;
- ascertain the extent of compliance with financial and operational procedures, policies, regulations and legislation and their impact on operations;
- advise on control implications for new and modified IT systems;

- provide advice and guidance and contribute to working groups and ad-hoc strategic exercises;
- provide consultancy services (which is defined for the purposes on PSIAS as pertaining to the provision of advice and guidance to Council Resources) on a secondment or group representation basis, provided this does not compromise independence and that a sufficient period elapses before auditors formally review those services where consultancy has been provided (usually one year);
- perform periodic governance checks;
- provide written assurance in selected areas as well as an overall opinion at least once per annum;
- recommend improvements in control, performance and productivity in achieving corporate objectives;
- follow-up the extent to which earlier recommendations have been implemented;
- work in partnership with the external auditors;
- detect, prevent and investigate fraud and crime in accordance with approved anti-fraud strategies and policies.
- Internal Audit undertakes investigative work in respect of potential fraud, irregularity and serious breaches of governance and as such, is required to be notified of all suspected or detected fraud, corruption or impropriety. It also monitors devolved responsibility for investigation by Resources.

Internal audit testing may go beyond the records and adopt a more direct approach, including interviews, fact finding and on site surveys.

The existence of Internal Audit does not diminish the responsibility of management to exercise sound systems of internal control. It is clearly and solely a management responsibility to ensure that activities are conducted in a secure, efficient and well-ordered manner and that finances are safeguarded and used to maximum effect. This includes identifying and managing risks including fraud.

Managers are expected to provide requested information within a reasonable timescale and earlier than the equivalent timescale for Freedom of Information (FOI) Requests. Managers are expected to respond to assignment feedback requests, usually within seven days and to draft reports within fourteen days.

Internal Audit charges a fee for work performed for external clients, subject to agreed Service Level Statements. In addition, Internal Audit will undertake work relating to external bodies funded by the Council or partners, as authorised by the Following the Public Pound guidance.

Internal Audit may work jointly with neighbouring authorities, Scottish Government departments and external auditors on a variety of projects, aimed at improving the control and/or efficiency environment of public sector bodies.

Independence

Internal Audit is located within Audit and Compliance Services, under the direction of the Proper Officer, the Executive Director Finance and Corporate Resources.

In addition, general management duties will be delegated from the Executive Director Finance and Corporate Resources to the Audit and Compliance Manager and will cover audit matters as well as general management duties, including participation in the Senior Management Team.

The Audit and Compliance Manager has management responsibilities outwith Internal Audit for Funding and Compliance Services. It is recognised that arrangements are required to be in place for any audit work in this area to allow this to be managed independently of the Audit and Compliance Manager. The specific nature of these arrangements will be reported to the RASF when audit activity in this area is planned.

The establishment structure will comprise qualified and technician posts with a mix of professional specialisms. Structural reviews may take place from time to time and regular resource monitoring is reported to the Risk and Audit Scrutiny Forum. Any reduction in resources which might jeopardise the delivery of assurance will be immediately reported to the Executive Director Finance and Corporate Resources in the first instance.

As far as is practicable, Internal Audit should not participate in the day-to-day operation of any internal systems of financial or operational control.

Plans will be formed to reflect organisational audit needs but within available resources.

Upon request from the Executive Director Finance and Corporate Resources, appropriate specialists from other departments should be made available to take part in any audit requiring specialist knowledge.

Within SLC, the Employee Code of Conduct provides guidance on the type and nature of interests that should be declared (including paid employment outside the Council and personal interests in contracts). Auditors must declare their interests in accordance with the Code of Conduct and with regard to the audit principle of independence, and notify the Audit and Compliance Manager of any conflicts of interest which may arise. This formal declaration is renewed on an annual basis as part of the performance development review process but can be revisited should any conflicts arise.

Auditors will not be assigned to review or be involved in any activity where they have previously had operational or other involvement, usually within a period of one year. This includes instances where Internal Audit employees have been consulted during system, policy or procedural developments.

Access

Internal Auditors have authorisation from the Council to examine all council records, IT systems, cash, stores and other property, to obtain explanations and to enter Council property or land.

Access is unrestricted and shall be granted on demand and not necessarily be subject to prior notice.

Reporting

All planned audit assignments will formally be reported and every assignment will be closed after review by audit management. All Internal Audit reports will be submitted to the Executive Director Finance and Corporate Resources, and to recipients within the Resource being audited, including the Executive Director, Head of Service and the auditee. Circulation to the Chair of the Resource Committee is the responsibility of the Executive Director. Copies of reports relating to routine planned assignments will also be forwarded to external auditors.

The Audit Manager will plan for regular formal consultations with Heads of Service and Executive Directors, especially when preparing the formal audit plan. Feedback on performance and value of work undertaken will be sought. Heads of Service will be copied on every report affecting their area of responsibility. Effective relationships will be maintained by both parties and confidentiality of information will be protected, unless this would prevent the delivery of audit assurance. Timing of work is subject to consultation but this will not preclude unannounced visits when necessary or requested by Executive Officers or Members.

Best practice dictates that the Head of Internal Audit must report to those charged with governance. In SLC this means that the Audit and Compliance Manager reports to the Corporate Management Team (CMT), which is made up of Executive Directors covering all Council Resources, who for the purposes of PSIAS are defined as Senior Management. The CMT endorses, as a minimum the Internal Audit Plan and the Internal Audit Annual Report, which provides the opinion on the Council's internal control environment for both financial and operational matters and its overall governance arrangements.

Internal Audit also reports plans, annual assurance and all findings to the RASF who will in turn recommend further reporting to the Executive Committee. For external clients, reports and opinions will also be offered to audit committees, where these exist, or to client Boards and senior management teams.

Escalation

The Audit and Compliance Manager has direct access, reports and is accountable to the Executive Director Finance and Corporate Resources, the Proper Officer, as defined in Section 95, Local Government Act 1973 and meets with this officer on a regular one to one basis.

This relationship will be the escalation route for issues arising within Internal Audit and for those matters where it is appropriate for the Chair of the RASF to be briefed. The Audit and Compliance Manager's relationship with the Chair of the RASF and elected members is detailed above within the section 'Relationship with the Risk and Audit Scrutiny Forum'.

Auditors will use escalation processes so that slippage in relation to the delivery of audit assignments can be dealt with swiftly.

Responsibilities

In delivering assurance, Internal Audit adopts a predominantly systems-based approach to audit. In discharge of this duty, the Audit and Compliance Manager will:

- prepare an annual plan for formal agreement
- deliver a range of audit assignments, resulting in reports for management. Occasionally, letters or memos, rather than full reports will be issued. This usually occurs where few concerns are raised during the audit or where work is of a rolling nature, for example spot cash counts
- make recommendations for improvements
- provide Committee reports and other briefings to provide advice or raise awareness of performance or risk issues
- ensure a system of close supervision of audit work, and maintain a review of audit files through the supervisory structure
- maintain a skill level within the section specifically for the investigation of fraud

- provide an annual opinion within a full annual audit assurance statement, for agreement with the Chief Executive and Executive Director Finance and Corporate Resources and onward presentation to the Risk and Audit Scrutiny Forum and Executive Committee.

Lead Resource	Audit assignment	Outline Scope	Expected days
All	Contract Scrutiny Groups	Participate in Contract Scrutiny Groups as required.	10
All	Attend SLACIAG and SLAIG groups and computer audit sub-group	Attend as required, respond to requests, participate in consultations and provide updates.	9
Finance and Corporate	General Ledger Data	Provide 2017/2018 general ledger entry data to External Audit for the audit of the financial accounts for the year ended 31 March 2018.	20
All	Audit plan 2019/2020	Undertake consultation, risk assessment, Resource and Section planning, set scopes and objectives and seek approval through preparation of reports.	10
All	Internal Working Groups	Attend and participate in internal working groups, including, Information Governance Board; Good Governance Group; Serious and Organised Crime Group; Community Payback Order Working Group and Historic Abuse Working Group.	5
All	General contingency	Conclude all 2017/2018 audits. Respond to requests for unplanned work during 2018/2019, including advice and guidance to Resources.	50
Housing and Technical	Procurement	Provide assurance that procurement practices are robust in areas assessed as being subject to higher risk of fraud.	40
Community and Enterprise	Lighting	Provide assurance that procurement practices are robust in areas assessed as being subject to higher risk of fraud.	25
Community and Enterprise	Mobile Working (Roads)	Provide assurance that risks in relation to mobile working are managed and benefits are being realised.	25
Finance and Corporate	IT audit	Continue the rolling programme of audits in relation to Cyber Security to provide assurance that effective controls are in place to mitigate both existing and evolving risks.	30
Education	Pupil Equity Fund	Provide assurance of good governance around spend and tracking of benefits deriving from spend.	30

Lead Resource	Audit assignment	Outline Scope	Expected days
All	Fraud Contingency (see 4.6)	Deliver of a programme of anti-fraud reviews to provide assurance that robust and effective controls are in place that both prevent and detect fraud. Undertake investigations as required.	170
All	National Fraud Initiative (NFI)	Facilitate the investigation of 2017/2018 matches and provision of NFI data in 2018/2019.	40
All	Fraud Alerts	React to fraud alerts through internal and external sources and disseminate information as appropriate.	1
Community and Enterprise	City Deal – Benefits Realisation	Provide assurance that effective arrangements are in place to track benefit realisation.	20
Community and Enterprise	Carbon Report	Provide assurance around accuracy and completeness of submission to the Scottish Government.	20
All	Follow Up	For all Council Resources, identify audit recommendations due in the period April 2017 to March 2018. Risk assess and follow-up to ensure implementation of all high risk actions.	75
Finance and Corporate	Budgetary Control	Review budgetary control processes to ensure effective and controls robust.	30
Finance and Corporate	ICON or Treasury Management	Undertake programme of routine tests around controls (including External Audit testing).	30
Community and Enterprise	Job Costing	Test job costing methodology to ensure robust.	35
Finance and Corporate	Benefits	Undertake specific testing around risk areas highlighted by daily benefit audits.	20
Finance and Corporate	Financial Strategy	Test current financial planning process against best practice.	10
All	Governance Statement	Facilitate preparation of the 2017/2018 Governance Statement	10
Community and Enterprise	Waste Contract (residual waste)	Provide assurance that contract being delivered within the terms of the contract and adequate arrangements are in place to contract monitor and provide assurance around the correctness of charges.	40
Finance and Corporate	Universal Credit	Procedural check to obtain assurances that housing benefits are being stopped timeously where a person has moved over to Universal credit.	30

Lead Resource	Audit assignment	Outline Scope	Expected days
All	CCM	Continue to download data in current CCM areas. Use data for analysis and to inform internal and external audit testing. Prepare formal reports to allow exceptions and unusual trends in financial controls to be reported to Resources for further investigation	75
All	Informal Follow Up	Prompt Resources on a quarterly and monthly basis of actions due within that period. Collate responses for reporting.	15
Social Work	Mobile Working (Homecare)	Provide assurance that risks in relation to mobile working are managed and benefits are being realised.	20
Social Work	Kinship Care	Provide assurance that processes are robust and deliver good governance.	20
Social Work	Self Directed Support	Provide assurance of compliance with Act and review procedures around service options and adequacy of controls to mitigate against potential risks.	5
Total number of days			920

Risk Category	Key risk	Inherent risk score	Residual risk score	Sample of controls	Controls (Good, adequate, poor)
One	Reduction in Council funding, resulting in difficulties maintaining front line services	9	8	<ul style="list-style-type: none"> • Embedded structure and systematic approach to savings identification and prioritisation • Robust processes in place to report annual budget and council tax proposals to elected members • Four weekly monitoring and reporting of financial performance 	Adequate
Two	Potential liability arising from claims of historic abuse	7	7	<ul style="list-style-type: none"> • Cross Council steering group established, and meets on a regular basis • Review of historical records pertaining to Section 21 notices received completed within timescales • Exercise to identify predecessor authorities insurance policies undertaken 	Adequate
	Failure to maintain the required pupil/teacher ratio	9	7	<ul style="list-style-type: none"> • Continuous monitoring of expected school staffing requirements; estimated pupil numbers including S5 and S6; and update of records with SEEMiS • Ongoing recruitment adverts and offers of permanent 	Adequate

Risk Category	Key risk	Inherent risk score	Residual risk score	Sample of controls	Controls (Good, adequate, poor)
				cover posts in order to compete with other local authorities	
	Information management not subject to adequate control	9	7	<ul style="list-style-type: none"> • Awareness raising – Management bulletins, team briefs and toolbox talks • Information Governance Group in place • Confidential waste policy 	Adequate
	Fraud, theft, organised crime and cyber attacks	9	7	<ul style="list-style-type: none"> • Anti-fraud and Corruption Strategy, Fraud Response, Whistle-blowing procedures for third parties • Information sharing protocols between Council and Police Scotland • The Council is an active National Fraud Initiative participant 	Adequate
	Failure to achieve results and demonstrate continuous improvement, through leadership, good governance and organisational effectiveness	9	7	<ul style="list-style-type: none"> • Council Plan, Connect in place, with reviews undertaken on a regular basis • Preparation of Annual Performance Report • Empower self-assessment activity and associated improvement plans 	Good
	Failure to work with key partners to achieve the outcomes of the Local Outcome Improvement Plan	9	7	<ul style="list-style-type: none"> • Partners signed up to Community Plan / LOIP • Partnership Progress group established • Community Planning Risk 	Adequate

Risk Category	Key risk	Inherent risk score	Residual risk score	Sample of controls	Controls (Good, adequate, poor)
				Register maintained and monitored <ul style="list-style-type: none"> Annual performance reporting and annual published report of Community Plan and on activities and progress of the Strategic Boards' Partnership Improvement Plans 	
	The Council is not sufficiently prepared to deliver the Integration Joint Board Strategic Commissioning Plan 2016-19	9	7	<ul style="list-style-type: none"> Chief Officer and Senior Management Team in post Strategic Commissioning Plan 2016-19 approved IJB directions issued to Council and NHS Board annually 	Adequate
	Increasing levels of adverse weather	9	7	<ul style="list-style-type: none"> Dedicated Flood Risk Management Team Winter Weather Procedures, Winter Service Policy and Operations Manual updated annually Remote monitoring of high risk flooding sites using telemetry solutions 	Good
Three	Implementation of Self Directed Support	8	5	<ul style="list-style-type: none"> A Self Directed Support (SDS) Implementation Board that has strategic oversight of all SDS related activity has been established Service Development 	Good

Risk Category	Key risk	Inherent risk score	Residual risk score	Sample of controls	Controls (Good, adequate, poor)
				<p>Manager acts as the Council's lead officer for SDS and co-ordinates the Council's activities</p> <ul style="list-style-type: none"> • Staff training undertaken in relation to both co-produced assessment and outcomes based support planning 	
	Procurement practice and management of contracts	8	5	<ul style="list-style-type: none"> • Procurement Strategy and Action Plan, with progress reported to CMT • Centralised procurement function, which allows greater control and scrutiny • Standard Terms and Conditions of Contract used 	Good
	Failure to meet the Council's sustainable development and climate change objectives	9	5	<ul style="list-style-type: none"> • Sustainable development is embedded within the Council Plan, Connect • The Sustainable Development Member Officer Working Group is responsible for the implementation of the Council's Sustainable Development and Climate Change Strategy 2017-22. • Carbon Management Group meets regularly and a Carbon Management Plan is in place 	Good
	IT Development and functionality does not meet service requirements	7	5	<ul style="list-style-type: none"> • Major IT investments, in support of Priority Themes, 	Adequate

Risk Category	Key risk	Inherent risk score	Residual risk score	Sample of controls	Controls (Good, adequate, poor)
				<ul style="list-style-type: none"> include a comprehensive business case. Dedicated IT development fund Testing of IT system recovery and business continuity 	
	Lack of capacity and skills to meet increased service demands	8	5	<ul style="list-style-type: none"> Performance Development Review (PDR) Process Workforce Strategy Centralised recruitment and targeted training including e-learning 	Good
	Failure to fulfil emergency response commitments befitting the Council's status as a Category One (emergency) responder	9	5	<ul style="list-style-type: none"> Established contingency planning methodology integrating civil protection and business continuity arrangements Multi-agency partnership working through Local and Regional Resilience Partnerships 	Adequate
	Failure to deliver City Deal projects and realise anticipated economic benefits	9	5	<ul style="list-style-type: none"> Formal City Deal document in place Assurance framework Infrastructure working group in place Strategic level group in place 	Good
Four	Death or injury to employees, service users or members of the public affected by Council Operations	9	4	<ul style="list-style-type: none"> Occupational Health and Safety Management System embedded throughout the Council 	Good

Risk Category	Key risk	Inherent risk score	Residual risk score	Sample of controls	Controls (Good, adequate, poor)
				<ul style="list-style-type: none"> Resource and Service Health and Safety Groups meet on a regular basis in all Resources 	
	New and amended legislation	9	4	<ul style="list-style-type: none"> Participation of Council solicitors on some SOLAR/ASB/Officer groups and other working groups regarding implementation of new legislation Changes triggered by legislation included in Resource plans 	Adequate
	Failure to deliver the Council's "Homes+" Council house new build programme	9	4	<ul style="list-style-type: none"> Regular updates to the Housing and Technical Resources Committee Strategic Housing Improvement Plan approved Detailed project plans in place 	Good
	Financial strategy not informed by service planning	9	4	<ul style="list-style-type: none"> Medium/Long term financial strategy prepared with annual reviews Demographic and inflationary pressures included within medium term financial strategy Investment aligned with Connect priorities 	Adequate

BOLD – audit in 2018/2019 Audit Plan links to risk

Report

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Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	21 March 2018
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Fraud Statistics and National Fraud Initiative Six Monthly Update
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ provide a summary of the fraud statistics for the six month period to 30 September 2017 and a comparison to the six monthly statistics to 30 September 2016.
- ◆ provide an update on progress of the 2016 National Fraud Initiative exercise.

2. Recommendation(s)

2.1. The Risk and Audit Scrutiny Forum is asked to approve the following recommendation(s):-

- (1) that the contents of this report are noted

3. Background

- 3.1. Collating and reporting fraud statistics and setting targets for improvement are considered best practice by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Association of Local Authority Risk Managers (ALARM).
- 3.2. This report provides information on the number, types and outcomes of fraud investigations within South Lanarkshire Council for the six month period to 30 September 2017 together with a comparison to the statistics for the same period in 2016. It includes all frauds reported to Internal Audit, benefit frauds during this period investigated by the DWP Fraud and Error Service (FES) and insurance losses resulting from a failure in internal controls or which have been investigated by Internal Audit.
- 3.3. Although the responsibility for housing benefit fraud investigations has transferred to the DWP Fraud and Error Service (FES), South Lanarkshire Council retains responsibility for recovery of fraud overpayments. Therefore, housing benefit fraud statistics will continue to be included within the fraud statistics reported. As it will be necessary to rely on FES to provide details on proven South Lanarkshire Council fraud cases, this may result in a delay in reporting. This has been evidenced by the increase in the number of Housing Benefit cases recorded as Work in Progress within these statistics.

- 3.4. The roll out of Universal Credit to all new benefits applicants in October 2017 will have an impact on the number of Housing Benefit claimants. It is, therefore, expected that the number of fraud cases will decrease in future periods. The Council will continue to pursue all Housing Benefit fraud overpayments, where appropriate.
- 3.5. Internal Audit completed a procedural check on Universal Credit in 2016/2017 and were satisfied that procedures were in place to timeously identify and stop Housing Benefit payments to claimants who have moved to Universal Credit and avoid overpayments. Further audit work in this area to obtain assurance that the procedures are working as intended will be considered for inclusion in the 2018/2019 Internal Audit Plan.
- 3.6. The Revenues and Benefit Section continues to deliver an annual programme of rolling reviews on housing benefit claimants with reviews based on risk-profiling to establish the most likely areas of benefit fraud or overpayment. Information is also obtained from HMRC through Real Time Information (RTI) and DWP through the Housing Benefit Matching Service (HBMS). Where fraud is suspected, the case will be passed to the FES for investigation and, if proven, the case returned to South Lanarkshire Council to pursue recovery. It should be noted, however, that if an overpayment has been identified by the Council, steps will be taken immediately to recover the overpayment. The recovery is not dependant on fraud being proven.

4. Results

- 4.1. All concerns reported to Internal Audit are recorded on the corporate risk management system, Figtree. Each concern is risk assessed with high risk areas investigated by Internal Audit, medium risks investigated by Resources and low risks registered for monitoring of trends. Joint investigations may also be carried out by Resources and Internal Audit depending on the nature of the fraud and the operational knowledge required.
- 4.2. Information relating to Housing Benefit fraud has been provided by the Benefits and Revenues Section from records held by them in relation to FES referrals.
- 4.3. The Risk Management Section is responsible for collecting and recording all insurance losses. Information relevant to these statistics is provided to Internal Audit on a six monthly basis.
- 4.4. The results for the six month period to 30 September 2016 and 30 September 2017 are detailed in Appendix One. However, a summary of the results is detailed below;
 - Areas within the Council that inherently have a higher risk of fraud were considered for inclusion in the 2017/2018 annual Audit Plan. There have been no specific patterns or trends identified in the period to 30 September 2017 in addition to those already considered to be of high risk
 - There were 173 investigations valued at £514,000 either reported in the period or carried forward from 2016/2017. This represents an increase in number but decrease in value of investigations from the same period in 2016. The increase in number can be attributed to the number of benefits cases carried forward from previous years. This is mainly as a result of delays by FES in concluding cases. The decrease in value can be mainly attributed to one high valued Internal Audit investigation which was included in 2016 statistics

- There were 41 benefit fraud cases reported in the period to 30 September 2017 which is an increase of 71% from the same period in 2016. 29 cases resulted from external reviews, including RTI, HBMS and NFI and 12 cases were from FES investigations. In addition to the 41 reported benefit fraud cases, a further 72 open cases are being investigated by FES. These cases are not included in the fraud statistics at Appendix One as these have not been confirmed as fraud. If confirmed, they will be included in future reports
- All concerns reported to Internal Audit during the period were investigated demonstrating the Council's zero tolerance to fraud
- Of the 173 open cases, 29 (17%) valued at £68,000 (34%) were closed within the period. This represents an decrease when compared to the six month period to 30 September 2016. The majority of work in progress cases (90%) relate to Benefit being investigated by FES
- Of the number of cases investigated, 90% were founded
- All 26 founded cases relate to Benefit Fraud cases or fraud committed by a third party
- All recoveries reported in this period relate to benefit fraud. The value of prior year recoveries decreased, when compared against the preceding year, by 13% from £32,000 to £28,000. See Appendix 1 ("Recoveries") for more detail. There was no current year recovery. This was due to only three current year fraud cases being closed in the period. Of these three cases, two were passed to the Compliance Section of FES in September 2017 to be followed up as the value was below the threshold for criminal prosecution (£2,000). Therefore, it is unlikely that repayment would have been received during the period to 30 September 2017. A decision was taken not to pursue recovery of the remaining case due to specific circumstances surrounding the claimant
- The cost of investigations concluded by Internal Audit has decreased from the same period last year, however, the cost of investigations is dependent on the number of cases concluded during the period, the complexity of the investigations and the time required to conclude the investigation. Therefore, the costs are not wholly comparable period by period
- Time budgets and target completion timescales for investigations are set at the start of each audit and will vary depending on the nature of the investigation. Performance measures for investigations undertaken by Internal Audit are reported and monitored together with routine audit performance measures through local Performance Indicators

5. Improvements

- 5.1. On the conclusion of all internal investigations, an assessment is made on whether improvement action is necessary. If deemed necessary, an improvement plan will be issued containing recommended actions. These improvement plans are agreed with the relevant Heads of Service and the actions followed up by Internal Audit to ensure implementation and that gaps in controls have been addressed. Outcomes for concluded investigations are reported to the Risk and Audit Scrutiny Forum (RASf) as part of the Internal Audit activity reports.
- 5.2. There were no improvement plans issued by Internal Audit during the period under review. However, assurance was obtained that action was taken immediately to address control gaps identified during the course of Internal Audit investigations. Follow up of all high priority actions resulting from fraud investigations will be included in future Audit Plans.

6. National Fraud Initiative

- 6.1. As advised in the 2016/2017 National Fraud Initiative report to the Forum on 20 September 2017, the 2016 National Fraud Initiative (NFI) exercise commenced in October 2016. The total number of matches resulting from this exercise was 12,147 excluding Single Persons Discount (SPD) matches and South Lanarkshire Council made an initial commitment to investigate 4,136 matches. However, this target was reduced to 3,809. The reduction was in relation to Housing Tenant match investigations. It is expected that Resources adjust their target number of investigations throughout the investigation to reflect the results obtained and avoid wasting resources investigating areas where no outcome is likely to be achieved.
- 6.2. The Benefits and Revenues Section will place reliance on ongoing internal and external reviews of SPD claimants. A sample of 139 NFI matches have been included in the external review of SPD carried out by Datacentre. Fraud or error identified from this review will be recorded on the NFI Website and will be included in the six monthly fraud statistics where relevant.
- 6.3. The target completion date for all investigations, with the exception of Housing Benefits, was agreed as 30 September 2017. There were five separate areas where this target was not met. There has been a delay in completion of the Tenant and Waiting List investigations as the Council was waiting on information for external parties in order to conclude these investigations. The delay in completing the Blue Badge investigations was a result of a large number of matches and limited resources available to carry out the investigations.
- 6.4. The remaining two Services have been reminded of the deadlines for completing the investigations and the importance of ensuring error and/or fraud is identified timeously. Further progress with the outstanding investigations has now been made and Internal Audit will continue to monitor completion of the investigations and follow up delays.
- 6.5. There was no fraud identified from the investigations completed as at 30 September 2017. However, there were 189 errors valued at £161k identified. Of the errors identified, the majority, 182 (96%), related to Blue badge 'errors'. The 'errors' occurred from a failure to update systems to record deceased persons. There was no financial consequence as a result of these errors. It is South Lanarkshire Council's policy not to request the return of a blue badge from a deceased Council resident, however, the records must be updated to ensure that a new badge is not issued. Steps have been taken to improve processes and ensure the Blue Badge System is updated timeously to reflect deceased persons.
- 6.6. Of the remaining seven errors, one related to housing benefits, one related to payroll and five related to duplicate creditor payments. The payroll and creditors overpayment have been recovered and steps are being taken to recover the housing benefit overpayment in line with the Council's debt recovery procedures.
- 6.7. A summary of the number of matches, the targets completed and the results is at Appendix Three.

7. Employee Implications

- 7.1. South Lanarkshire Council has a zero tolerance approach to fraud. All employees have a role to play in reducing fraud within the Council and should understand the risk of fraud faced by the Council, that fraud is serious and that it diverts resources away from the Council's primary objectives.

- 7.2. A Learn on Line (LOL) Fraud Awareness course is available to all employees with People Connect access. It is recommended that all employees complete this course to further strengthen their fraud awareness. Further work is currently being undertaken by Internal Audit, in consultation with Personnel Services to review the content and format of the LOL course to ensure it is still relevant and is accessible to all employees. The Forum will be advised of all suggested updates prior to these being rolled out to employees. Statistics in relation to employees completing the LOL course will be provided in future update reports.
- 7.3. Internal Audit will continue to coordinate future NFI exercises and collate and report fraud statistics on a six monthly basis to the Forum.

8. Financial Implications

- 8.1. The investigation of fraud, participation in NFI exercises and the collection and reporting of fraud statistics will be carried out within existing resources.
- 8.2. A total of 236 days has been allocated within the 2017/2018 Internal Audit Plan for Fraud Risk work. This includes an allowance of contingency time to undertake fraud investigations where required. An additional allowance of 40 days has been allocated for NFI.

9. Other Implications

- 9.1. Fraud Risk is recognised within the top 10 risks facing South Lanarkshire Council. This risk is significant as it can adversely affect the delivery of Council objectives and erode valuable resources. It is therefore important that the risk of fraud is soundly managed.
- 9.2. Fraud Risk Registers are now in place within all Resources and are reviewed and updated annually in line with standard Risk Management Procedures. Updates to the registers will be included in the Fraud Statistics report where required.
- 9.3. The collection and reporting of fraud statistics should assist in the management of fraud by identifying patterns and trends of fraud and areas of high risk where preventative controls should be concentrated. However, in order to do this effectively, fraud statistics must be complete. This remains an area where practice could be improved and it is, therefore, important that all instances of potential and actual fraud are reported to Internal Audit. Further work will be undertaken by Internal Audit to promote the Council's Fraud Response Plan which should help to ensure all known fraud concerns are reported and that employees are made aware of the systems in place within the Council for reporting suspected or actual fraud. To support this process, a draft protocol has been prepared and will be agreed with the new fact-finding team within Personnel Services.
- 9.4. In order to ensure the Council is fully aware of and prepared for emerging fraud risks, Internal Audit carried out self assessment against good practice guidance in fraud management in 2014/2015. The latest guidance used by Internal Audit was CIPFA's Fraud Risk Evaluation Diagnostic 2 (FRED2) and the Local Authority readiness – Serious Organised Crime and Corruption Risk Checklist/Survey developed by the Deter Sub-Group of the Serious Organised Crime Taskforce. Internal Audit will continue to include an allowance within the Internal Audit plan to undertake assessments against good practice in fraud management where required.
- 9.5. There are no sustainability issues in terms of the information contained in this report.

10. Equality Impact Assessment and Consultation Arrangements

10.1. There is no requirement to undertake an equality impact assessment.

10.2. Consultation was not necessary for this report.

Paul Manning

Executive Director (Finance and Corporate Resources)

1 March 2018

Link(s) to Council Objectives/Ambitions/Values

- Achieve results through leadership, good governance and organisational effectiveness

Previous References

- ◆ Fraud Statistics Six Monthly Update to the RASF, 7 March 2017
- ◆ Annual Fraud Report to RASF, 20 September 2017
- ◆ National Fraud Initiative 2016 report to RASF, 20 September 2017

List of Background Papers

None

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

Cecilia McGhee, Audit Adviser

Ext: 2632 (Tel: 01698 452632)

E-mail: cecilia.mcghee@southlanarkshire.gov.uk

Fraud Statistics

Status	Six Months to 30/09/16		Six Months to 30/9/17	
	Nos.	£000	Nos.	£000
Concerns reported in period by Source				
Internal	1	1	4	4
External	36	125	50	135
Total Reported in period	37	126	54	139
Previous period Concerns C/F	78	465	119	375
Total open concerns in period	115	591	173	514
less Work in progress	76	238	144	446
Closed investigations	39	353	29	68
Concluded by IA (Inc joint)	7	201	2	3
Concluded by others	32	152	27	65
Not investigated	0	0	0	0
Total Concluded	39	353	29	68
<u>Investigative Outcomes</u>				
Allegation correct	20	276	26	67
Insufficient information	3	0	2	1
Unfounded allegations	16	77	1	0
Total	39	353	29	68
<u>Fraud Classification (founded)</u>				
External	3	15	3	5
Internal	3	201	0	0
Benefits (Including NFI)	14	60	23	62
Total	20	276	26	67
<u>Recoveries</u>				
Recoveries of previous year fraud		32		28
Recoveries of current year fraud		1		0
Insurance Recoveries		0		0
Total Recovery		33		28

<u>Internal Audit Net Cost of Concluded Investigations</u>	£000	% of total Cost	£000	% of total Cost
Allegation correct	13	59%	0.28	79%
Insufficient information	6	27%	0.05	14%
Unfounded allegations	3	14%	0.02	7%
Total	22		0.35	

Performance Measures

	Target	As at 30/09/16	As at 30/09/17
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Sanctions			
% Founded Employee Cases where employee identified considered for a disciplinary hearing	100%	100%(3)	N/A (Note 1)
No. Benefit Cases with Sanctions (Annual Target/Cumulative total)	N/A (Note 2)	14	9

Note 1: No founded cases involving an employee were closed during this period

Note 2: Benefit Fraud Sanctions are decided by FES

Improvements			
Number of investigation Follow Up Audits completed		0	0
Number of High Priority Actions in original investigations		0	0
Number of Actions completed by due date	100%	N/A	N/A

Fraud Management			
Routine Anti Fraud reviews concluded in period		0	0
Reviews resulting in positive assurance (good or adequate) Note 3	100%	N/A	N/A

*Note 3: **Good** assurance is obtained where expected controls are in place and neither non-compliance, weaknesses nor adverse governance impact has been identified. There are no high risk recommendations made. **Adequate** assurance is obtained where expected controls are in place but some non-compliance, weaknesses, areas for improvement or governance impacts of a minor or moderate nature have been identified.*

**Summary
As at 30/09/2017**

Appendix 3

Summary Title	Total matches	Audit Scotland Recommended No. of investigation	SLC target for investigations	Target Completed	%	In Progress	%	Additional to target	Total Investigations completed	Error (No)	Error (£)	Fraud (No)	Fraud (£)
Total Housing Benefits Matches	1,438	141	141	120	85.1%	15	10.6%		120	1	8,691.93	0	0.00
Total Council Tax Reduction Scheme Matches	2,187	113	113	92	81.4%	19	16.8%		92	0	0.00	0	0.00
Total Payroll Matches	270	22	256	21	8.2%	8	3.1%		21	1	9,090.92	0	0.00
Total Tenant Matches (Note 1)	654	233	48	42	87.5%	6	12.5%		42	0	0.00	0	0.00
Total Right to Buy matches	138	124	124	124	100.0%	0	0.0%	5	129	0	0.00	0	0.00
Total Waiting List matches	2,152	2,058	2,058	2,051	99.6%	6	0.3%		2,051	0	0.00	0	0.00
Total Blue badge Matches	1,078	959	524	419	80.0%	1	0.2%		419	182	0.00	0	0.00
Total Residents Parking Permit Matches	38	33	38	38	100.0%	0	0.0%		38	0	0.00	0	0.00
Total Concessionary Travel Passes (Note 2)	509	499	0	0	0.0%	0	0.0%		0	0	0.00	0	0.00
Total Private Resident in Care Home matches	122	64	122	122	100.0%	0	0.0%		122	0	0.00	0	0.00
Total Personal Budget Matches	32	2	32	32	100.0%	0	0.0%		32	0	0.00	0	0.00
Total Insurance Claimant Matches	3	0	3	3	100.0%	0	0.0%		3	0	0.00	0	0.00
Total Creditor Matches	3,327	256	256	256	100.0%	0	0.0%	8	264	5	143,545.19	0	0.00
Total UKBA Matches	18	0	18	14	77.8%	4	22.2%		14	0	0.00	0	0.00
Total Procurement Matches	181	76	76	76	100.0%	0	0.0%	64	140	0	0.00	0	0.00
Overall matches	12,147	4,580	3,809	3,410	89.5%	59	1.5%	77	3,487	189	161,328.04	0	0.00

Note 1: Target number of investigations reduced from 375 to 48 to reflect the outcomes of completed investigations

Note 2: Not SLC system therefore no investigation target set

Report

6

Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	21 March 2018
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	External Quality Assessment of Internal Audit Service
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Present the External Quality Assessment of South Lanarkshire Council's Internal Audit Service

2. Recommendation(s)

2.1. The Forum is asked to approve the following recommendation(s):-

- (1) that the content of the report is noted

3. Background

3.1. The Internal Audit Service is delivered within the context of Public Sector Internal Audit Standards (PSIAS). These standards require that a Quality Assurance and Improvement Programme (QAIP) is developed to provide assurance that internal audit activity is conducted in accordance with an Internal Audit Charter, that it operates in an efficient and effective manner and that it is perceived to be adding value and improving operations. This programme includes periodic and ongoing internal assessments as well as one external inspection once in every five year period.

3.2. A formal external inspection arrangement was noted by the Forum in February 2014 and this review was undertaken by another local authority. A programme of inspections was prepared by the Chief Internal Auditors Group (SLACIAG) and, for South Lanarkshire Council, this was to be undertaken by Stirling Council's Chief Internal Auditor.

3.3. In preparation for the inspection, a self-assessment checklist was completed by the Audit and Compliance Manager. The findings from this self-assessment were provided to the Forum in September 2017. The assessment identified some minor administrative areas where compliance needed to be more clearly evidenced, together with a more effective method of gathering client feedback. These areas for improvement were not considered to have an impact upon the quality of the internal audit service delivered.

3.4. When framing the terms of the assessment, the Chief Internal Auditors' group defined four separate levels of compliance ranging from 'fully conforms' to 'does not conform'. Given that 'fully conforms' would require compliance across approximately one hundred separate criteria, it was deemed likely that the internal audit function would 'generally conform'.

- 3.5 The external inspection by Stirling Council's Chief Internal Auditor took the form of an independent validation of the Audit and Compliance Manager's self-assessment checklist and included an on-site visit to review documentation and files.
- 3.6 An update on progress of the inspection was provided to the Forum, in November 2017 and then again in January 2018. The later update confirmed that the external inspection was complete and no significant issues had been identified.
- 3.7 Stirling Council's Audit Service Manager has now prepared a report of the findings from the external assessment. This is attached to this report. The Forum is asked to note the content of the report.

4. Executive Summary

- 4.1. It is Stirling Council's Audit Service Manager's opinion that:
- ◆ The external review supports the Audit and Compliance Manager's assertion that the South Lanarkshire Council Internal Audit function generally conforms to the Public Sector Internal Audit Standards
 - ◆ The Internal Audit function fully conforms to the Definition of Internal Auditing, the Code of Ethics and six of the Standards, and generally conforms to the remaining five Standards. There are no areas of significant non-conformance, either by nature or by volume
 - ◆ The internal audit function is effectively managed, the process for delivering the annual Internal Audit Plan is robust and the team operates sufficiently independently of management
 - ◆ Internal Audit is a key element of the Council's governance structures, and has a key role in further improving those structures. Work is planned and undertaken in line with the Internal Audit Charter and guidance set out in the Internal Audit Manual
 - ◆ Assignment and annual reporting processes are well defined, and arrangements for ensuring implementation of recommendations are well established

5. Action Plan

- 5.1. The external reviewer identified a number of areas where arrangements could be further enhanced. The actions are set out in the Action Plan included within the attached report.
- 5.2 Of the eleven recommendations where action was agreed, five are now complete. Timescales have been agreed for completion of the remaining six actions. An update on progress of these remaining actions will be provided to a future meeting of the Forum.

6. Employee Implications

- 6.1. There are no employee implications.

7. Financial Implications

- 7.1. There are no financial implications.

8. Other Implications

- 8.1. There are no implications for risk or sustainability in terms of the information contained in this report.

9. Equality Impact Assessment and Consultation Arrangements

- 9.1. There is no requirement to equality assess the contents of this report.

Paul Manning
Executive Director (Finance and Corporate Resources)

7 March 2018

Link(s) to Council Objectives/Values/Ambitions

- Achieve results through leadership, good governance and organisational effectiveness

Previous References

- ◆ 'Public Sector Internal Audit Standards (PSIAS)', February 2014
- ◆ 'Internal Audit Activity Report', May 2016
- ◆ 'Internal Audit Activity Report', January 2017
- ◆ 'Internal Audit Annual Assurance Report 2016/2017', September 2017
- ◆ 'Internal Audit Activity Report', November 2017

List of Background Papers

- ◆ None

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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South Lanarkshire Council

**External Quality Assessment of
Internal Audit Service**



DRAFT

Issued by **Kevin O’Kane - Audit Manager**

Issue date **5 March 2018**

Issued to

Copied to

Yvonne Douglas, Audit & Compliance Manager,
South Lanarkshire Council

Paul Manning, Executive Director Finance and
Corporate Resources, South Lanarkshire
Council

Cllr Graeme Campbell, Chair, Risk and Audit
Scrutiny Forum, South Lanarkshire Council

SOUTH LANARKSHIRE COUNCIL: EXTERNAL REVIEW OF PSIAS CONFORMANCE SELF-ASSESSMENT

1. INTRODUCTION AND SCOPE

- 1.1 The Public Sector Internal Audit Standards (the Standards) require that the Audit and Compliance Manager develops a Quality Assurance and Improvement Programme (QAIP). The purpose of the QAIP is to enable evaluation of the Internal Audit function's conformance with the Standards.
- 1.2 The QAIP must include annual internal self-assessments and five yearly external assessments, carried out by an independent assessor from out-with South Lanarkshire Council (the Council).
- 1.3 The Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) has developed an External Quality Assessment Framework to satisfy this requirement for five yearly external assessment. This is an evidence-based, peer review process.
- 1.4 This report sets out the findings arising from the external assessment undertaken by Stirling Council's Audit Service Manager in December 2017.

2. CONCLUSION AND EXECUTIVE SUMMARY

- 2.1 I can confirm that my review of the Audit and Compliance Manager's self-assessment supports the Manager's assertion that the South Lanarkshire Council Internal Audit function generally conforms to the Public Sector Internal Audit Standards.
- 2.2 I found that the Internal Audit function fully conforms to the Definition of Internal Auditing, the Code of Ethics and six of the Standards, and generally conforms to the remaining five Standards. There are no areas of significant non-conformance, either by nature or by volume.
- 2.3 It is clear that the function is effectively managed, and that the process for delivering the annual Internal Audit Plan is robust. The team operates sufficiently independently of management.
- 2.4 Internal Audit is a key element of the Council's governance structures, and has a key role in further improving those structures. Work is planned and undertaken in line with the Internal Audit Charter and guidance set out in the Internal Audit Manual.
- 2.5 Assignment and annual reporting processes are well defined, and arrangements for ensuring implementation of recommendations are well established.
- 2.6 However, I have identified a number of areas where arrangements could be further enhanced, and these are set out in the Action Plan at Section 4 of this report.

3. AUDIT FINDINGS

Section A: Definition of Internal Auditing

- 3.1 The Internal Audit function at South Lanarkshire Council fully conforms to the definition of Internal Auditing, as evidenced by the findings set out in subsequent sections of this report.

SOUTH LANARKSHIRE COUNCIL: EXTERNAL REVIEW OF PSIAS CONFORMANCE SELF-ASSESSMENT

Section B: Code of Ethics

- 3.2 Members of the Internal Audit function are supported by the Council and by Internal Audit management to:
- perform their work with honesty, diligence, and responsibility;
 - apply objectivity
 - respect the confidentiality of the data and information they acquire in the course of their work;
 - apply the required knowledge, skills, and experience; and
 - have regard to the Seven Principles of Public Life.
- 3.3 In addition, all members of the Internal Audit function must comply with the Codes of Ethics of any relevant professional body to which they belong.
- 3.4 The Internal Audit function fully conforms to the requirement to comply with the Code of Ethics.

Section C: Attribute Standards

Standard 1000: Purpose, Authority, and Responsibility

- 3.5 This Standard requires the purpose, authority, and responsibility of the Internal Audit function to be defined in an Internal Audit Charter. This should include a definition of assurance services and consulting activities, and should describe Internal Audit's position within the Council and its relationships with stakeholders.
- 3.6 South Lanarkshire Council's Risk and Audit Scrutiny Forum approved the Internal Audit Charter at its 18 June 2013 meeting. The Audit and Compliance Manager reviews the continuing appropriateness of the Charter annually, drawing it to the Forum's attention when the annual Internal Audit plan is submitted for approval.
- 3.7 The Charter is clear, concise, and captures effectively the requirements of Standard 1000. It is clear about the reporting lines of the Audit and Compliance Manager.
- 3.8 The Internal Audit function fully conforms to Standard 1000 on Purpose, Authority, and Responsibility.

Standard 1100: Independence and Objectivity

- 3.9 This Standard sets out the organisational and reporting lines required to promote and preserve the organisational independence of the Internal Audit function.
- 3.10 The Audit and Compliance Manager attends all meetings of the Risk and Audit Scrutiny Forum, and contributes papers to each meeting.
- 3.11 While the Audit and Compliance Manager prepares and presents reports to the Forum, the reports themselves are in the name of the Executive Director (Finance and Corporate Resources) – with the exception of the Internal Audit Annual Assurance Report, which is in the name of the Audit and Compliance

SOUTH LANARKSHIRE COUNCIL: EXTERNAL REVIEW OF PSIAS CONFORMANCE SELF-ASSESSMENT

Manager. It is also noted that, while Internal Audit agrees its finalised reports with service management, they are formally issued under cover of a memo in the Executive Director's name. This reflects internal protocols within the Council.

While my review found no suggestion whatsoever that the independence of the Audit and Compliance Manager is in any way impaired by these administrative reporting arrangements, it would more clearly demonstrate the organisational independence of Internal Audit if these reports were submitted or issued in the name of the Audit and Compliance Manager.

3.12 The Chair of the Risk and Audit Scrutiny Forum, the Executive Director (Finance and Corporate Resources) and the Head of Administration & Legal Services have confirmed the clear independence and objectivity of the Audit and Compliance Manager and her team. All Internal Audit staff are subject to the Employee Code of Conduct, and all complete and sign an annual Staff Declaration of Independence form.

3.13 The Standard requires that:

“When asked to undertake any additional roles/responsibilities outside of internal auditing, the chief audit executive must highlight to the board any potential or perceived impairment to independence and objectivity having regard to the principles contained within the Code of Ethics as well as any relevant requirements set out by other professional bodies to which the CAE may belong.

The board must approve and periodically review any safeguards put in place to limit impairments to independence and objectivity.”

The Internal Audit Charter identifies that:

“The Audit and Compliance Manager has management responsibilities outwith Internal Audit for Funding and Compliance Services. Arrangements are in place for any audit work in this area to be managed independently by an Audit Adviser with the Audit and Compliance Manager as the client.”

I note that there have been no Internal Audit assurance reports to the Risk and Audit Scrutiny Forum covering the Manager's additional area of responsibility in the 12 months prior to this report. I consider that the management of such an audit by an Audit Adviser would not be considered good practice in terms of independence, and that it would be preferable for any such review to be performed outwith the Internal Audit function (for example, by engaging an external service provider or through a reciprocal arrangement with an Internal Audit function in another authority).

3.14 At the same time, I acknowledge that the Standard may provide sufficient latitude for the arrangement that is currently in place, as long as this is transparent and the Risk and Audit Scrutiny Forum has had the opportunity to review and approve any safeguards (the Forum would need to be provided with sufficient information to do so). It is also highlighted that the Audit and Compliance Manager has advised that the Scottish Government externally verifies processes and systems at the start of each European Union

SOUTH LANARKSHIRE COUNCIL: EXTERNAL REVIEW OF PSIAS CONFORMANCE SELF-ASSESSMENT

programme and each grant claim, which provides an alternative, independent source of assurance for Funding and Compliance Services.

I recommend that this arrangement is reviewed and either (i) terminated and replaced, when required, with an arrangement that is fully external to the Council's Internal Audit function; or (ii) considered, in sufficient detail, and approved by the Risk and Audit Scrutiny Forum. The Internal Audit Charter should be reworded accordingly.

- 3.15 While members of the team do not have fixed organisational remits or responsibilities, they are precluded from working in any area where they feel that they are unable to be totally objective or impartial (for example a business area in which they were previously employed).
- 3.16 Generally, rather than specifically for South Lanarkshire Council, there has in the past been a lack of clarity as to organisational arrangements to prevent inappropriate influence over the Internal Audit function by those subject to audit. One way that the Standard suggests this might be achieved is through the inclusion of feedback from the Chair of the Resources and Audit Forum in performance appraisals of the Audit and Compliance Manager. It is understood that this has previously occurred on an informal basis, but that a more structured, formalised approach is now being considered.

It is recommended that procedures are put in place to obtain and reflect feedback from the Chair of the Risk and Audit Forum, or to otherwise evidence such feedback, as part of the normal performance and appraisal process for the Audit and Compliance Manager. This is in order to mitigate the risk that the Internal Audit function could be subject to inappropriate influence by those subject to audit.

- 3.17 It is also noted that section 22 of the Council's Financial Regulations refers to:

“Internal Audit, under the independent control and direction of the Executive Director (Finance and Corporate Resources)”

and states that:

“Officers engaged in Internal Audit will report directly to the Executive Director (Finance and Corporate Resources)”

and also vests normal internal audit rights of access in the Executive Director “or an authorised representative”. The Financial Regulations, as currently worded, do not adequately support the independence of Internal Audit, although the overall evidence of my review indicates that sufficient evidence operates in practice.

- 3.18 Overall, the evidence examined in the course of this review indicates that, in practice, the Internal Audit function operates independently of management, and that auditors are actively supported to act objectively. This could, however, be enhanced by the Audit and Compliance Manager reporting to Risk and Audit Scrutiny Forum in her own name, and reconsideration of independent assurance arrangements for Funding and Compliance activity. Further, I would advise that the wording of Financial Regulation 22 is amended to properly reflect the independence of Internal Audit and its authority. Overall, therefore, that Internal Audit generally conforms to Standard 1100 on Independence and Objectivity.

SOUTH LANARKSHIRE COUNCIL: EXTERNAL REVIEW OF PSIAS CONFORMANCE SELF-ASSESSMENT

I recommend that, at an appropriate opportunity, the wording of the Council's Financial Regulations (section 22) is amended such that the independence of Internal Audit is clearer. This could be achieved by, for example, replacing references to the "Executive Director" with "Audit and Compliance Manager."

Standard 1200: Proficiency and Due Professional Care

- 3.19 This Standard seeks to ensure that the Internal Audit function possesses the knowledge, skills, and competencies to carry out their role with due professional care.
- 3.20 The Audit and Compliance Manager holds a relevant qualification, has substantial post-qualification experience, and has been in post for over six years.
- 3.21 Job descriptions set out the roles and responsibilities of post within the function.
- 3.22 Each member of the team is subject to the Council's PDR (Personal Development Review) process, which includes a training needs assessment. This process includes regular monitoring, and facilitates continuing professional development.
- 3.23 Overall, I am able to conclude that the Internal Audit function fully conforms to Standard 1200 on Proficiency and Due Professional Care.

Standard 1300: Quality Assurance and Improvement Programme

- 3.24 This Standard sets out the requirements for the internal and external assessment of performance and compliance with Public Sector Internal Audit Standards.
- 3.25 The Audit and Compliance Manager actively and openly participated in this External Quality Assessment, building on an evidence-based self-assessment undertaken initially in August 2016, and which the Audit and Compliance Manager updated in March 2017. My review process has included checks to more recent evidence in order to ensure the currency of my conclusions.
- 3.26 The Risk and Audit Scrutiny Forum agreed to note the approach to external quality assessment at its meeting on 18 February 2014, and **I recommend that the outcomes are reported to a future meeting of the Risk and Audit Scrutiny Forum. I understand that it is the Audit and Compliance Manager's confirmed intention to do so.**
- 3.27 Key to demonstrating compliance with this Standard are the arrangements established to monitor the performance of the Internal Audit function. This is evident via, for example:
- the review of all reports by the Audit and Compliance Manager prior to issue; and,
 - the reporting of outcomes to Risk and Audit Scrutiny Forum.
- 3.28 It is noted that a review performed under the Council's EMPOWER programme in 2016 identified a small number of actions to be taken. Progress

SOUTH LANARKSHIRE COUNCIL: EXTERNAL REVIEW OF PSIAS CONFORMANCE SELF-ASSESSMENT

has been monitored through the Corporate Benefits Tracking report, and where actions are incomplete they are awaiting completion of this External Quality Assessment review before finalisation.

- 3.29 I note that the Audit and Compliance Manager's Internal Audit Annual Assurance Report to the Risk and Audit Scrutiny Forum regularly reports the overall conclusions of the ongoing Quality Assurance and Improvement Programme (QAIP) that chief internal auditors are required to ensure is in place. The Report has not, in recent years at least, identified specific actions to be taken as a result of the QAIP, although it has identified that such matters have tended to be minor administrative without an impact on the overall quality of service delivery.
- 3.30 I am able to conclude that the Internal Audit function fully conforms to Standard 1300 on Quality Assurance and Improvement Programme.

Section D: Performance Standards

Standard 2000: Managing the Internal Audit Activity

- 3.31 This Standard sets out the requirements for the preparation, delivery, and reporting of the Internal Audit Plan.
- 3.32 The approach to audit planning is clearly set out in the Audit Manual. This is based on a cascade of planning elements from the Community Plan through to the production of an Internal Audit Annual Report. The Audit and Compliance Manager consults with senior managers when preparing the annual Plan. Risk assessment is a key element of the planning process.
- 3.33 The Audit and Compliance Manager is very aware of the need to focus on areas of highest risk, and reviews the Internal Audit Plan on an ongoing basis. She is also responsible for securing the resources required to deliver the Plan. I found that the governance structures and documentation that shape the operation of the team are comprehensive and clear, that the team is well established, sufficiently independent and that their role is well understood.
- 3.34 The Internal Audit Plan 2017/18 was presented to, and endorsed by, the Risk and Audit Scrutiny Forum on 20 September 2017, and progress reports against this and previous plans have been routinely and regularly considered by the Forum.
- 3.35 I note that the strategic and annual plans for each of the three years from 2017/18 includes provision for general contingency of 50 days, compared with 205 days in the 2016/17 plan: that contingency is intended to resource, among other activities, responses "to requests for unplanned work". The allocation of 50 days seems potentially low given the local authority environment generally and the size of the internal audit function. However, I also understand that there is a potential for reduced resources as a result of future savings exercises and that there is the opportunity to adjust plans and to report this to the Risk and Audit Scrutiny Forum within the regular progress updates, and that there is potential flexibility of the contingency resource across internal audit and fraud (which provided 100 days in both years).

SOUTH LANARKSHIRE COUNCIL: EXTERNAL REVIEW OF PSIAS CONFORMANCE SELF-ASSESSMENT

- 3.36 The Audit and Compliance Manager has explained that: the contingency allowance has been reduced to accommodate additional specific requests for audit work, alongside a clearer prioritisation of the Audit Plan to facilitate the revision of the Plan, if required, as the year progresses; and that a more focused approach has been developed in relation to ad hoc requests, with Internal Audit assuming a facilitator role in some areas as opposed to performing the work itself.

I recommend that the Audit and Compliance Manager continues to monitor the sufficiency of the contingency allocation and amends this where appropriate, both ‘in year’ and as part of the planned annual review of the longer-term strategic plan.

- 3.37 While audit planning documentation showed clear evidence of consultation with senior management and a focus on key risks and the Council and Resource Plans, there is scope for the development of a more comprehensive, detailed ‘audit universe’ of the Council’s auditable activities. This, linked to the planned development of assurance mapping, would properly inform an annual risk assessment upon which to base a programme of internal audit activity that properly reflects the Council’s strategic risks and priorities.

It is recommended that the audit universe is further developed, in conjunction with the planned assurance mapping developments, so that it provides a robust and comprehensive basis upon which to devise an annual internal audit plan that properly reflects the Council’s strategic risks and priorities.

- 3.38 In overall terms, it is clear that the Internal Audit function is effectively managed with a view to adding value to the Council through delivery of the annual plan, and generally conforms to Standard 2000.

Standard 2100: Nature of Work

- 3.39 This Standard relates to the adequacy and effectiveness of the arrangements necessary for the Internal Audit activity to contribute to the improvement of risk management, governance, and control processes.
- 3.40 The Internal Audit function is a key element of the Council’s governance structures, and the 2016/17 Annual Governance Statement (which forms part of the Annual Accounts) specifically refers to the importance of the assurance that the function provides.
- 3.41 Our review of Internal Audit reports to Risk and Audit Scrutiny Forum and senior management clearly demonstrate that a value adding and well managed service is being provided, with the outcomes of relevant work reported to Elected Members and senior management.
- 3.42 The approach to planning, performing, and reporting on work is set out in the Internal Audit Manual.
- 3.43 IT risks are considered within the context of wider Internal Audit planning, and a rolling programme of audits in relation to Cyber Security is included in the current strategic and annual plans.

SOUTH LANARKSHIRE COUNCIL: EXTERNAL REVIEW OF PSIAS CONFORMANCE SELF-ASSESSMENT

- 3.44 Fraud related work is addressed via standard tests in individual audit programmes, a focus on identified fraud risks within specific planned reviews, and also by a separate programme of fraud work within the audit plan.
- 3.45 Emerging legislation, and risks to the achievement of organisational objectives, are also considered as part of the audit planning process.
- 3.46 It is clear that the Internal Audit function evaluates and contributes to the improvement of the organisation's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. I am able to conclude that the function fully conforms to this Standard.

Standard 2200: Engagement Planning

- 3.47 This Standard relates to the planning for individual audit assignments.
- 3.48 To assess compliance with this Standard (and Standards 2300 and 2400) I reviewed working paper files for the reviews of:
- City Deal; and
 - PVG (Protecting Vulnerable Groups).
- 3.49 Each review has an Assignment Remit, to be prepared by the auditor and approved by the Audit and Compliance Manager, setting out:
- background;
 - potential risk areas;
 - the primary objective of the audit;
 - the scope of the audit, including information on testing and samples;
 - the strategic or service risk that any recommendations arising will be recorded against;
 - liaison and reporting arrangements;
 - key dates and budget (days); and,
 - staff to undertake the assignment.
- 3.50 A Research Sources schedule is also prepared, which identifies background research performed as part of the assignment planning process and links this to control areas to be considered within the programme of audit testing.
- 3.51 A Planning Remit is agreed with and signed-off by a relevant client service manager at the outset of each review.
- 3.52 A detailed Audit Programme had been prepared for both assignments, setting out the work to be undertaken to allow an informed opinion to be reached on each audit objective and risk. Draft Audit Programmes are subject to review by supervising audit staff (either the Manager or an Audit Adviser). However, the files reviewed did not show clear evidence that those draft programmes had been agreed by the supervising officer (there was, however, clear evidence of supervisory review of the completion and documentation of the tests set out in each programme).

It is recommended that the Audit and Compliance Manager ensures that there is evidence of supervisory review and approval of all audit programmes.

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- 3.53 The completed Audit Programmes for both reviews had been comprehensively cross-referenced to supporting papers.
- 3.54 The Internal Audit function also provides a dedicated service to South Lanarkshire Leisure & Culture Ltd, SEEMIS, Lanarkshire Valuation Joint Board and South Lanarkshire Integration Joint Board. Service Level Agreements were in place for the first three of those in 2016/17: however, at the time of writing, there were agreements in place for only two of those.

It is recommended that Service Level Agreements are put in place for all external organisations that are serviced by the Internal Audit function, and that consideration is given as to whether single-year agreements remain appropriate.

- 3.55 A review of sampled assignment working paper files confirmed that Internal Audit develops and documents a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations. Those plans consider strategies, objectives and risks relevant to the assignment. Therefore, and taking account of the findings outlined above, I conclude that the Internal Audit function generally conforms to this Standard.

Standard 2300: Performing the Engagement

- 3.56 This Standard covers arrangements for gathering, documenting, analysing, and evaluating audit evidence, and for the supervision of staff undertaking audit assignments.
- 3.57 The Internal Audit Manual sets out requirements in relation to the preparation of audit working papers.
- 3.58 I found that, for both assignment files I reviewed, there was a comprehensive and well cross referenced file of documentary evidence, comprising policies, procedures, notes of meetings, and testing schedules. There was clear evidence of appropriate supervisory review, and conclusions were supported by evidence. There was also evidence that audit quality issues were considered as part of the review process, and that where issues had been identified these had been appropriately addressed before completion of the assignment.
- 3.59 The Internal Audit function, therefore, fully conforms to this Standard.

Standard 2400: Communicating Results

- 3.60 This Standard relates to the communication of results from individual assignments and the Audit and Compliance Manager's overall annual opinion.
- 3.61 The Internal Audit Manual sets out arrangements for reporting on individual assignments, including procedures for agreement and follow-up of reports, and for escalation. The full reports are issued to services by the Executive Director Finance and Corporate Resources. Where a report has been identified as relating to a 'significant assignment', the Risk and Audit Scrutiny Forum is provided with a summary, on one page, that identifies:
- the objective of the audit assignment;

SOUTH LANARKSHIRE COUNCIL: EXTERNAL REVIEW OF PSIAS CONFORMANCE SELF-ASSESSMENT

- a 'key summary' (overall opinion on the activity reviewed);
- key findings;
- areas for improvement; and,
- any good practice identified.

3.62 The overall conclusion of those Internal Audit reports that are not considered to be a 'significant assignment' are summarised for the Risk and Audit Scrutiny Forum through the 'Assurance Info' column in the list of assignments completed since the previous update to the Forum, which is attached to each periodic Internal Audit Activity report. While this approach is not unreasonable, there is a risk that the current presentation format can mean that such findings are inadvertently obscured within the report: for example, the 'List of assignments completed 14 January to 26 May 2017' (Appendix 2 to the Internal Audit Activity report that was submitted to the Forum on 14 June 2017) lists 60 items over 6 pages, including different types of activity that support assurance in different ways – in particular, Internal Audit's participation in working groups. It may be more helpful for scrutiny purposes, particularly where there is a long list of activities, for the activities to be grouped under broad headings such as Internal Audit assurance reviews, outputs for other clients, deferred activities, fraud and other investigations, and other assurance activities.

It is recommended that the list of assignments included within the regular Internal Audit Activity Report to the Risk and Audit Scrutiny Forum is grouped under broad headings (such as Internal Audit assurance reviews, outputs for other clients, deferred activities, fraud and other investigations, and other assurance activities), particularly where there is a long list of activities.

3.63 The Audit and Compliance Manager prepares reports on findings and conclusions to the Risk and Audit Scrutiny Forum. This includes an Annual Assurance Report, which summarises all of the work undertaken by the team over the course of the year, and includes an annual opinion concluding on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control: that opinion also helps to inform the Council's Annual Governance Statement. The most recent annual report was presented to the Forum on 20 September 2017. I note that the opinion provided only indirectly addresses the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control: the opinion provided focuses on the reasonableness and effectiveness of the Council's internal financial and internal operational control systems.

I recommend that, in future, the wording of the Opinion in the Audit and Compliance Manager's Signed Statement of Assurance is more clearly aligned with the requirements of Standard 2400, that this opinion concludes on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

3.64 Assignment and annual reporting processes are well defined. It is clear how findings flow through from working papers into assignment reports and subsequently into reports to Risk and Audit Scrutiny Forum. There are, however, aspects of annual reporting that could be simplified. Therefore, I

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conclude that, overall, the Internal Audit function generally conforms to this Standard.

Standard 2500: Monitoring Progress

- 3.65 This Standard relates to arrangements for monitoring the implementation of agreed recommendations or the acceptance of the risk of not implementing.
- 3.66 The Internal Audit Manual includes a Follow-up Strategy for monitoring and reporting on progress against actions arising from Internal Audit assignments. Reporting arrangements include specific work that may be reported as a memo, as well as regular reporting of the completion of actions as declared by the relevant services. While the amount of follow-up work performed during 2016/17 was less than the service would have anticipated, this was clearly disclosed to the Risk and Audit Scrutiny Forum and senior management within the Annual Assurance Report.
- 3.67 In summary, the reporting of follow up actions is well defined, embedded, and transparent. Therefore, I conclude that the Internal Audit function fully conforms to this Standard.

Standard 2600: Communicating the Acceptance of Risks

- 3.68 This Standard relates to arrangements for the escalation of unacceptable risk to the 'Board' (meaning, for South Lanarkshire, the Risk and Audit Scrutiny Forum).
- 3.69 Escalation procedures are set out in both the Internal Audit Charter and the Audit Manual, and are clear and largely appropriate. While the Charter reinforces the Audit and Compliance Manager's right of access to the Chair of the Risk and Audit Scrutiny Forum, the 'Escalation' section contained therein does not clearly provide for escalation to the Forum or the Chair.
- I recommend that it is amended to do so, consistent with the Audit Manual. I also note that the majority of the 'Escalation' section does not relate to escalation, and would suggest that the next refresh of the Charter should move that content elsewhere.**
- 3.70 Overall, I conclude that the Internal Audit function generally conforms to this Standard.

**KEVIN O'KANE
AUDIT SERVICE MANAGER
STIRLING COUNCIL**

5 MARCH 2018

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Ref	Recommendation	Management response	Responsible Officer	Timescale
<p><i>Standard 1100: Independence and Objectivity</i></p> <p>This Standard sets out the organisational and reporting lines required to promote and preserve the organisational independence of the Internal Audit function.</p>				
3.11	<p>While my review found no suggestion whatsoever that the independence of the Audit and Compliance Manager is in any way impaired by these administrative reporting arrangements, it would more clearly demonstrate the organisational independence of Internal Audit if these reports were submitted or issued in the name of the Audit and Compliance Manager.</p>	<p>Reports are agreed between Internal Audit and signed before passing to the Executive Director Finance and Corporate Resources to be formally issued. Forum and Committee reports are prepared by the Audit and Compliance Manager but are formally presented in the name of the Executive Director Finance and Corporate Resources. Both practices represent internal protocols and neither impact on the function's independence. No action is proposed to be taken in respect of this recommendation.</p>	N/A	N/A
3.14	<p>The Internal Audit Charter identifies that:</p> <p>“The Audit and Compliance Manager has management responsibilities outwith Internal Audit for Funding and Compliance Services. Arrangements are in place for any audit work in this area to be managed independently by an Audit Adviser with the Audit and Compliance Manager as the client.”</p> <p>I recommend that this arrangement is reviewed and either (i) terminated and replaced, when</p>	<p>The work of Funding and Compliance is externally reviewed by the Scottish Government at periodic intervals. These reviews cover processes, systems as well as a detailed check of each grant claim. As such, the requirement to internally 'audit' is limited.</p> <p>The IA Charter has been amended to confirm that should an audit be required that this will be managed independently of the Audit and Compliance Manager and</p>	Completed	Completed

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Ref	Recommendation	Management response	Responsible Officer	Timescale
	required, with an arrangement that is fully external to the Council's Internal Audit function; or (ii) considered, in sufficient detail, and approved by the Risk and Audit Scrutiny Forum. The Internal Audit Charter should be reworded accordingly.	that the specific nature of these arrangements will be reported to the RASF when audit activity in this area is planned.		
3.16	It is recommended that procedures are put in place to obtain and reflect feedback from the Chair of the Resources and Audit Forum, or to otherwise evidence such feedback, as part of the normal performance and appraisal process for the Audit and Compliance Manager. This is in order to mitigate the risk that the Internal Audit function could be subject to inappropriate influence by those subject to audit.	Feedback will be requested on an annual basis from the Chair of the Risk and Audit scrutiny Forum.	Yvonne Douglas, Audit and Compliance Manager	31 May 2018
3.18	I recommend that, at an appropriate opportunity, the wording of the Council's Financial Regulations (section 22) is amended such that the independence of Internal Audit is clearer. This could be achieved by, for example, replacing references to the "Executive Director" with "Audit and Compliance Manager."	The Council's Financial Regulations are framed in a manner that reflects the lead role of Executive Director across all Council activities. However, Section 22 will be reviewed (when the Financial Regulations during the mid-term review) to ensure the independence of the Internal Audit function is highlighted.	Yvonne Douglas, Audit and Compliance Manager	31 May 2019
<p><i>Standard 1300: Quality Assurance and Improvement Programme</i></p> <p>This Standard sets out the requirements for the internal and external assessment of performance and compliance with Public Sector Internal Audit Standards.</p>				
3.26	I recommend that the outcomes are reported to a future meeting of the Risk and Audit Scrutiny	Presented to 21 March 2018 meeting of the Risk and Audit Scrutiny Forum.	Completed	Completed

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Ref	Recommendation	Management response	Responsible Officer	Timescale
	Forum. I understand that it is the Audit and Compliance Manager's confirmed intention to do so.			
<p><i>Standard 2000: Managing the Internal Audit Activity</i></p> <p>This Standard sets out the requirements for the preparation, delivery, and reporting of the Internal Audit Plan.</p>				
3.36	I recommend that the Audit and Compliance Manager continues to monitor the sufficiency of the contingency allocation and amends this where appropriate, both 'in year' and as part of the planned annual review of the longer-term strategic plan.	Arrangements are currently in place to monitor the use of contingency time. Any amendments to the level of contingency will be reported to the Risk and Audit Scrutiny Forum in conjunction with the current practice of presenting periodic reviews of the annual Audit Plan to the Risk and Audit Scrutiny Forum.	Completed	Completed
3.37	It is recommended that the audit universe is further developed, in conjunction with the planned assurance mapping developments, so that it provides a robust and comprehensive basis upon which to devise an annual internal audit plan that properly reflects the Council's strategic risks and priorities.	Existing practices to map the audit universe and areas of external assurance will continue and be further developed to inform audit planning on an annual basis.	Yvonne Douglas, Audit and Compliance Manager	30 June 2018
<p><i>Standard 2200: Engagement Planning</i></p> <p>This Standard relates to the planning for individual audit assignments.</p>				
3.52	It is recommended that the Audit and Compliance Manager ensures that there is evidence of supervisory review and approval of all audit programmes.	Files already undergo extensive review and file notes record this work. The audit programme will be initialled moving forward to formally evidence.	Completed	Completed

SOUTH LANARKSHIRE COUNCIL: EXTERNAL REVIEW OF PSIAS CONFORMANCE SELF-ASSESSMENT

Ref	Recommendation	Management response	Responsible Officer	Timescale
3.54	It is recommended that Service Level Agreements are put in place for all external organisations that are serviced by the Internal Audit function, and that consideration is given as to whether single-year agreements remain appropriate.	<p>An SLA will be put in place for SEEMIS. It is not appropriate for an SLA to be developed with the IJB. This is governed instead by a Charter and Protocol that has been approved by the IJB.</p> <p>SLLC's SLA is currently being reviewed Council-wide and will cover multiple years.</p>	Yvonne Douglas, Audit and Compliance Manager	31 March 2018
<p><i>Standard 2400: Communicating Results</i></p> <p>This Standard relates to the communication of results from individual assignments and the Audit and Compliance Manager's overall annual opinion.</p>				
3.62	It is recommended that the list of assignments included within the regular Internal Audit Activity Report to the Risk and Audit Scrutiny Forum is grouped under broad headings (such as Internal Audit assurance reviews, outputs for other clients, deferred activities, fraud and other investigations, and other assurance activities), particularly where there is a long list of activities.	<p>Assurance information from assignments are routinely presented to the Risk and Audit Scrutiny Forum in 'final report date issued' order. Assurance information is however grouped under headings when reported as part of the annual report.</p> <p>Assurance information will now also be grouped under broad headings within the Appendix attached to the routine activity report presented to each meeting of the Risk and Audit Scrutiny Forum.</p>	Yvonne Douglas, Audit and Compliance Manager	30 June 2018
3.63	I recommend that, in future, the wording of the Opinion in the Audit and Compliance Manager's Signed Statement of Assurance is more clearly aligned with the requirements of Standard 2400, that this opinion concludes on the overall adequacy and effectiveness of the Council's framework of governance, risk management and	<p>Opinion within the annual report makes reference to the adequacy and effectiveness of the Council's framework of governance, risk management and control arrangements which informs the Council's annual governance statement.</p> <p>Existing reference (within the Signed</p>	Yvonne Douglas, Audit and Compliance Manager	31 May 2018

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Ref	Recommendation	Management response	Responsible Officer	Timescale
	control.	Statement of Assurance) to the reasonableness and effectiveness of the Council's internal financial and operational control systems to be amended to make reference to the adequacy and effectiveness of the Council's framework of governance, risk management and control arrangements.		
<p><i>Standard 2600: Communicating the Acceptance of Risks</i></p> <p>This Standard relates to arrangements for the escalation of unacceptable risk to the 'Board' (meaning, for South Lanarkshire Council, the Risk and Audit Scrutiny Forum).</p>				
3.69	I recommend that the 'Escalation' section within the Internal Audit Charter is amended to reinforce the Audit and Compliance Manager's right of access to the Chair of the Risk and Audit Scrutiny Forum, consistent with the Audit Manual. I also note that the majority of the 'Escalation' section does not relate to escalation, and would suggest that the next refresh of the Charter should move that content elsewhere.	IA Charter has been amended to reinforce the Audit and Compliance Manager's right of access to the Chair of the Risk and Audit Scrutiny Forum and to update the 'Escalation' section as advised.	Completed	Completed

South Lanarkshire⁷ Council

Annual Audit Plan 2017/18



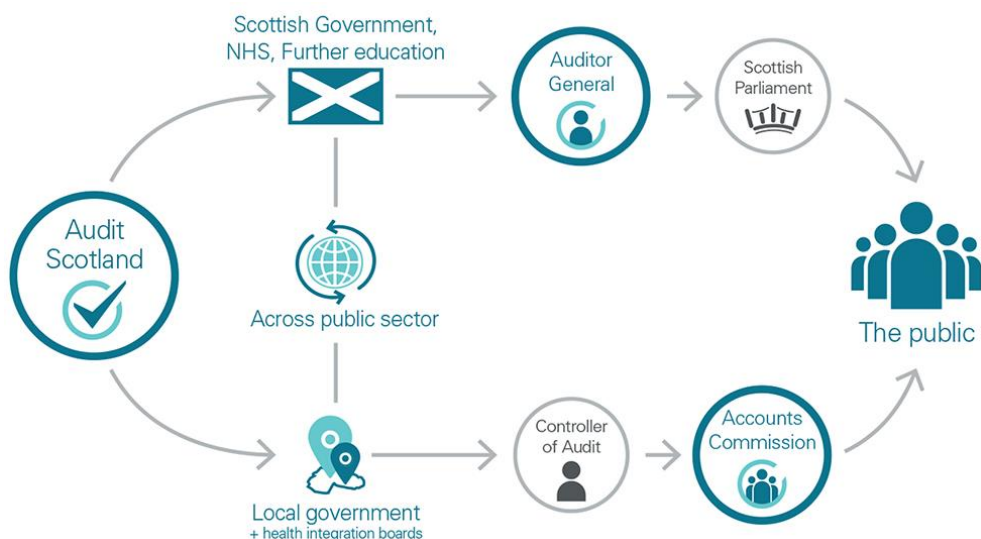
 AUDIT SCOTLAND

Prepared for South Lanarkshire Council
February 2018

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

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 audit plan provides an overview of the planned scope and timing of our audit of South Lanarkshire Council for 2017/18. Our audit is carried out in accordance with International Standards on Auditing (ISAs) and the [Code of Audit Practice](#) issued by Audit Scotland and endorsed by the Accounts Commission.

2. The plan sets out the audit 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. The wider scope of public audit includes assessing arrangements for financial sustainability, governance and transparency, and value for money. We make a public report of conclusions on these matters in our Annual Audit Report to members and the Controller of Audit.

Audit risks

3. 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 South Lanarkshire Council. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are set out at [exhibit 1](#).

Exhibit 1

2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
Financial statement 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.</p>	<p>In view of the nature of this risk, assurances from management are not appropriate.</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>ISA 240 requires that audit work is planned to consider the risk of fraud over income, which is presumed to be a significant risk in any audit.</p>	<ul style="list-style-type: none"> Vast majority of income received via electronic payments. Robust controls over receipt of other income. 	<ul style="list-style-type: none"> Walk through of controls over income systems. Analytical procedures on income streams. Sample testing of revenue transactions.

Audit Risk	Source of assurance	Planned audit work
<p>3 Risk of fraud over expenditure</p> <p>The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. The Council incurs significant expenditure in areas such as welfare benefits, grant payments and procurement expenditure, which present a risk of fraud over expenditure.</p>	<ul style="list-style-type: none"> • Involvement in National Fraud Initiative. • Robust controls over expenditure streams. 	<ul style="list-style-type: none"> • Audit work on the National Fraud Initiative matches. • Audit of grants. • Analytical procedures on expenditure streams. • Sample testing of expenditure and housing benefit transactions.
<p>4 Estimation uncertainty in property valuations</p> <p>The Council owns property valued at £1.476 billion on its balance sheet as at 31 March 2017. Property valuations are subject to the risk of estimation error and imprecision.</p>	<ul style="list-style-type: none"> • Valuations completed by Royal Institute of Chartered Surveyors (RICS) qualified surveyors. • Robust controls over process for updating asset register for in-year valuations. 	<ul style="list-style-type: none"> • Review of the work of the valuer. • Focused substantive testing of classification and valuation of assets.
<p>5 Estimation uncertainty in pension valuations</p> <p>The Council had a pension liability of £711 million, as at 31 March 2017. The valuation of pension fund assets and liabilities is assessed by professional actuaries each year and is dependent on external variables. Actuarial valuations are subject to the risk of estimation error and imprecision.</p>	<ul style="list-style-type: none"> • Valuation completed by qualified actuary. • Applicability of actuarial assumptions reviewed by officers. 	<ul style="list-style-type: none"> • Review of the work of the actuary. • Review appropriateness of actuarial assumptions. • Confirm pension valuations in actuarial report are correctly reflected within the 2017/18 accounts.
<p>6 Approval of write-offs</p> <p>During the 2016/17 audit we identified that a number of debts had been written off prior to being approved by the appropriate committee. There is a risk that similar issues are encountered during 2017/18.</p>	<ul style="list-style-type: none"> • Management have advised that procedures have been tightened up to ensure that in future all debt write offs will be approved at committee before submission of the unaudited accounts. 	<ul style="list-style-type: none"> • Review debts written-off for accounts against committee approval.
Wider dimension risks		
<p>7 Financial sustainability</p> <p>The council continues to face significant financial pressures from reductions in Scottish Government funding and increasing unavoidable costs. There is a risk that the council is not able to identify sustainable savings measures or meet cost pressures as they arise.</p>	<ul style="list-style-type: none"> • The council has appropriate mechanisms in place to ensure a balanced budget is proposed which includes consultation and challenge, and routine budget monitoring. 	<ul style="list-style-type: none"> • Review financial monitoring reports and the financial position. • Review spending outturns against budget. • Review planned use and reliance on unallocated reserves. • Review long-term financial strategy.

Audit Risk	Source of assurance	Planned audit work
<p>8 Status of Risk and Audit Scrutiny Forum</p> <p>The current terms of reference of the Council's RASF are limited.</p> <p>We have previously expressed the view that this dilutes the status of the forum and may not promote the most effective level of scrutiny of governance and performance. Management agreed to review the arrangements in place with reference to best practice.</p>	<ul style="list-style-type: none"> Management have reviewed the current arrangements against the CIPFA guidance: <i>Audit Committees: Practical Guidance for Local Authorities and Police</i> and are developing proposals for alternative structures for consideration by the Council. 	<ul style="list-style-type: none"> We will consider any changes to the Council's committee structure against best practice guidance.
<p>9 Cyber security</p> <p>Like all organisations, the Council faces the risk of cyber attacks targeting ICT systems, networks and infrastructure. The threat to public sector organisations is very real as evidenced by a recent "WannaCry" ransomware attack on the NHS. There is a risk that the council is not fully aware of vulnerabilities in its ICT systems and may be at risk of unauthorised access and subsequent damage and interruption to its IT services.</p>	<ul style="list-style-type: none"> There is an awareness of the need for effective cyber security at all levels of the Council and cyber security is included in the Council's risk register. There is an ongoing programme of work to maintain effective cyber security through monitoring, assessment and mitigation of vulnerabilities on all Council IT systems. This is supported by user training and awareness. South Lanarkshire Council's current cyber security assurance is based on compliance with the UK Cabinet Office's Public Service Network (PSN) Information Assurance Conditions and the Council has provisionally committed to fully implementing the Scottish Government's Cyber Resilience Public Sector Action Plan by the end of 2018. This includes achieving the associated Cyber Essentials Plus accreditation. 	<ul style="list-style-type: none"> Assess Council's cyber security arrangements against the Scottish Government Cyber Resilience Action Plan.
<p>10 PSN compliance</p> <p>The council currently does not have a valid Public Sector Network (PSN) certificate. There is a risk that continued non-compliance with PSN could lead to financial and reputational losses for the council.</p>	<ul style="list-style-type: none"> An action plan has been implemented to address concerns and a new application will be submitted once this is completed. 	<ul style="list-style-type: none"> Review progress against the PSN accreditation action plan.

Audit of charities administered by South Lanarkshire Council

4. Members of South Lanarkshire Council are sole trustees for three registered Scottish charities, with combined assets of some £1.2 million.
5. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006. The 2006 regulations require charities to prepare annual accounts, and require an accompanying auditor's report where any legislation requires an audit. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. Consequently, a full and separate audit and independent auditor's report is required for each registered charity where members of the Council are sole trustees, irrespective of the size of the charity.
6. Based on our discussions with staff and initial planning work undertaken we have identified the audit risks set out in [exhibit 2](#).

Exhibit 2

Audit Risk	Management assurance	Planned audit work
<p>1 Governing documentation</p> <p>During 2016/17 we reported that the Council did not have adequate arrangements in place to enable trustees to demonstrate they are exercising their duties appropriately.</p>	<ul style="list-style-type: none"> A proposal for revised governance arrangements on charities has been prepared and will be submitted to the Finance and Corporate Resources Committee for approval during 2018. Revised governance arrangements, and training for trustees, will be implemented following committee approval. 	<ul style="list-style-type: none"> Liaise with finance and legal to ascertain progress with revised governance arrangements. Review new governance arrangements put in place and assess the appropriateness of training provided to trustees.

Reporting arrangements

7. This Annual Audit Plan, the outputs set out in [exhibit 3](#), and any other outputs on matters of public interest will be published on Audit Scotland's website: www.audit-scotland.gov.uk.
8. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officer(s) to confirm factual accuracy.
9. We will provide an independent auditor's report to the members of South Lanarkshire Council and the Accounts Commission setting out our opinion on the financial statements and other matters upon which we are required to provide an opinion. We will provide members and the Controller of Audit with an Annual Audit Report, containing observations and recommendations on significant matters which have arisen during the course of the audit.

Exhibit 3

2017/18 Audit outputs

Audit Output	Target date	Risk and Audit Scrutiny Forum / Executive Committee Date
Interim management report	31 May 2018	13 June 2018
Annual Audit Report	11 September 2018	18 September 2018 / 26 September 2018*
Independent Auditor's Report	26 September 2018**	26 September 2018

* Our Annual Audit Report will be taken to both the Risk and Audit Scrutiny Forum and the Executive Committee as the Executive Committee are considered those charged with governance as defined by international standard on auditing 260.

** The independent auditor's report will be signed by the certifying auditor after the annual accounts are approved by the executive committee.

Audit fee

10. The agreed audit fee for the 2017/18 audit of South Lanarkshire Council is £481,670 (£490,490 in 2016/17). In determining the audit fee we have taken account of the risk exposure of the 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 by 29 June 2018.

11. We have also agreed an audit fee for the audit of the three registered charities of £5,425 (£3,996 in 2016/17).

12. The combined fee represents a reduction (£7,391) over that charged in 2016/17.

13. 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 outwith our planned audit activity.

Responsibilities

Executive Committee and Chief Executive

14. 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.

15. The audit of the financial statements does not relieve management or the Executive Committee, as those charged with governance, of their responsibilities.

Appointed auditor

16. Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

17. Auditors in the public sector give an independent opinion on the annual accounts. We aim to support improvement and accountability by reviewing and reporting on arrangements to management performance and use of resources.

Audit scope and timing

Financial statements

18. The statutory financial statements audit will be the foundation and source for much of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing local government and the wider public sector. Our audit approach includes:

- understanding the business of South Lanarkshire 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 South Lanarkshire 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.

19. We will give an opinion on:

- Whether the financial statements give a true and fair view of the state of affairs of the Council and its group and the income and expenditure for the year
- Whether the annual accounts have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union and interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom
- whether the annual accounts have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003 and other relevant legislation.



characteristics



responsibilities



principal activities



risks



governance arrangements

Materiality

20. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any potential audit adjustments on the financial statements. Our calculated materiality levels are set out at [Exhibit 4](#).

Exhibit 4

Materiality levels

Materiality level	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 2017 (based on the most recent audited accounts).	£10.4 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.	£5.2 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements in excess of a predetermined reporting threshold. This has been calculated at 1% of planning materiality.	£0.1 million

21. We set separate materiality levels for the audits of the charities accounts, as detailed below.

Exhibit 5

Trust materiality levels

Trust	Planning materiality*	Performance materiality	Reporting threshold**
South Lanarkshire Council Charitable Trusts	£9,000	£8,500	£100
South Lanarkshire Council Educational Trusts	£1,400	£1,300	£100
East Kilbride Technology Centre Trust	£300	£250	£100

* Based on the latest audited accounts and set at 1% total funds for the year ended 31 March 2017, rounded up as considered appropriate.

** In view of the amounts involved, we have set the reporting threshold at £100.



22. Items can be material by nature, rather than value; for example, a failure to comply with legislation. We review other information published with the financial statements including the management commentary, annual governance statement and the remuneration report. We consider whether the supporting information is consistent with the financial statements and our wider knowledge of the Council and its environment and provide comment and recommendations as appropriate.

Timetable

23. An agreed timetable is included at [exhibit 6](#) which takes account of submission requirements and planned Risk and Audit Scrutiny Forum / Executive Committee meeting dates:

Exhibit 6

Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	27 June 2018
Latest submission date of unaudited annual accounts with complete working papers package	29 June 2018
Latest date for final clearance meeting with officers	10 September 2018
Agreement of unsigned financial statements; Issue of annual audit report	11 September 2018
Independent auditor's report signed	26 September 2018*
Latest date for signing of whole of government accounts return	28 September 2018

* The independent auditor's report will be signed by the certifying auditor after the annual accounts are approved by the executive committee.

Internal audit

24. 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 and as part of our planning process we carry out an assessment of the internal audit function at audited bodies.

25. South Lanarkshire Council's internal audit function is provided by their internal audit section led by the Audit and Compliance Manager. 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 Public Sector Internal Audit Standards (PSIAS).

Areas of Internal Audit reliance

26. To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- Procurement
- Payables

- Internal controls (Direct Awards) (1)
- E-invoicing

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

- IT audit
- Community Empowerment Area
- Anti-fraud review
- Overtime, travel and subsistence
- NFI
- City Deal

Audit dimensions

28. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements, [exhibit 7](#). Our conclusions on these four dimensions will contribute to an overall assessment and assurance on best value.

Exhibit 7 Audit dimensions



Source: Code of Audit Practice

Financial sustainability

29. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit of the financial statements. We also comment on the Council's financial sustainability in the medium and longer term. We will carry out work and conclude on the following in 2017/18:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term; including the

potential impact of the end of the public sector pay cap, new financial powers and EU withdrawal.

- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

Financial management

30. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively including:

- the effectiveness of the budgetary control system in communicating accurate and timely financial performance
- whether financial capacity and skills are adequate
- whether appropriate and effective arrangements for the prevention and detection of fraud and corruption have been established.

Governance and transparency

31. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information. We will assess:

- whether governance arrangements are appropriate and operating effectively.
- whether there is effective scrutiny, challenge and transparency of decision-making (including for services delivered by (or in partnership with) other bodies such as the integration joint board)
- the quality and timeliness of financial/performance reporting
- the Council's cyber security arrangements.

Value for money

32. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the Council can provide evidence that it is delivering value for money in its use of resources, has a focus on improvement and that there is a clear link to the outcomes delivered.

Impact reports

33. As part of our 2017/18 audit activity we will be carrying out some limited work to assess the local impact of recent national audit reports including:

- Changing models of health and social care (published March 2016)
- Roads maintenance follow-up (published August 2016)
- Social work in Scotland (published September 2016)

Best Value

34. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016.

35. 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 on-going annual audit work, and also through discrete packages of work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

- the Annual Audit Report
- an Annual Assurance and Risks report that the Controller of Audit will provide to the Commission setting out findings from across all 32 Scottish councils
- 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.

36. The six councils on which a BVAR will be published during the second year of the new approach are listed at [exhibit 8](#). Reports will be considered by the Accounts Commission between April 2018 and November 2018.

Exhibit 8

2017/18 Best Value Assurance Reports

East Ayrshire Council	Glasgow City Council
Dumfries and Galloway Council	West Dunbartonshire Council
East Lothian Council	Fife Council

Source: Audit Scotland

37. The work planned in South Lanarkshire Council this year will focus on the Council's arrangements for demonstrating Best Value in delivering performance outcomes and continuous improvement. The work will be integrated into the audit approach and will be reported in the Annual Audit Report.

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 in place robust arrangements 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 for South Lanarkshire Council is Fiona Mitchell-Knight, Assistant Director. The engagement lead for the charitable trusts is Dave Richardson, Senior Audit Manager. 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 South Lanarkshire Council or the charities.

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 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 and external quality reviews. External quality reviews are conducted by the Institute of Chartered Accountants of Scotland.

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.

Adding Value

43. Through our audit work we aim to add value to the Council. We will do this by providing a summary of our audit activity in an Annual Audit Report. We will provide clear judgements and conclusions on how well the Council has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where appropriate we will recommend actions that support continuous improvement and highlight any areas of good practice identified from our audit work.

South Lanarkshire Council

Annual Audit Plan 2017/18

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

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Report

8

Report to: **Risk and Audit Scrutiny Forum**
 Date of Meeting: **21 March 2018**
 Report by: **Executive Director (Finance and Corporate Resources)**

Subject: **Audit Scotland Report: Performance and Challenges 2017**

1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Provide the Forum with a summary of the information contained within the Audit Scotland Report 'Performance and Challenges 2017'.

2. Recommendation(s)

2.1. The Forum is asked to note the following recommendation(s):-

- (1) that the key messages and recommendations are noted.

3. Background

3.1. Audit Scotland publishes an overview report each year on behalf of the Accounts Commission, covering key areas of current and future activity relative to local government and an opinion on how these are or should be managed. A copy of the report can be found on the Audit Scotland website.

3.2. The Audit Scotland report is divided into 3 parts, namely:

- Part 1: The current and future challenges for councils
- Part 2: Councils' responses to the challenges, including performance in key service areas, public satisfaction and unit costs
- Part 3: Looking ahead – what more councils can do to ensure they are best placed to successfully manage the changes and challenges they face

3.3. As with last year's report, the introduction by the Chair of the Accounts Commission makes clear that the report is intended as a tool for councillors and officers, helping them "stand back and assess their council's progress".

3.4. There are a number of key messages noted within the report:

- Councils have faced significant challenges from a long-term decline in revenue funding and from an ageing and growing population. The scale of these challenges continues to grow. Policy and legislative changes are also placing additional demands on councils and changing how councils work
- Councils are responding to the challenges by continuing to adopt alternative ways of working, reducing the level of service they provide and reviewing fees and charges. While some Councils are making good progress in managing services and delivering savings, others are not. The pace and scale of reform needs to increase in some councils. Despite these challenges, councils' performance has been maintained or improved

- With reducing budgets and workforces, councils will find delivering improvements increasingly difficult. It is critical, therefore, that they set clear long-term strategies and plans that target effort on priority areas. This includes organisation-wide workforce plans to ensure councils have the capacity to manage change and deliver services going forward. A councillor's role is complex, demanding and evolving. They are required to provide effective and strategic leadership, and it is therefore, critical that their knowledge is up to date and skills are refreshed to enable them to establish strategic priorities, fully assess options for change and hold services to account

3.5. The report contains several recommendations for councils. These are listed below, together with an assessment of the position in South Lanarkshire Council:

Councils should:	SLC position
<p>Set clear priorities supported by long-term strategies and medium-term plans covering finances, services, performance and workforce. These plans should inform all council decision-making, service redesign, savings and investment decisions.</p>	<p>The council is developing a new strategic plan for the period 2017-2022. This will be one of the most important documents produced by the council, setting out our vision, values and ambitions, and stating publicly what we hope to achieve in order to improve outcomes for local people. The Council Plan will provide a framework which informs all council decision-making, both in terms of annual Resource and Service Plans and in terms of service redesign and resource allocation decisions.</p> <p>The council also has a 3 Year Revenue Budget Strategy that runs until the end of 2018/19, and a longer term outlook covering 10 years. The strategy covers the short and medium term requirements and sets out the council's assumptions in terms of commitments, grant funding and efficiency requirements. With only one year notification of grant funding, there are inherent difficulties in planning longer term with any certainty. This medium to long term strategy will be updated before the end of the financial year.</p> <p>A strategic workforce plan has been developed for the period 2016-2019.</p>
<p>Ensure that budgets are clearly linked to their medium-term financial plans and long-term financial strategies. Budgets should be revised to reflect true spending levels and patterns. This requires good financial management and real-time information to ensure spending is accurately forecast and monitored within the year.</p>	<p>As noted above, the council has a 3 Year Revenue Budget Strategy that runs until the end of 2018/19, and a longer term outlook covering 10 years. The strategy covers the short and medium term requirements and sets out the council's assumptions in terms of commitments, grant funding and efficiency requirements.</p> <p>Elected Members receive standard and clear information on Council finances every 4 weeks. This information is detailed and timeously prepared and is provided to the Council's Executive Committees, Resources Committees and, in greater detail, the Financial Resources Scrutiny Forum.</p>

<p>Have an organisation-wide workforce plan to ensure the council has the people and skills to manage change and deliver services into the future.</p>	<p>A workforce planning strategy for South Lanarkshire Council was approved in February 2010 and a set of tools rolled out to enable Resources to analyse their workforce and determine future workforce requirements.</p> <p>Work on the review of the planning strategy is now complete and it has been updated to incorporate best practice guidance from both CIPD and Audit Scotland.</p> <p>The Strategic Workforce Plan 2016 -2019 is supported by a toolkit and a Learn on Line Module to support managers in refining and further developing their workforce planning approach.</p> <p>The Strategy has an accompanying action plan with key milestones which will be measured through the Council's Performance Improvement Framework and outcomes will be reported to elected members through the Committee processes of the council.</p> <p>The Workforce Planning Strategy was approved at the Executive Committee of the Council on 13th April 2016.</p> <p>The Workforce Plan is supported by a range of policies to support the change processes. In particular, to support instances where redeployment may be required as an outcome of workforce planning or efficiency process, the Council updated its Switch2 policy in March 2016. The policy has been adapted to more easily allow us to match employees' skills and knowledge to the other areas of the council.</p>
<p>Ensure workforce data allows thorough analysis of changes to the workforce at an organisation-wide and department level. This will allow councils to better assess the opportunities and risks in staff changes.</p>	<p>Resource specific workforce plans are now in place and will be updated annually to take account of changing circumstances</p>
<p>Thoroughly evaluate all options for change and service redesign, including options for investing to save, and monitor the impact of change on council priorities and desired outcomes.</p>	<p>The council has a comprehensive programme of service reviews which examine options for change, service redesign and opportunities for efficiencies. Impact assessments are carried out on reviews prior to implementation and impacts are monitored through ongoing performance management and reporting through Resource and service planning.</p>

<p>Support communities to develop their ability to fully participate in setting council priorities and making decisions about service redesign and use of resources.</p>	<p>The South Lanarkshire approach to community participation and empowerment is underpinned by the principles contained within the national standards for community participation and engagement, which were refreshed in 2016.</p> <p>Communities have a wide range of opportunities to be consulted on council priorities, including on the Council Plan, the budget consultation process, and consultation on the forthcoming LOIP.</p>
<p>Ensure councillors get support to develop the right skills and knowledge to fulfil their complex and evolving roles.</p>	<p>A training survey of elected members was undertaken in January/February 2014 to assess training needs. Following the survey, councillors were provided with access to Learn Online which provides a range of materials relevant to their role.</p> <p>Councillors are periodically asked if they have any specific training needs and in 2015-16 a session was delivered covering performance reporting, performance management and benchmarking. A session in October 2015 provided information on their role in relation to the governance of ALEOs and other Outside Bodies. A session in April 2016 provided information on community planning and the Community Empowerment Act, and further sessions are planned to address governance, best value and risk.</p> <p>An annual briefing session is held on financial planning for the revenue budget and associated efficiencies required. As well as internal briefing sessions, members are given the opportunity to participate in the Improvement Service's Masterclasses. In relation to partnership working, Police and Fire present their Local Plans to the Council's Executive Committee for approval and periodically deliver presentations to all four Area Committees and members are given the opportunity to ask questions. NHS Lanarkshire/Social Work recently delivered a presentation to all members on the integration of health and social care.</p> <p>An induction programme, ongoing learning and development programme and access to Improvement Service training materials was made available to new and returning members following the Local Government Elections in May 2017.</p> <p>Finance services have delivered training, and Members have also received externally provided finance training from Cipfa. Members of the Risk and Audit Scrutiny group are also receiving training over multiple sessions including one run by Audit Scotland.</p>

<p>Ensure there is clear public reporting of performance linked to council priorities to help communities gauge improvements and understand reduced performance in lower priority areas.</p>	<p>The council publishes an Annual Performance Report each year, and this is supplemented by a comprehensive suite of performance reports on the council's website. The Local Government Benchmarking results are also published on the website each year, together with narrative which explains the trends and how the information might be interpreted.</p>
<p>Continue to work to understand the reasons for variation in unit costs and performance, and collaborate to identify and adopt good practice from each other.</p>	<p>Benchmarking results, which include many unit cost measures, are reported regularly to councillors – both at Executive Committee and at the Performance and Review Scrutiny Forum.</p> <p>A training session on performance reporting and benchmarking took place in July 2015. This followed the 2014 overview report, which highlighted the need to provide councillors with information on performance and benchmarking to inform their decisions and support their scrutiny role.</p> <p>Performance reports on the progress of the Council Plan, Connect, are provided to Councillors at Q2 and Q4 each year, and Resource Plans with more detailed information are also reported twice-yearly. Information in relation to how the Council performs relative to other councils is provided via the Local Government Benchmarking Framework, which is reported each year to the Executive Committee and the Performance and Review Scrutiny Forum.</p>

4. Employee Implications

4.1. There are no direct employee implications.

5. Financial Implications

5.1. There are no direct financial implications.

6. Other Implications

6.1. Considering the detail of the report and identifying actions as appropriate contribute towards effective risk management.

7. Equality Impact Assessment and Consultation Arrangements

7.1. This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy and therefore no impact assessment is required.

7.2. There is no requirement for consultation on the content of the report.

Paul Manning

Executive Director (Finance and Corporate Resources)

1 March 2018

Link(s) to Council Objectives/Values/Ambitions

- Ambitions, Self Aware and Improving

Previous References

- None

List of Background Papers

- Audit Scotland Report 'An overview of local government in Scotland 2015'

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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Report

9

Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	21 March 2018
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Audit Scotland Report - Equal Pay in Scottish Councils
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Provide an overview of the Audit Scotland report on Equal Pay in Scottish Councils and the current position for South Lanarkshire Council

2. Recommendation(s)

2.1. The Forum is asked to approve the following recommendation(s):-

- (1) that the content of the Audit Scotland report be noted;
- (2) that the council position be noted.

3. Background

3.1. The Audit Scotland work was carried out during 2016/2017 and reported in September 2017. The report, attached at Appendix 1, examines equal pay in local government, focusing on five themes:

- how councils implemented the Single Status Agreement (SSA)
- how much councils have spent settling equal pay claims
- how councils demonstrate that they are dealing effectively with equal pay claims and minimising future risks
- how effective the governance and oversight arrangements of the SSA are
- what lessons can be learned for the future

The audit provides an overview around how the SSA was been implemented. But it does not look at individual councils' job evaluation schemes, or consider employee terms and conditions at councils.

3.2. The audit work involved an extensive survey of local authorities and visits to five reference sites; South Lanarkshire Council was one of those.

4. Main Findings

4.1. The Audit Scotland report findings are summarised in the following paragraphs:

All employers have a legal responsibility to ensure that women and men receive equal pay for equal work and the Single Status Agreement reached in 1999 aimed to harmonise local government pay and employment terms and conditions, and eliminate pay inequality.

Implementing the Single Status Agreement was a complex process, particularly around full job evaluation and councils underestimated the challenges involved - all but one missed the agreed implementation date of 2004. It was not until 2010 that all councils in Scotland had single status in place.

There was a lack of collective national leadership to overcome the challenges and address equal pay issues in a timely way.

No additional funding was received by councils to cover the significant costs of implementing single status and some councils and trade unions found themselves balancing the risk of industrial unrest with affordability. This meant that some of the approaches taken by councils when implementing single status did not always prioritise pay equality and were later found to be discriminatory.

Councils sought to compensate workers who had historically been unfairly paid by offering payments if they signed compromise agreements. Councils paid around £232 million to approximately 50,000 workers in this way. The payments made were often of a relatively low value compared with the difference in pay over time, so some people refused them. Even while councils were implementing single status, they continued to receive thousands of equal pay claims for historical pay discrimination.

All councils received equal pay claims after implementation. There were many reasons for these claims, and since 2004, around 70,000 equal pay claims have been lodged against councils. The cost of compensation agreements and settling claims, along with legal fees, amounts to around £750 million. The number of claims made against councils varies widely. Some of this variation can be explained by how actively 'no-win no-fee' lawyers have encouraged claims in different council areas. There are almost 27,000 live equal pay claims and workers could potentially still make new claims against councils.

Councils need to be confident they have fair and transparent pay arrangements and take necessary action, such as regular equal pay audits, to deliver pay equality in line with their public sector equality duty. Elected members need to continue to oversee, scrutinise and challenge councils' approaches to delivering equal pay and reducing the gender pay gap.

5. Council Position

- 5.1. In relation to the Audit Scotland findings South Lanarkshire Council was the only authority to fully implement the Single Status Agreement within the timeframe agreed. In part, this was due to work that was already underway in relation to job evaluation, but is also reflective of the partnership working approach with the Trade Unions and the direction provided by the Council.
- 5.2. The report highlights the need for elected members to oversee, scrutinise and challenge the approach to delivering equal pay and reducing the gender pay gap. Regular reports have been presented to committee covering these topics in the past and, in addition, members' briefings and awareness sessions on equal pay were presented. In terms of the current arrangements for updating elected members, these are formed of both regular equalities reports, which include detailing the work around the gender pay gap, and specific reports, where required, on any equal pay issues.

6. Employee Implications

- 6.1. There are no additional employee implications arising from this report.

7. Financial Implications

7.1. There are no additional financial implications arising from this report.

8. Other Implications

8.1. There is risk of pay inequality if arrangements are not regularly reviewed and actions taken. This is mitigated by the reporting and monitoring arrangements currently in place which include elected member oversight as recommended within the Audit Scotland report.

8.2. There are no sustainability issues arising from this report.

9. Equality Impact Assessment and Consultation Arrangements

9.1. This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy and, therefore, no impact assessment is required.

9.2. There was no requirement to undertake any consultation in terms of the information contained in this report.

Paul Manning

Executive Director (Finance and Corporate Resources)

13 February 2018

Link(s) to Council Objectives/Values/Ambitions

Accountable, effective and efficient and transparent

Fair, open and sustainable

Excellent employer

Previous References

Finance and Corporate Resources Committee, 7 February 2018

List of Background Papers

- Audit Scotland Report – Equal Pay in Scottish councils

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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Equal pay in Scottish councils

Prepared by Audit Scotland
September 2017

The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about-us/accounts-commission

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

About equal pay

What is equal pay?

The campaign for equal pay has a long history. Over time, women have often received less pay than men for doing comparable jobs. The Equal Pay Act 1970 was the first piece of legislation enshrining the right to pay equality between women and men. This Act made it unlawful for an employer to discriminate between women and men in all contractual terms of employment, including pay. **The Equality Act 2010** replaces the Equal Pay Act 1970. All employers, public and private sector, must comply with equal pay legislation.

The Equal Pay Act 1970 set out ways an employee's work can be determined to be equal to that of another employee. These are restated in the Equality Act 2010 as:

- like work – work that is the same or broadly similar
- work rated as equivalent – when a job evaluation has rated two jobs as being the same or similar
- work of equal value – work found to be of equal value, for example in terms of effort, skill or decision-making.

Equal pay in councils

Historically, the pay and conditions of council employees were governed by different national agreements, for example pay and conditions for manual workers differed from those of administrative, professional, technical and clerical (APT&C) workers. These differences between groups of employees arose from national bargaining arrangements with different unions and historically favoured roles traditionally carried out by men. Equal pay claims about these differences were common in the 1990s and councils made expensive settlements for historical discrimination. National negotiations in the late 1990s began to find a new structure that would ensure councils complied with equal pay legislation.

What is the Single Status Agreement (SSA)?

In 1997, a UK-wide agreement was reached to unify the pay structures of different groups of council employees. This became known as the Single Status Agreement (SSA) or the 'Red Book'. This agreement covered around 1.4 million workers across the UK. Scottish councils and trade unions negotiated the Scottish version of the SSA in 1999. By harmonising employment terms and conditions, and grading all jobs on the same scale, this agreement sought to eliminate pay inequality for all.

Guiding principles

The guiding principles for the Single Status Agreement are to support and encourage the following:

- **High-quality services delivered by a well-trained, motivated workforce with security of employment. To this end, councils are encouraged to provide training and development opportunities for their employees.**
- **Equal opportunities in employment; equality as a core principle that underpins service delivery and employment relations; and removing all discrimination and promotion of positive action.**
- **A flexible approach to providing services to the communities while meeting the needs of employees, as well as employers.**
- **Stable industrial relations and negotiation and consultation between councils as employers and recognised trade unions.**

Source: *Single Status Agreement*, Scottish Joint Council, 1999

About the audit

This audit examines equal pay in local government, focusing on the following five themes:

- how councils implemented the Single Status Agreement (SSA)
- how much councils have spent settling equal pay claims
- how councils demonstrate that they are dealing effectively with equal pay claims and minimising future risks
- how effective the governance and oversight arrangements of the SSA are
- what lessons can be learned for the future.

This audit provides an insight into how the SSA has been implemented. But it does not investigate councils' job evaluation schemes, or consider individual staff terms and conditions at councils.

Although it reports on the number of equal pay claims, it does not look at individual claims, or make audit judgements on past litigation.

We reviewed a range of documents during our audit. We interviewed a range of staff at six sample councils and requested information from all 32 councils. Data for costs relates to financial years 2004/05 to 2015/16. Other data such as number of claims lodged relates to 2004/05 up to 30 September 2016. **Appendix 1** has more information about our methodology.

In carrying out this audit, we faced considerable difficulty due to the lack of good-quality data relating to the implementation of equal pay.

Equal pay and the gender pay gap are different but related issues. Equal pay focuses on discrimination where a woman is paid less than a man for doing the same or broadly similar work, work of equal value or work rated as equivalent. The gender pay gap calculates the difference between men and women's earnings and presents this as a percentage of men's earnings. The gender pay gap is influenced by a range of factors such as:

- occupational segregation, where women are still more likely to be in low-paid jobs
- unequal caring responsibilities
- a lack of flexible working, which makes it difficult to combine caring with employment
- men continuing to make up the majority of those in the highest paid and most senior roles.

The factors that contribute to the gender pay gap have not been the focus of this audit, but where appropriate we highlight the links between equal pay and the gender pay gap.

Key messages

1. Under equality legislation all employers have a legal responsibility to ensure that women and men receive equal pay for equal work. In 1999, Scottish councils and trade unions reached the Single Status Agreement. The aim of the agreement was to harmonise local government pay and employment terms and conditions, and eliminate pay inequality.
2. Implementing the Single Status Agreement was a complex process that required all councils to undertake a large-scale job evaluation exercise. Councils underestimated the challenges involved and all but one missed the agreed implementation date of 2004. It was not until 2010 that all councils in Scotland had single status in place. This was 11 years after the agreement was signed, with implementation taking twice as long as initially planned.
3. There has been a lack of collective national leadership to overcome the challenges and address equal pay issues in a timely way.
4. Councils initially worked on the basis that they could offset the costs of implementing single status with savings from changes to staff conditions and by improving staff productivity. Councils received no additional funding to implement their new pay and grading structures. In reality, single status brought significant costs and some councils and trade unions found themselves balancing the risk of industrial unrest with affordability. This meant that some of the approaches taken by councils when implementing single status did not always prioritise pay equality and were later found to be discriminatory.
5. Councils sought to compensate workers who had historically been unfairly paid by offering payments if they signed compromise agreements. Councils paid around £232 million to approximately 50,000 workers in this way. The payments made were often of a relatively low value compared with the difference in pay over time, so some people refused them. Even while councils were implementing single status, they continued to receive thousands of equal pay claims for historical pay discrimination.
6. All councils received equal pay claims after implementation. There were many reasons for these claims, for example claims against pay and bonus protection given to predominately male workers and discrimination in job evaluation schemes. Since 2004, around 70,000 equal pay claims have been lodged against councils. The cost of compensation

agreements and settling claims, along with legal fees, amounts to around £750 million. The number of claims made against councils varies widely. Some of this variation can be explained by how actively 'no-win no-fee' lawyers have encouraged claims in different council areas. There are almost 27,000 live equal pay claims and workers could potentially still make new claims against councils.

7. Councils need to be confident they have fair and transparent pay arrangements and take necessary action, such as regular equal pay audits, to deliver pay equality in line with their public sector equality duty. Elected members need to continue to oversee, scrutinise and challenge councils' approaches to delivering equal pay and reducing the gender pay gap.

Single Status Agreement

Pay inequality is rooted in long-standing traditional attitudes about women's place in society

Historically, women have often received less pay than men for doing comparable jobs. Many social and economic drivers led to discriminatory pay systems and the long-standing pattern of inequality. During the 1920s and 1930s, UK policy even reflected this practice of lower wages for women. Fundamentally, society often undervalues women's competencies and skills. In the local government context, roles predominantly done by women, for example catering, cleaning and caring, had lower pay scales than male-dominated roles such as grave-digging or refuse-collecting, even though they required similar skill levels. The campaign for equal pay continued throughout the decades, and the Equal Pay Act was passed in 1970. This prohibits any less favourable treatment between men and women in terms of pay and conditions of employment. Equal pay provisions are now in the Equality Act 2010.

In the late 1980s, councils attempted various measures to comply with legislation and address equal pay issues, for example by putting job evaluation schemes in place for manual workers. This exercise re-valued some women's jobs, and placed them on the same grade as jobs done by their male colleagues.

However, many of the male-dominated jobs included **bonus schemes** or attracted other allowances, providing men with extra pay. This meant that, even where female-dominated roles had been re-valued, women continued to receive less money than their male colleagues for work of equal value.

Background to bonus schemes

These locally negotiated schemes were initially introduced in the 1960s to address low pay and productivity within public sector manual working at a time of pay freeze. The schemes were typically applied to full-time roles carried out by male manual workers. So, for example, refuse collectors often received bonuses, while women in similar-level jobs, such as cleaning, did not. Over time, councils stopped monitoring productivity and the bonuses became an expected part of those workers' pay.

'Access to bonus payments is a crucial factor in determining employee earnings. Overall, more than half of male full-time manual staff receive bonuses, compared with only five per cent of female staff. According to a 1996 survey of council manual workers by the Local Government Management Board, bonus payments represented 15 per cent of average male earnings compared with just over one per cent of female earnings.'

Source: *Equal Opportunities Review No 76 November/December 1997*, edited by Michael Rubenstein

Increasing equal pay claims and difficulties in eliminating pay inequality led to single status being agreed

Before the SSA, councils used different pay and grading structures across manual workers and administrative and clerical workers (APT&C); this made it difficult to identify and eliminate pay inequalities for similar work between these workers. In the 1990s, equal pay claims resulted in expensive settlements, mostly in relation to women being excluded from male-dominated bonus schemes. This led Scottish councils and trade unions to agree the SSA in 1999. The SSA replaced the old separate agreements and bargaining arrangements for different occupational groups, manual and APT&C employees. It aimed to harmonise both pay and employment terms and conditions and sought to eliminate pay inequality for all.

The original SSA signed in 1999 specified that single status should be in place by April 2002. This proved too ambitious and a revised date of April 2004 was agreed between councils and trade unions (**Exhibit 1, page 8**).

As separate employers, councils across Scotland took individual approaches to implementing single status and each one followed local processes to reflect its own circumstances. The Scottish Joint Council (SJC) issued guidance to help councils with their local implementation of the SSA. In 2006, an inquiry by the Scottish Parliament's Finance Committee into the cost of single status reported that unions preferred a national agreement covering all aspects of single status, but that councils sought to have local flexibility in all arrangements.¹ The Finance Committee recommended that councils, unions and COSLA urgently enter into discussions at a national and local level, facilitated by the then Scottish Executive, to ensure implementation within 12 months. There is no evidence this recommendation was taken forward, highlighting the lack of collective leadership nationally.

1. *4th Report, 2006 (Session 2): Report on the Financial Implications of the Local Authority Single Status Agreement*, Finance Committee, Scottish Parliament, 2006.

Exhibit 1

Councils' Single Status Agreement implementation dates

2003

South Lanarkshire

2004

Agreed national SSA implementation date

2005

2006

East Ayrshire

Glasgow City

North Lanarkshire

Moray

Falkirk

2007

Aberdeenshire

Renfrewshire

Fife
East Renfrewshire
North Ayrshire
Perth and Kinross
West Lothian

2008

Argyll and Bute
East Dunbartonshire
Angus
Dundee
Highland
Orkney Islands
East Lothian
Eilean Siar
Inverclyde
Scottish Borders

2009

Stirling
West Dunbartonshire
Shetland Islands
Aberdeen City
Midlothian
South Ayrshire

2010

Clackmannanshire
City of Edinburgh
Dumfries and Galloway

Some councils' implementation dates were backdated:

- Renfrewshire - 1 April 2006
- East Renfrewshire - 1 July 2006
- Orkney Islands - 1 April 2007
- Eilean Siar - 1 April 2007
- Dumfries and Galloway - 1 April 2009

Source: Audit Scotland information request to Scottish councils, 2016

Councils were required to undertake an extensive job evaluation as part of implementing single status

Before the SSA was implemented, there were separate bargaining arrangements in local government for pay and terms and conditions of different groups of staff, for example, manual

workers and APT&C. This approach to pay and collective bargaining was not unique to local government. Before implementing Agenda for Change, the NHS had more than 20 committees bargaining separately for different groups of staff such as nurses and allied health professionals.

In 1993, there was a significant test case in England where female senior NHS speech therapists named male senior pharmacists and male clinical psychologists as comparators in their equal pay claim.² The Court of Justice ruled that an employer could not rely alone on the fact that the two jobs were paid according to two different collective bargaining agreements as a defence to comparing different occupations. To help deal with any inequalities in their approach to remunerating different groups of staff, employers across the public sector began introducing new **job evaluation** schemes.

In 1999, to help councils implement SSA, the SJC developed a national job evaluation scheme (JES). Councils did not have to use the national scheme but most did. South Lanarkshire Council had established its own scheme before the national JES was developed. Glasgow City Council and the City of Edinburgh Council used other schemes. Regardless of the scheme, if done correctly job evaluation should have provided assurances that a council had a fair and transparent equal pay structure and protected it from future equal pay claims.

Developing a new pay and grading structure that was fair and accurate took time. But this aspect of the single status programme proved more time-consuming for some councils than others. For example, the number of jobs councils had to evaluate varied. Some larger councils had thousands of different types of jobs to evaluate, whereas others had only hundreds.

What does job evaluation entail?

A key part of single status involved councils evaluating jobs under a single system that provides a consistent approach to defining their relative worth across the whole organisation.

Job evaluation does not determine actual pay, but places jobs in a rank order according to overall demands placed upon the job holder.

The SJC's JES scheme defines these demands across a range of factors such as knowledge and skills, responsibility, working environment, and dealing with relationships. Councils score local jobs and rank them through their locally agreed pay and grading structures. This approach across local government differs from the NHS's job evaluation scheme under Agenda for Change, which had a central negotiating group and enabled most jobs to be matched to nationally evaluated profiles.

Once each council had completed its job evaluation exercise for single status, it transferred manual and APT&C employees to the new single pay and grading structure.

Councils were expected to evaluate jobs and implement their pay and grading structures under the SSA in agreement with trade unions.

Some councils and trade unions faced difficulties reaching agreement on specific job evaluations and on new terms and conditions. This led to protracted negotiations and some councils faced industrial relations issues such as work-to-rule and industrial action. Our case study on **City of Edinburgh Council (Appendix 2)** and **The Highland Council (Appendix 3)** highlights how different the process was depending on local challenges. Some councils reported that dealing with the protracted and difficult negotiations on grading structures, along with equal pay claims, put a significant strain on their HR resources. Trade unions also faced this problem.

In its inquiry into the cost of single status in 2006, the Scottish Parliament's Finance Committee found that councils and unions failed to engage properly in constructive negotiations to implement single status agreements.³ Ultimately, only eight councils introduced their new pay and grading structures in agreement with trade unions.

Councils faced difficulties in funding the changes under the SSA, slowing progress

Another factor in the slow progress in moving to single status pay and conditions was the cost. Councils did not receive any additional money to implement these new pay and grading structures. COSLA pay circulars in 2000 set out the intention to negotiate new pay structures on a cost-neutral basis.⁴ In signing the SSA, councils and unions expected to offset the additional cost of addressing pay inequalities for one group of staff (predominately women) by modernising their workforces, reducing the pay of another group (predominately men), or doing both. In 2006, COSLA reaffirmed to the Finance Committee the intention to deliver single status on a cost-neutral basis.⁵

South Lanarkshire Council reported that it had managed the impact of single status on its budget by implementing it alongside a programme of Best Value reviews.⁶ These delivered savings to offset the cost of single status. Councils considered various other measures to offset costs, such as recruitment freezes, encouraging staff to reduce their hours and rationalising terms and conditions. In reality, councils found it difficult to deliver single status on a cost-neutral basis. Some councils estimated the impact on their own local payroll. For example, the City of Edinburgh Council estimated it would add around £10 million each year to its wage bill. But nationally, the full cost of single status is unknown. There is no evidence of the cost to councils being estimated at a national level using cost modelling.

Negotiations with trade unions over cost-offsetting measures proved long and difficult. Our case study of implementation in **City of Edinburgh Council** and **The Highland Council** highlights these difficulties. Trade unions had to balance a number of priorities during the discussions with councils about new pay structures. In striving for equal pay, they were both representing their women members who were pursuing equal pay claims and trying to negotiate protection for the salaries of their male members.

The delays in implementing the SSA resulted in prolonged inequality and had financial implications. In 2004, councils began making compensation payments where they knew workers had been unfairly paid, generally to female manual workers who had been excluded from bonus schemes (**Exhibit 2, page 12**). In accepting these payments, workers were required to sign compromise agreements (now referred to as settlement agreements). Around 50,000 employees received this type of compensation.

In accepting compensation payments, employees agreed not to pursue claims with the Employment Tribunal Service (ETS). In 2003, amendments to the Equal Pay Act extended the

limit on compensation for back pay from two to five years. In councils where the implementation date for SSA slipped they made additional compensation payments to female workers. These payments covered the gap for the period between the original date of SSA implementation in 2004 and the actual date that staff moved across to each council's new pay structure.

In 2009, a Local Government and Communities Committee inquiry into Equal Pay in Local Government reported that compromise agreements had not always been accepted by employees because settlement offers were too low.⁷ No national and comparable data about the amount paid to employees in compensation is available.

However, the *Allen and others v GMB* tribunal case found that the settlements were much lower than the real value of employees' claims.⁸ In some cases employees received 25 per cent or less of the value they could have been entitled to. When compromise agreements were not reached, many workers went on to lodge an equal pay claim.

4. *Industrial Relations: 112000, 2000 pay negotiations – local government employees*, Personnel Services Circular, COSLA, February 2000.
5. *4th Report, 2006 (Session 2): Report on the Financial Implications of the Local Authority Single Status Agreement*, Finance Committee, Scottish Parliament, 2006.
6. *Efficiency Statement 2006/07*, South Lanarkshire Council, 12 September 2007.
7. *12th Report, 2009 (Session 3): Equal Pay in Local Government*, Local Government and Communities Committee, Scottish Parliament, June 2009.
8. *Allen and others v GMB* [2008] EWCA Civ 810; [2008] ICR 1407.

Councils' strategies for protecting some workers' pay were later found to be discriminatory

In implementing their JES, councils faced criticism from unions about the lack of clarity and information about how some roles were scored and evaluated. This affected the willingness of unions and councils to agree on pay and grading matters and impacted on the time it took to implement the SSA.

The outcome of the job evaluation for some workers was that pay for their new grade was lower than their old grade, particularly for the male-dominated roles that had historically received bonuses. Councils were concerned that any widespread pay cuts could bring about industrial relation difficulties and in extreme circumstances lead to industrial action. To lessen the impact for those who would lose earnings, councils used a range of measures, for example they **protected pay** for some staff, predominately male, at the higher level for a period of time. This practice is known as red circling. SJC guidance stated that payment protection could be offered by councils for up to three years, but not how councils should apply it. As a result, the way in which councils used payment protection varied across Scotland.

Some councils protected basic pay and, despite a history of claims about women being excluded from bonus schemes, most councils also protected bonuses for a period of time after transferring to new pay structures.

Another approach councils adopted was to enrich some roles so that they would be graded at a level that prevented or minimised any potential loss in salary for some male workers.

The option of increasing the women's pay to the same level as the men – often referred to as levelling up – was consistent with the intention of single status and equal pay legislation. Councils did not pursue this option on the basis of affordability, although there is limited evidence to demonstrate that they fully costed this option. Ultimately the measures councils adopted kept men's salaries higher than women performing equivalent roles.

Protected pay

Protection at assimilation on to the new spinal column for all employees including bonus earners will be for three years on a cash-conserved basis. This timescale has regard to the increased potential for equal pay claims should protection be allowed to extend beyond that period.

It is important to emphasise that bonus schemes may not in themselves be discriminatory provided they meet real business objectives and access is available to all. Councils should therefore be free to introduce council-wide reward strategies where this is considered desirable and following the full involvement of the trade unions.

Source: *Single Status Agreement*, Scottish Joint Council, 1999

Pay protection arrangements were the focus of various legal cases

From 2007 onwards, legal challenges started to be made to locally negotiated arrangements for men whose pay was protected. In the cases of *Redcar & Cleveland Borough Council v Bainbridge and Others*, and *Surtees and Others v Middlesbrough Borough Council*, the Court of Appeal held that, except in limited circumstances, discriminatory pay protection arrangements could not be justified.⁹

In the *Redcar* case, the court found no evidence that the council had taken account of any negative impact on female employees when only offering payment protection to the male employees. Councils subsequently received many claims against discriminatory payment protection schemes. We cover the number of all claims councils received in (**Exhibit 3, page 16**).

In 2009, the Local Government and Communities Committee recommended that COSLA consult with trade unions and publish guidance to help councils understand the main points that were emerging from the complex case law about pay protection and what they should be doing to ensure that any pay protection scheme was fair.¹⁰ There is no evidence any updated guidance was ever issued, highlighting a further lack of collective national leadership.

9. *Redcar and Cleveland Borough Council v Bainbridge and others; Surtees and others v Middlesbrough Borough Council* [2008] EWCA Civ 885 CA.

10. 12th Report, 2009 (Session 3): *Equal Pay in Local Government*, Local Government and Communities Committee, Scottish Parliament, June 2009.

Equal pay claims

Workers made equal pay claims after councils had implemented single status

While councils were implementing single status they all received claims relating to historical bonuses. Councils also experienced equal pay litigation following implementation of single status.

Employees of Scottish councils lodged more than 70,000 equal pay claims against their employers between 2004/05 and 30 September 2016 (**Exhibit 3, page 16**).

Some councils had several discrete waves of claims. **Exhibit 4 (page 17)** shows the number of claims lodged by council. 'No-win no-fee' solicitors signed up many claimants. This impacted on the number of claims made against specific councils, particularly the larger councils such as City of Edinburgh, South Lanarkshire, Glasgow City and North Lanarkshire.

As many claims are resolved outwith a tribunal, the details are not generally published, but from the information that is available we know that workers have made claims against:

- payment protection
- job evaluation scheme issues including job grading.

Some councils used job enrichment measures to prevent workers losing pay under single status. A job enrichment scheme typically includes 'measures that can improve earning opportunities and significantly reduce loss of pay or bonus'. Measures could include the creating of new roles, or re-adjusting the job weightings of workers – in predominantly male jobs – under the single status job evaluation scheme. If a council does not offer female employees the same measures, it can continue inequality in pay. There is little published information on the claims for this reason in Scotland, although it has been the subject of many legal and academic papers, for example in ***Are litigation and collective bargaining complements or substitutes for achieving gender equality? A Study of the British Equal Pay Act.***

From 2004/05 to September 2016, the total cost of settling claims, including all compromise agreements and legal costs, has been around £750 million across all Scottish councils. **Exhibit 5 (page 18)** shows the cost by council over this period.

In 2009, the Scottish Government introduced a 'capitalisation' scheme. This was to allow councils to borrow capital to settle equal pay claims. Between January 2009 and April 2012 it granted 11 councils (Aberdeen City, Clackmannanshire, East Dunbartonshire, City of Edinburgh, Falkirk, Glasgow City, Highland, Midlothian, North Ayrshire, Scottish Borders and West Dunbartonshire) consent to borrow a total of £83 million. Six of these councils (Aberdeen City, Falkirk, Glasgow City, Midlothian, North Ayrshire, and West Dunbartonshire), used the scheme to borrow capital with the amount borrowed totalling almost £37 million. Only two councils (Glasgow City and North Ayrshire) borrowed up to their full allocation.¹¹

11. Consents to Borrow – Equal Pay, Scottish Government, April 2013

Managing equal pay claims is an extremely complex process. A claim can escalate through many stages until agreement is reached. Negotiations between councils and employees' representatives may continue during the process and they can reach an agreement at any stage.

The process of taking an equal pay claim through the administrative and legal stages required to reach a conclusion can be very long and costly. Many claims are settled before they reach a tribunal hearing.

In bringing a claim, a claimant has to first establish a comparator for like work, work rated as equivalent and/or work of equal value. If a council chooses to defend the claim, the legal grounds on which pay differences can be justified are very complex.

There are almost 27,000 pending or unresolved equal pay claims

At the end of September 2016, 27 councils reported almost 27,000 equal pay claims remained live with the ETS (**Exhibit 7, page 21**). Angus, Dumfries and Galloway, reported East Lothian, Orkney and Renfrewshire had no live claims. Nine out of ten live claims are from female workers. Live claims represent over a third of all claims lodged with the ETS since 2004/05. Seven councils have over 50 per cent of all their claims still recorded as live. Thousands of claims currently in the system in Scotland have been live for over a decade.

Reasons reported by councils for the length of time taken in resolving live claims include:

- processing and assessing the validity of claims
- waiting for full information on the nature of the legal challenge
- the grounds for a claim changing, for example if an individual changes their legal representation
- time taken for claims to progress through the ETS
- waiting for the outcome of tribunals.

Challenges to councils' approaches to implementing the SSA across the UK created a complex legal environment. This includes significant cases where employment tribunal rulings have been appealed and taken as far as the UK Supreme Court, with different rulings at each stage. Councils have commonly waited on legal rulings in national test cases in determining whether to defend claims as part of their strategies to minimise costs. Employees have successfully challenged how some councils have handled and defended claims. For example, in *Cannop and others v Highland Council*, female claimants successfully challenged the council's approach to delaying and defending claims on procedural grounds.¹²

Another example of councils' defences against equal pay claims was that female workers and their male comparators had to be co-located for a claim to be valid. For example, more than six years after claims were raised, Dumfries and Galloway Council lost a UK Supreme Court ruling in 2013 that clarified that women and men can compare earnings across locations for the same employer, as set out in EU law.¹³ Similarly, City of Edinburgh Council lost a tribunal appeal from workers comparing themselves across locations.¹⁴

In another lengthy and complex case in 2014, the Court of Session ruled that female workers working in Glasgow City Council's arm's-length organisations (ALEOs) could legitimately compare their terms and conditions with male workers in the council.¹⁵

12. *Cannop and others v Highland Council* [2008] CSIH38; [2008] IRLR 634

13. *North v Dumfries and Galloway Council* [2013] UKSC 45

Reducing the gender pay gap

The causes of the gender pay gap are complex. As well as discrimination in pay grading systems, other factors, including occupational segregation and inflexible working practices can contribute to female workers earning less than their male counterparts.

Ensuring women and men receive equal pay for equal work should contribute to closing the gender pay gap. But in Scotland, the pay gap between all male and female employees (full-time and part-time workers) is currently estimated at about 15 per cent.¹⁶

Since 2013, public bodies have been required to publish information on their gender pay gap every two years. However, this is reported in different ways by different organisations, which makes it very difficult to determine the true scale of the issue.

Identifying a direct link between equal pay and a reduction in the gender pay gap is difficult given the complex factors involved (**Exhibit 8, page 23**). Only 15 councils provided information on the difference in their gender pay gap since implementing SSA. Even where councils have provided information, the way they measure the gender pay gap varies, making it difficult to assess performance.

In June 2017, the Scottish Parliament's Economy, Jobs and Fair Work Committee recommended that the Scottish Government:

- develop a suite of indicators to measure the underlying causes of the gender pay gap, using comprehensive data
- change the way it measures and reports the gender pay gap in its National Performance Framework (NPF) to take into account part-time workers in Scotland.¹⁷

Close the Gap

Close the Gap works in Scotland to influence and enable action to address the causes of women's inequality at work. Along with the Equality and Human Rights Commission (EHRC), it has highlighted limitations in the way public sector bodies calculate and report the gender pay gap. For example, in 2015 Close the Gap found that:

- **only 50 per cent of the public bodies it examined published adequate gender pay gap information**
- **35 per cent published inadequate gender pay gap information**
- **15 per cent did not publish any gender pay gap information.**

It also found there was limited evidence of the specific actions taken by public

sectors bodies to tackle the causes of the gender pay gap. In 2016, Close the Gap published revised guidance to help improve compliance and promote good practice. It also recommended publishing an appropriate suite of measures, including both the mean and median pay gap figures for all employees, the full-time pay gap and the part-time pay gap.

16. *Annual Survey of Hours and Earnings (ASHE) – gender pay gap by country April 1997 to 2016*, Office for National Statistics, October 2016. This was calculated on the median hourly earnings excluding overtime.

17. *No Small Change: The Economic Potential of Closing the Gender Pay Gap*, Economy, Jobs and Fair Work Committee, June 2017.

Governance and oversight of equal pay

The public sector equality duty was created under the Equality Act 2010 and came into force in April 2011. The public sector equality duty requires public authorities to take a proactive approach to tackling discrimination. Scottish specific duties were introduced in 2012. These set out a number of steps that employers must take to meet their public sector equality duty. For example, they must publish an equal pay statement every four years which contains their equal pay policy. They must also publish equality impact assessments on new or revised policies or practices. The Equality and Human Rights Commission (EHRC) guidance states that the equal pay policy should contain:

- a commitment to monitoring pay regularly in partnership with trade unions or employee representatives
- objectives and actions the council will take on equal pay, with a named senior manager responsible for implementation of the policy
- a commitment that the organisation will apply appropriate resources to achieve equal pay.

The EHRC also highlights that the most effective way of checking compliance with equal pay obligations is to carry out an equal pay audit. An equal pay audit involves comparing the pay of men and women doing equal work. Employers should look at the causes of any differences in pay. Where there are no valid reasons for the differences, they should take action to eliminate the inequality. Only 20 councils provided us with their latest equal pay audit but not all audits met with EHRC guidance.

Councils, along with all public bodies, published their most recent equal pay statements in April 2017. Close the Gap is assessing public bodies' compliance with the gender and employment aspects of the duty. The findings will be published in October 2017.

Councils should ensure that their pay system delivers equal pay, particularly as they go through periods of organisational change. For example, when delivering services through integration authorities for health and social care and ALEOs. Councils should take appropriate steps and follow good practice to go beyond legal compliance, to ensure they are meeting all their

equalities duties (**Exhibit 9, page 25**).

Elected members have a corporate responsibility to ensure that the council is taking all the necessary steps to comply with equal pay legislation. As part of that responsibility, elected members should ensure that the council has appropriate arrangements in place to manage outstanding equal pay claims. Elected members need to know how many equal pay claims are outstanding at any one time and how the council is dealing with these claims. Of the 21 councils that have more than ten live claims, only four provided elected members with routine update papers on equal pay litigation between September 2015 and September 2016.

Elected members also have a broader duty to promote equality. As part of discharging their equality obligations, elected members should regularly receive monitoring information on the progress their councils and, where appropriate, integration authorities and ALEOs that deliver services on their behalf, are making in reducing the gender pay gap. They should use this information to challenge officers on this progress.

Exhibit 9

Actions for councils and elected members

Councils must ensure they are fulfilling their public sector equality duties in relation to equal pay

This includes:

- **publishing an equal pay statement and equal pay policy**
- **assessing the impact of any changes that may affect equal pay**
- **publishing gender pay gap information.**

In complying with good practice, councils should:

- **use EHRC guidance for example when undertaking equal pay audits and developing equal pay policies**
- **use Close the Gap's guidance on meeting the public sector equality duty**
- **ensure their risk registers are up to date.**

For those councils using the SJC job evaluation scheme, they should ensure they implement the most recent edition.

Questions for elected members in overseeing, challenging and scrutinising equal pay

- **Have I been updated on the number of ongoing equal pay claims at my council? Am I satisfied they are being dealt with effectively?**

- Have I been updated on the potential cost of equal pay claims?
- Have I been updated on the steps my council is taking to mitigate against the risks of equal pay claims? For example:
 - Have I seen my council's equal pay audit? Did it meet EHRC good practice guidance? Are there any pay gaps? Can we sufficiently justify any differences in pay gaps?
 - Have I seen action plans and progress reports against my council's equal pay policy?
 - Have I been updated on changes in case law that might affect my council?
 - Have I seen equality impact assessments on any changes to my council's pay and grading system?
 - Has my council fully implemented the SJC third edition guidance and recommendations?
- Have I been informed about whether my council has allocated adequate resources to proactively carry out equality work around equal pay/gender pay gap beyond responding to equal pay claims?

Source: Audit Scotland, 2017

Appendix 1

Methodology

Documents we reviewed for our audit

We reviewed a wide range of documents during our audit, including the following:

- *The National Agreement on Pay and Conditions of Service for Local Government Employees* (The Red Book), which includes guidance on implementing Single Status.
- **The Equality Act 2010**
- Financial audit information and other work already carried out by local auditors.
- Delivering Equal Pay in Scottish Local Government, Unison Scotland submission to the Accounts Commission, May 2017.
- Scottish court papers.
- Inquiries carried out by Parliamentary committees in 2006 (Finance Committee), 2008 (Equal Opportunities Committee) and 2009 (Local Government and Communities Committee).

We asked councils for copies of:

- relevant minutes, papers and agendas for council meetings and appropriate council committees such as the Resources or Policy and Strategy Committee
- equality impact assessments and audits

- information on their gender pay gap.

Research

We commissioned an employment law specialist to independently review the historical development of equal pay law.

Data analysis

There is limited published information on equal pay in local government. We collected information from 32 councils across Scotland on the following:

- the number of equal pay claims lodged with the ETS (2004-16), how many are still live, and the outcome of those settled
- the cost of claims to councils
- when they implemented single status pay and grading structures
- if they used compromise agreements and how much they cost if they did
- information about how councils monitored progress with equal pay
- what challenges councils faced and lessons they learnt from implementing equal pay.

Councils record equal pay data in different ways, which made it difficult for us to directly aggregate and compare data. For example:

- some councils record claims by calendar year, others by financial year
- one council only maintained information on live claims on its database and did not hold information about claims that had been settled
- some councils could identify and quantify duplicate claims, while others could only indicate that their data included duplicates without specifying how many or when they had been lodged
- one council recorded data by the date settlements were made rather than when claims were lodged
- one council recorded the number of claimants rather than the number of claims.

Interviews we carried out for this audit

We selected six councils to visit to further our understanding of how single status had been implemented. These were Angus Council, East Ayrshire Council, the City of Edinburgh Council, The Highland Council, North Lanarkshire Council and South Lanarkshire Council. These councils represent a mix in terms of size, rurality, the number and cost of claims, the job evaluation scheme used, and the length of time they took to implement single status.

At each of these councils we conducted interviews with typically:

- the chief executive

- the director or head of finance
- the director or head of human resources and legal
- other appropriate council officers
- the council leader and conveners of relevant committees
- union representatives from Unite and Unison.

We also interviewed the following stakeholders:

- The Convention of Scottish Local Authorities
- Trade unions at national level, including the Scottish Trades Union Congress and Unison (STUC), and some local representatives
- The Scottish Government
- Close the Gap
- The Society of Personnel and Development Scotland
- A Queen’s Counsel, specialising in employment and discrimination law
- HM Court and Tribunal Service
- Consultant to the COSLA job evaluation consortium
- Legal Office of the NHS
- A lawyer and an independent equal pay consultant.

Appendix 2

The process of implementing SSA – City of Edinburgh Council

City of Edinburgh Council

2003

- Council agrees with unions to use an alternative job evaluation scheme to the SJC JES for the SSA – the Capital Scheme

2005

- Council agrees to try to resolve equal pay claims through compromise agreements to

prevent them going to tribunal

- Council acknowledges indefinite pay protection and bonus schemes are not defensible but decides cost of extending them to non-bonus earning groups is prohibitive
- **Single status to be implemented by May 2006**
- Unions and legal firms begin submitting claims on behalf of workers
- Council decides to defend claims from APT&C workers making comparisons with manual workers
- Very high risks of industrial dispute identified

2006

- Council considers options for funding equal pay and agrees to the disposal of assets, chiefly the Morrison Street development site
- Implementing SS is now branded 'Modernising Pay'
- Compromise agreements offered to 3,000 employees with 88% acceptance
- **SSA pay and grading scheme to be implemented 1 October 2006, ending bonus schemes**
- Negotiations frustrated by strained relations with unions including a temporary union embargo on the job evaluation process but by June there was agreement on the Capital Scheme
- Job evaluation process starts

2007

- Accepted compromise agreements discharge council's liability for these workers up to 1 Oct 2006
- **SSA pay and grading scheme to be implemented 1 April 2008**
- Council acknowledges recent tribunal judgements open up possibility of claims against pay protection, though this was being disputed in the courts so considered medium- to long-term risk and financial liability quantified
- Service reviews which are under way are likely to increase skill levels and responsibility in both female and male manual worker groups and may impact on future liabilities

2008

- Legal advice is to defend claims by males who have not yet lodged ET applications
- Negotiations with unions on the new pay structure begin but suspended pending the outcome of the Bainbridge case
- SSA package includes; new pay structure, working time arrangements, 3-year pay

protection, 36 hr week and conversion to monthly pay

2009

- Job evaluation completed and EIA carried out by external assessor
- Around 10% of staff covered by the SSA identified as losing income at the end of the pay protection period
- Council set deadline of March to conclude formal negotiations with the unions
- Legal advice following the Bainbridge judgement is to retain the 3-year protection period and offer compromise agreements to female staff
- Legal advice and advice from COSLA recommend continuing to defend claims from APT&C staff
- Refuse and street cleaning staff reject pay proposals and begin industrial action

2010

- Modernising Pay now part of a wider transformation programme, 'Future State'
- **SSA to be implemented 4 October 2010**
- Neighbourhood worker post created for street cleaning staff to mitigate loss of earnings at end of pay protection
- All staff except refuse collectors resolve industrial dispute in July. Refuse collectors are balloted and continue to reject pay package. Council adopts contingency arrangements employing private contractors
- After 80 formal meetings over 4 years, the final pay package was rejected by the unions in October. Management invoked a statutory change process in November. Bonus payments to end via the statutory change process
- Pay protection applied for max of 3 years from 1 Oct 2010. Unions disagree on the methodology for calculating level of protection

2011

- Over 1,500 claims made against the council have yet to be settled, but none have been considered by the ETS. It is not possible to predict how long it will take to settle cases through the legal process
- The total cost of settlements between 2006 and March 2011 was £47.1 million, discharging liability for the 2,071 employees concerned up to that date
- Formal notification of the end of industrial action received on 11 October 2011

Appendix 3

The process of implementing SSA – The Highland Council

The Highland Council

2000

- Council agrees to adopt national JES
- Project Board and Joint Working Party established

2001

- Job evaluation interviews piloted with staff
- Management and unions start work on design of single pay structure

2002

- Job evaluation interviews and verification continue
- Further work carried out on unified pay structure

2003

- 1,200 job evaluation interviews completed
- Appeals process agreed with unions

2004

- Around 8,500 employees to be affected
- Total of 1,500 job evaluation interviews completed
- Development of pay structure continues
- Council considers options to fund new pay structure including, eg freeze recruitment, encourage reduced hours for full-time posts, reduce posts
- **Council commits to SSA implementation date of 1 April 2005**

2005

- Job evaluation interviews and verification continue
- Negotiations with unions continue on harmonised terms and conditions
- Unions hold back from progressing claims pending negotiations
- Work starts on assessing council's potential liability

2006

- Initial assessment of potential liability based on a proposed National Framework for settling equal pay liabilities consistently across Scotland. Ultimately a National Framework was never agreed and each council had to reach their own local agreement with the unions
- Package of harmonised terms and conditions for SSA presented to unions for consideration
- Development of grading structure continues
- Over 2,500 compensation offers made to staff, with over 2,300 accepting
- Process puts pressure on HR resources

2007

- Council attends a pre-hearing at the Employment Tribunal to clarify certain legal issues around the statutory grievance procedure
- Unions given until March to respond to terms and conditions package for SSA
- Work ongoing to match 8,000 employees to a job family and generate job rank order reducing the number of grades from 115 to 15
- Council begins assessing impact on pay bill and the number of red circled employees
- **Proposed date for SSA implementation now 1 October 2006**

2008

- Gap compromise payments made to cover period from Sept 2006 to April 2008
- After 2 years of negotiations, SSA terms and conditions to be subject to union ballot
- Pay structure undergoes EIA by external assessor and **SSA implementation date 1 April 2008**
- 10,000 employees to be advised how the job evaluation exercise affects them (subsequently delayed)
- Council and unions work on transition programme on job redesign to deliver service improvements and minimise any negative impact on staff

2009

- EIA assessor requests more work on new harmonised terms and conditions
- Deadline of March set to agree harmonised terms and conditions
- Job evaluation letters finally sent to staff in February
- New pay structure implemented from 1 March 2009 and backdated to 1 April 2008
- Council reflects on Bainbridge ruling – unions request pay protection be extended to other employees whose comparators are red circled. Council decides it is unaffordable and

invites unions to negotiate a local agreement in place of the 3-year pay protection

- Council decides in August that statutory procedure be invoked if agreement on harmonised terms and conditions can't be reached. Letters to be sent to staff in October
- Almost 2,000 job evaluation appeals received. Council estimates it will take 9 months to work through first stage of the process

2010

- Unions to ballot on proposed terms and conditions. Unions respond to council by April with sticking points, including: transition to monthly pay, working pattern enhancements and overtime rates
- Craft operatives in Transport, Environmental and Community Services opt into the job evaluation process. This would remove bonuses and reduce liability for equal pay claims
- Collective agreement on harmonised terms and conditions implemented September

2011

- 33% of the 2,575 stage one job evaluation appeals were successful
- 11% of stage two appeals were successful
- Pay protection period ended on 31 March – management look at options to support staff about to lose income
- Settlement offers made to 1,000 claimants to settle liability up to the introduction of SSA in 2008
- Council decides to defend pay protection claims

Report

10

Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	21 March 2018
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Forward Programme for Future Meetings
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ advise members of the forward programme for the meeting of the Risk and Audit Scrutiny Forum in June 2018
- ◆ invite members to suggest topics for inclusion in the Forum's forward programme

2. Recommendation(s)

2.1. The Forum is asked to approve the following recommendation(s):-

- (1) that the report and the outline forward programme for the meeting of the Risk and Audit Scrutiny Forum in June 2018, attached as an appendix to the report, be noted.

3. Background

3.1 As part of a range of improvement measures introduced as a result of Audit Scotland's report on the Audit of Best Value and Community Planning (2009), an Action Plan for the Risk and Audit Scrutiny Forum was prepared. One of the actions contained in the Plan was to include, as a standard agenda item, a list of items proposed for consideration at subsequent meetings of the Forum to provide an opportunity for members to inform future agendas. The outline forward programme for the Forum meeting in June 2018 is attached, for members' information, as an appendix to the report.

4. Employee Implications

4.1. There are no employee implications.

5. Financial Implications

5.1. There are no financial implications.

6. Other Implications

6.1. There are no risk or sustainability issues associated with the content of this report.

7. Equality Impact Assessment and Consultation Arrangements

7.1. The report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy and, therefore, no impact assessment is required.

7.2 There was no requirement to undertake any consultation in terms of the information contained in this report.

Paul Manning
Executive Director (Finance and Corporate Resources)

6 March 2018

Link(s) to Council Values/Objectives/Ambitions

Value – Accountable, Effective, Efficient and Transparent

Previous References

Executive Committee 8 July 2009

List of Background Papers

Audit Scotland Audit of Best Value and Community Planning

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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APPENDIX – RASF OUTLINE FORWARD PROGRAMME TO JUNE 2018

Meeting Date	Item	Responsibility
13 June 2018	1. Internal Audit Activity Report	Audit and Compliance Manager
	2. Annual Governance Statement for 2017/2018 and Quarter 4 Year End Report	Head of Administration and Legal Services
	3. Interim Management Letter for Year Ended 31 March 2018	External Auditor
	4. Audit Scotland – Principles for a Digital Future	Head of IT Services
	5. Internal Audit Annual Assurance Report 2017/2018	Audit and Compliance Manager

N.B:-. Audit Scotland national studies and reviews will appear as a recurring item but the frequency and subject matter will vary according to their programme.

