

Report

Agenda Item

3

Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	23 February 2012
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Internal Audit Activity as at 31 January 2012
----------	--

1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Update the Risk and Audit Scrutiny Forum on work recently completed
- ◆ Seek approval for amendments to the 2011/2012 Audit Plan

2. Recommendation(s)

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

- (1) that progress and performance is noted
- (2) that revisions to the 2011/2012 Audit Plan are endorsed

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 2012. This reported on work completed in the period 1 October to 15 December 2011. This report covers all work completed in the period 16 December 2011 to 31 January 2012. Performance information is also included.

4. Performance

- 4.1. As at the end of January 2012, performance in delivering the 2011/2012 internal audit plan is adequate with 49% of the plan completed to a draft stage. Projections to the end of February 2012 suggest that the percentage of draft reports issued, at that point, will be sufficient to ensure the Service is on track to meet set targets by the end of the financial year. This reflects the prioritisation of work in the period under review, namely, the preparation of the 2012/2013 Audit Plan, which concluded on 19 January 2012. The other key performance indicators reflecting quality, on time and within budget are summarised in Appendix One together with explanations. 77% of draft reports have been delivered on time and 80% within budget. The marginal shortfall of the issue of draft reports within 21 days reflects the Christmas period and is expected to be addressed by 31 March 2012. 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. 74% of audit assignments were concluded to a signed action plan within the target seven weeks, below the target set of 80%. This was due to the Christmas holiday

period and steps are being taken to ensure the target is met by the end of the current financial year.

5. Findings

5.1. Appendix Two lists all assignments completed in the period 16 December 2011 to 31 January 2012. Detailed findings from the more material pieces of work follow. Findings have been grouped under the strategic risk to which they are most closely aligned.

5.2. Assurance of financial control, I214177 Delivery of 2009/2010 Savings: findings were reported to the client in October 2011 after which additional clarification was sought and supplied. Key outcomes from this assignment are as follows:

- ◆ revenue budget savings were clearly identified for 2009/2010 (£12,346m)
- ◆ delivery of these savings were monitored with a mid-term review of delivery reported to the CMT. There was not a concise outcome for each individual saving, however, budgets were appropriately reduced to reflect planned savings and these budgets are monitored through Committees and Financial Resources Scrutiny Forum.
- ◆ not all anticipated savings were delivered, assurance for delivery of some can be substantiated and in other instances alternative savings were found.
- ◆ actions to address identified areas for improvement have been agreed with the Accounting and Budgeting Manager and subsequently implemented.

An allowance has been made in the 2012/2013 audit plan for the progress and delivery of a sample of 2011/2012 savings to be reviewed.

5.3. Assurance over governance and reputational risks, I686293 Community Council Scheme Compliance: There are currently 34 Community Councils within South Lanarkshire with a total budget allocation of £28,000. A review of the Council's administration of these Community Councils confirmed that adequate controls are in place over some areas of administration of activity but that there are also areas for improvement including:

- ◆ strengthening the links between payment of grants and compliance with the conditions attached to the grant
- ◆ ensuring regular review of procedures by South Lanarkshire Council to confirm ongoing relevance and compliance
- ◆ requiring audit certificates to provide a minimum level of assurance and
- ◆ monitoring trends in expenditure for reasonableness and identifying gaps in financial performance measures

5.4. Forum members are asked to note findings.

6. Delivery of the 2011/2012 Audit Plan

6.1. Since the beginning of 2012, a review has been underway to develop a workplan through to 31 March 2012 that reflected current resources and requests for additional unplanned work. Given there is no meeting of the Forum during March, the following analysis aims to provide the Forum with projected delivery estimates. The 2012/2013 Audit Plan contains 92 assignments, 45 of which have been completed to draft stage by 31 January 2012. Of the remaining 51% of the Plan still to be delivered to draft report stage at 31 January 2012, 21.7% relates to draft reports that are expected to be issued in February 2012 with a further 25% in respect of draft reports and year-end tasks that will be delivered in March 2012. Only 9 jobs (from 92) are not in progress as at 1 February 2012, 3 of which relate to year-end reports

and 2 as a result of client delays and additional unplanned work. The remaining 4 jobs are detailed in Appendix 3 and agreement is sought from the Forum to defer completion of work in these areas until early 2012/2013. This is in line with practice in previous years and the deferral of two financial audits should be seen in the context of representing less than 10% of the planned 550 days of financial audit work which will be completed by 31st March 2012.

- 6.2. The suggested approach will ensure that the remaining audit assignments can be delivered by 31 March 2012 to inform a balanced and evidenced Statement of Assurance on the Council's control environment for 2011/2012.

7. Employee Implications

- 7.1. Steps have been taken to address employee resource issues to ensure that there is no material impact on the service delivered by Internal Audit.

8. Financial Implications

- 8.1. At the end of accounting period 11 (20 January 2012), the Internal Audit Section was underspent by £33,070 due to additional income and vacancies.

9. Other Implications

- 9.1. 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.

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

10. Equality Impact Assessment and Consultation Arrangements

- 10.1. There is no requirement to equality assess the contents of this report. Heads of Service are consulted on each and every audit assignment.

Paul Manning

Executive Director (Finance and Corporate Resources)

1 February 2012

Link(s) to Council Values/Improvement Themes/Objectives

- ◆ Improvement Theme – Governance and Accountability
- ◆ Objective – Governance and Risk Management

Previous References

- ◆ Annual Internal Audit Assurance Report 2010/11 report to RASF May 2011
- ◆ Progress report to RASF July 2011
- ◆ Progress report to RASF September 2011
- ◆ Progress report to RASF November 2011
- ◆ Progress report to RASF January 2012

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:-

Yvonne Douglas, Audit Manager

Ext: 5957

(Tel: 01698 455957)

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

Key audit performance indicators as at 31 January 2012**Appendix One**

Indicator	Numbers	Percentage	Target	Comment
Assignments delivered within budget	81/101	80%	80%	Most over-runs are marginal and several relate to old year work. Only one significant overrun in period reported in relation to I686260 Information Governance – RP1 User Expertise where additional time was required for student training.
Draft reports delivered within 21 days of fieldwork completion	86/112	77%	80%	This PI is slightly below target although it is anticipated that this will be reversed by 31 March 2012. A further nine reports in the period were not issued within the target time-scale due to resource constraints.
Audit plan completed to draft by 31 March 2012	45/92	49%	100% by 31.03.12	Behind % completion as at January 2011 although expected to be remedied in February 2012. Reason detailed within report at 4.1.
Audit recommendations delivered on time (as at 31 December 2011)	138/175	79%	80%	Slight movement in performance. External (83%) exceeding target with internal (78%) marginally short of target. This PI relies on informal assurances from those tasked with delivery of actions.
Time taken for clients to agree findings and actions (Target 7 weeks)	92/124	74%	80%	In the period reported, 11 further assignments were outwith the 7 week target, in the main due to resource constraints and the Christmas holiday period.

Job no.	Assignment name	Draft Issue	Final Issue	Assurance Info
I214177	Delivery of 2009/10 Savings	21/01/2011	5/10/2011	See main report 5.2
I686286	Information Governance – RP2 User Access	14/10/2011	20/12/2011	Adequate controls in place. Improvements required in relation to review of user activity log and regular passwords changes. Risk mitigated by the relatively small number of Fleetplan users.
I686293	Community Council Scheme Compliance	17/11/2011	15/12/2011	See main report 5.3
I686260	Information Governance – RP1 User Expertise	13/12/2011	16/12/2011	Adequate controls in place. Improvements required in relation to the validation of qualifications, ongoing training of super-users and the monitoring of super-user activity.
I532036	Benefits – Single Sign On Security Password	16/12/2011	30/01/2012	Adequate controls in place over management and security of benefits system and documentation held. Client perceives improvement over security of information held on claimants. Some improvements required in relation to reviews regarding user access and permissions.
I674306	Missing PC	29/11/2011	26/01/2012	Reissue inventory procedures and proformas to client with spot checks to gain assurance over inventory process and general controls.
I679308	Employee Benefit Fraud	14/12/2011	01/01/2012	Employee failed to disclose overtime on main job and earnings from second job. An overpayment was raised in relation to the overclaim and an Administrative Caution offered and accepted by the employee.

Proposed Amendments to 2011/12 Audit Plan

Appendix Three

Assignment Number	Assignment Name	Justification and Proposed Approach
I210215	Strategic Financial Management	Request for additional unplanned work prevents delivery of assignment. Draft 2012/13 SRA indicates financial management as an area of no significant risk. Specific allowance in 2012/13 Audit Plan with early delivery planned in new financial year.
I212212	Payroll Reconciliation	Request for additional unplanned work prevents delivery of assignment. Discuss with client and allocate time from 2012/13 Contingency or alternatively exchange with planned 2012/13 Payroll assignments and provide early delivery of assignment in new financial year, if required.
I341724	Procurement Improvement and Compliance	Assistance for PCA was provided during year as an addition to the 2011/12 Audit Plan.
I342727	Re-ablement Assurance	Timing delay has led to audit assignment not being delivered in 2011. Discussed with client and agreed allocate time from 2012/13 Contingency for early delivery in new financial year.