South Lanarkshire Council
Follow up of 2009/10 Audit Recommendations during the 2010/11 Audit

June 2011

pwc

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Section 1 – 2010/11 Follow Up

Executive Summary

1.01   As part of the audit work we performed in March/April 2011, we have undertaken a review to report on the progress of implementation of the agreed audit recommendations arising from our previous audits.

1.02   This follow up relates to recommendations contained in the following reports:

- Follow Up Report - 2008/9;
- Internal Controls Report and Follow Up Report - 2009/10; and
- Annual Report to Members - 2009/10.

1.03   Of the 24 agreed recommendations made in the reports issued, progress at the time of our visit was as follows:

Status	Follow-up Report 2008/09	Internal Controls and Follow Up Report 2009/10	Annual Report to Members 2009/10	Total
Fully implemented	-	7	4	11
Action in progress	-	2	2	4
Not yet implemented	-	-	-	-
Not yet due for implementation	-	-	1	1
Superseded by another recommendation	4	2	-	6
No longer applicable	1	1	-	2
Total Recommendations	**5**	**12**	**7**	**24**

1.04   Overall, the Council has fully implemented eleven of the total recommendations made in 2009/10. This represents good progress towards improving standards of internal control within the organisation.

1.05   Four recommendations have been classified as action in progress. Further action required by management to implement these recommendations is detailed in *Section 3 – Areas where further management action is required*.

1.06   The remaining recommendation not yet due for implementation relates to the prioritisation of the internal audit plan. This action has progressed well, including meetings between the Head of Audit and Improvement with all Executive Directors to secure buy in to the annual audit planning approach.

1.07   The six recommendations which are noted as "Superseded" and two that are "No longer applicable" have either been merged with similar recommendations or the environment has changed to the extent that the recommendation is no longer valid, details are provided in *Section 2 – Follow Up Review*.

1.08   To assist management in assessing each audit finding and recommendation, we have assessed the risk to the organisation of each of the recommendations which have not yet been fully implemented or which have still to be implemented and have categorised each recommendation according to the criteria shown below:

Risk Assessment	Definition	Number
High	Significant control weakness requiring immediate attention by management	3
Medium	Control weakness identified which needs to be rectified but where there is no material impact on the achievement of the control objectives	1
Low	Minor control weakness identified	1
	Total ongoing recommendations	5

1.09   Of the three recommendations originally noted as high risk, one is not yet due for implementation.   The two recommendations past their implementation date are in respect of:

- Efficiency savings; and
- Procurement Capability Assessment.

1.10   Details of these recommendations are provided in the action plan in **Section 3 – Areas where further management action is required.**

Section 2 – Follow Up Review

Summary of Progress

Reference	Original Recommendation – Internal Controls Report 2008/09	Risk	Implementation status	Action Ref
A.1	Payroll reconciliations should be produced each period and alternative staff should be trained in the preparation of reconciliations in the absence and be assigned to fulfil that role in the absence of main preparer.	Low	This has been superseded by Ref B.9	-
A.2	Reconciliations between the Council's Council Tax system, General Ledger and Valuation System should be retained. This copy should be signed and dated to evidence review on a timely basis and that where necessary corrective action has been taken.	Medium	This has been superseded by Ref B.2	-
A.3	The monthly review of amendments to standing data should be resumed. The NDR Team Leader should ensure that these are carried out each month on a sample basis.	Low	This has been superseded by Ref B.10	-
A.4	Management should review the policy in place for opening and recording mail received into Brandon Gate to ensure the risk of fraud and/or misappropriation is minimised.	Low	No longer applicable. Management has reviewed the policy but no longer deem the recommendation feasible.	-
A.5	Management should ensure that all bank reconciliations are completed on a timely basis and unreconciled differences reviewed and investigated as part of the monthly process. In addition, copies of the reconciliations should be retained and signed as reviewed by an appropriate member of staff to confirm reconciliation complete and action taken on unreconciled differences.	Medium	This has been superseded by Ref B.11	-

Reference	Original Recommendation – Internal Controls and Follow Up Report 2009/10	Risk	Implementation status	Action Ref
B.1	Staff responsible for awarding council tax discounts and exemptions should ensure that evidence is obtained and retained on file to support the decision to award discounts and exemptions.	High	Complete	
B.2	• In order to demonstrate an appropriate review of the council tax reconciliations from the Assessor's system to the Northgate System and the Northgate system to the Billing system, the reconciliations should be printed out, dated and signed as reviewed by a senior team member. • Ensure that reconciliations between the Council Tax System and the Valuation system are performed on a weekly basis. In addition, ensure that the reconciliation performed between the Council Tax System and the General Ledger is appropriately reviewed.	Low	This has been superseded by and action raised in 2010/11 Interim Controls visit and will be reported in the 2010/11 Interim Management Letter	
B.3	Management should ensure that a log of minor changes is kept for all IT applications. The log should detail when the change was tested, authorised and updated from the test to production environment to provide a suitable audit trail.	Low	Complete	
B.4	Staff should be reminded that new users should only be added to Academy after a complete and authorised form is received. All emails from the IT department relating to Academy access requests for Housing Association staff should be retained as evidence that users were authorised.	Low	Complete	
B.5	Each of the seven IT Business Teams should be provided with a regular report from HR to ensure that all leavers are identified and dealt with appropriately with regard to removing their access rights to the South Lanarkshire network. It is line managers' responsibility to instruct the IT Business Teams how to deal with leavers, while feedback should be provided where line managers or departments do not promptly inform the IT team of a leaver. At the previous audit it was agreed that this action reflected the processes that may be involved with Starters and Leavers. It was agreed that IT would be jointly responsible with Personnel for the investigation of the issue with associated outcomes for implantation.	Medium		Action Point 1
B.6	In order to demonstrate an appropriate review of the NDR reconciliation from the Assessor's system to the NDR system (Northgate), the reconciliations should be prepared on a timely basis, dated and signed as reviewed by a senior team member.	Low	Complete	

Reference	Original Recommendation – Internal controls Review 2009/10	Risk	Implementation status	Action Ref
B.7	Management should ensure that they are paying suppliers in the most efficient manner, and consider the changes which would need to be made should the 10 day payment policy direction from Government become prescriptive.	Medium	No longer applicable – The Council is adopting a PI of paying 85% of invoices within 30 days.	
B.8	All finance staff and resources should be reminded that new ledger code requests require to be counter-signed by an accountant before being created on the system.	Low	Complete	
B.9	Alternative staff should be trained in the performance of payroll reconciliations in order to ensure this key control operates throughout the period.	Low	Complete	
B.10	In recording amendments to standing data in the NDR system a summary sheet should be prepared, detailing standing data that has been amended. This sheet should be signed off by the Team Leader as reviewed.	Low	This has been superseded by and action raised in 2010/11 Interim Controls visit and will be reported in the 2010/11 Interim Management Letter	
B.11	Management should ensure that all bank reconciliations are completed on a timely basis and unreconciled differences reviewed and investigated as part of the monthly process. In addition, copies of the reconciliations should be retained and signed as reviewed by an appropriate member of staff to confirm reconciliation complete and action taken on unreconciled	High	Complete	
B.12	Management should review the journal report produced for each Resource Team. In particular, management could increase the threshold of journals included on the report and remind all Resources to review the report and take action where necessary.	Low		Action Point 2

Reference	Original Recommendation – Annual Report 2009/10	Risk	Implementation status	Action Ref
C.1	As part of initiatives to generate efficiency savings, management should consider six key areas that our experience in other sectors has shown may be relevant in addressing the financial challenges ahead: • Completeness and awareness of the size of the challenge • Strong leadership • Need to engage with the whole organisation and external stakeholders • Realistic and detailed plans to resolve the situation • Rigorous implementation (programme management arrangements) • Financial control and discipline Management need to work quickly to ensure that tangible savings and change initiatives are in place for 2011/12 (and beyond). These plans should be flexible and be refreshed regularly in order to address the ever-changing environment and requirements of the forthcoming Scottish Budget announcement.	High		Action Point 3
C.2	We recommend transactions of a material or unusual nature and that transactions of this nature are only undertaken in exceptional circumstances supported with a sound business and legal case.	Medium	Complete	
C.3	The Council should closely monitor the actions it has put in place to address its sub-optimal procurement arrangements, with a view to ensuring it can demonstrate that it is achieving best value across the various performance categories.	High		Action Point 4
C.4	The Council should promote consistent risk management activity throughout the organisation, whereby the recording of mitigating controls and actions are applied regularly and uniformly.	Medium	Complete	
C.5	Internal audit adopt a revised reporting format for presentation at the Risk and Audit Scrutiny Forum, enabling Forum members to clearly understand the role of internal audit in unplanned and investigative work undertaken in respect of risk issues facing the Council.	Medium	Complete	

Reference	Original Recommendation – Annual Report 2009/10	Risk	Implementation status	Action Ref
C.6	Given the internal audit resources currently available to the Council, it is recommended that Internal Audit reconsiders all work planned for 2010/11, as well as the compilation of the 2011/12 internal audit plan, based on the contribution it will make to the significant risks and challenges faced by the Council. On this basis, internal audit work should be re-prioritised to ensure that appropriate value protecting and enhancing reviews take place on a timely basis, by appropriately qualified staff and with full quality review. Internal audit should therefore take the opportunity to re-align its resource capabilities and arrangements to those best practice arrangements being achieved by leading edge internal audit providers.	High	Not due for implementation until July 2011	Action Point 5
C.7	Internal audit should be engaged to perform a follow-up review in respect of the NFI weaknesses identified in order to ensure the procedures implemented by management have been successful.	Medium	Complete	

Section 3 – Areas where further management action is required

Refer to the following updates made to matters raised to the South Lanarkshire Council in prior years:

A.   Internal Controls and Follow-up Report - 2009/10

B.   Annual Report to Members - 2009/10

A. Internal Controls and Follow Up Report 2009/10: Detailed Findings

The following actions contain the original findings, and recommendations; where applicable a revised recommendation is included.

Action Point – 1	Removing leavers IT access rights	Action in Progress

Sample testing was performed to ensure leavers are being removed from IT systems and the network in a timely manner. IT has addressed the issue of network leavers by continuing its periodic review of inactive users. This has been tested and we noted five exceptions from a sample of forty five where an active user account existed for an SLC leaver. It was noted that none of these leavers had accessed the SLC network after the leaving date.

Finding rating	Recommendation	Responsible person / title
Medium	**Original recommendation:** Each of the seven IT Business Teams should be provided with a regular report from HR to ensure that all leavers are identified and dealt with appropriately with regard to removing their access rights to the South Lanarkshire network. It is line managers' responsibility to instruct the IT Business Teams how to deal with leavers, while feedback should be provided where line managers or departments do not promptly inform the IT team of a leaver. **Original implementation date:** December 2010 **Update:** The IT and HR departments should continue to work towards creating an effective process for ensuring that all leavers from the organisation are communicated to the IT department so that network access can be disabled or deleted. A project was initiated jointly sponsored by Corporate and IT. The project has completed extensive Business analysis of Starters, Leavers and the associated system changes. **Response** Review of outcome from the project scheduled for May 12 2011 and implementation dates will be agreed along with the precise scope and ownership of the various responsibilities.	Kay Brown, Head of IT and Kay McVeigh, Head of Personnel **Target date:** August 2011

Action Point – 2	Manual journal reviews	Action in progress

Reports of manual journals are prepared by Accounting and Budgeting and sent to key contacts within Resources to enable review of the manual journals being processed. Through discussions with a sample of resources, the review of manual journals being processed is not being performed consistently across each of the seven council resources and feedback was received indicating a lack of understanding of the expected control to review the manual journal reports for reasonableness.

Finding rating	Recommendation	Responsible person / title
Low	**Original recommendation:** Management should review the journal report produced for each Resource Team. In particular, management could increase the threshold of journals included on the report and remind all Resources to review the report and take action where necessary.	Paul Manning, Head of Finance

Original implementation date: End April 2010

Update: Management should communicate to each resource the controls introduced and ensure that the report is reviewed on a monthly basis, printed and signed and dated.

Response

Accountants and Support Team staff reminded of this after the audit in early 2010. This control is in place regarding accountant counter-sign.

2 members of the support team are fully trained in the Payroll reconciliation process with another member of the team competent in the completion of the initial reconciliation control check.

A&B Manager will re-issue to Resources the requirement and rationale behind the journal exceptions report. In addition, the threshold will be revised to £0.100m as per audit guidance.   Proposed completion date end June 2011

Target date:

30 June 2011

B. Annual Report 2009/10: Detailed Findings

Action Point – 3 Efficiency savings	Action in progress

The Council remains committed to the efficient government targets. As further savings requirements have been identified during the 2011/12 budget setting process have ensured the areas identified in the original action have been considered in identifying both efficiencies and wider savings opportunities. Various key stakeholders have been consulted during the budget setting processes and the efficiencies targets are considered from broader areas of the council. The 2011/12 budget setting process has been completed and the approved budget includes detailed efficiency savings. The original recommendation will remain "in progress" to ensure it is revisited in detail at the final audit visit to ensure progress remains against the 2011/12 efficiencies targets.

Finding rating	Recommendation	Responsible person / title
High	**Original recommendation:** As part of initiatives to generate efficiency savings, management should consider six key areas that our experience in other sectors has shown may be relevant in addressing the financial challenges ahead: • Completeness and awareness of the size of the challenge • Strong leadership • Need to engage with the whole organisation and external stakeholders • Realistic and detailed plans to resolve the situation • Rigorous implementation (programme management arrangements) • Financial control and discipline Management need to work quickly to ensure that tangible savings and change initiatives are in place for 2011/12 (and beyond). These plans should be flexible and be refreshed regularly in order to address the ever-changing environment and requirements of the forthcoming Scottish Budget announcement. **Original implementation date:** March 2011 **Response:** The six key areas for consideration are being addressed in the Council's approach to its ongoing financial strategy. This was evident through the conclusion of the budget setting process for 2011/12. An approach to the financial strategy and the budget setting process for 2012/13 is currently being developed. Presentation of this to committee will be agreed by the Chief Executive. It builds on the good elements of practice evident in the 2011/12 process and is mindful of the six areas highlighted by PwC. The package of prioritised savings developed during 2010 will remain at the heart of our strategy process. Again, it should be noted that the financial strategy will depend heavily on the level of grant received from the Government, which at this point remains unknown. The delivery of the savings identified during the 2011/12 budget, will remain in focus during the course of the current financial year. This is now a feature of 4 weekly budget monitoring meetings with Resource departments.	Chief Executive / Head of Finance **Target date:** Ongoing through 2011/12

Action Point – 4	Procurement Capability Assessment	Action in progress

In 2010/11 South Lanarkshire Council again received a Procurement Capability Assessment score within the range deemed to be 'non-conformance', (24 from 100). While this is an improvement from 2009/10 score (11) the grading indicates considerable areas for improvement still exist.

Finding rating	Recommendation	Responsible person / title
High	**Original recommendation:** The Council should closely monitor the actions it has put in place to address its sub-optimal procurement arrangements, with a view to ensuring it can demonstrate that it is achieving best value across the various performance categories. **Original implementation date:** March 2011 **Response** There has been progress made on the procurement project to date : a structure has been put in place by the Council; manned by experienced staff; and a foundation laid for the future of procurement within the Council. However, in monitoring progress of this project, a need for a re-focussing of the relationship with Resource departments and in our approach to the areas flagged by the PCA, has been identified. For these reasons the procurement function is being reviewed at present. This is in progress at present. An outcome from the review will be the production of a Procurement Strategy which is now progressing. A draft was produced by the Procurement Managers during March 2011 and is available for view if required. This is now in the process of discussion with Resource departments via the Procurement Review Working Group (minutes of these meetings are available for review). When the strategy is agreed it will be formally approved via committee and rolled out.	Head of Finance **Target date:** December 2011

Action Point – 5 Internal Audit	Action in progress

The merging of Internal Audit and Risk Management with the Improvement Unit, as approved in January 2011, is highlighted by management as a restructuring that will help to address this action; helping to ensure the internal audit function is aligned with the Council's wider improvement agenda and Corporate objectives, with resources appropriately focused as a result.

Management agreed an implementation date of July 2011 for the original recommendation included below. The action and agreed response by management will therefore be considered further at our final audit visit and progress reported following that visit.

Finding rating	Recommendation	Responsible person / title
High	**Original recommendation:** Given the internal audit resources currently available to the Council, it is recommended that Internal Audit reconsiders all work planned for 2010/11, as well as the compilation of the 2011/12 internal audit plan, based on the contribution it will make to the significant risks and challenges faced by the Council. On this basis, internal audit work should be re-prioritised to ensure that appropriate value protecting and enhancing reviews take place on a timely basis, by appropriately qualified staff and with full quality review. Internal audit should therefore take the opportunity to re-align its resource capabilities and arrangements to those best practice arrangements being achieved by leading edge internal audit providers.	Heather McNeil, Head of Audit and Improvement **Target date:** July 2011
	Response A review of the Internal Audit Plan for 10/11 was completed in November 2010. The results were approved by the Chief Executive and reported to the Risk and Audit Scrutiny Forum on 16 December 2010. The 2011/12 plan was prepared following consultation with the CMT and showing links to top risks and with each assignment matched to skills and risk assessed prior to inclusion. The planning strategy was shared with PwC and the final plan was endorsed by them in January 2011 and approved by the Executive Committee on 23rd March 2011. In terms of Quality Assurance (QA). there is a four stage process in place and the results of an updated skills review, conducted in addition to the normal PDR process, was reflected in the recent Internal Audit promotional publication "Who we are and what we do". Last year's benchmarking with public sector providers was reported to the Forum on 23 September 2010 and an update on the Continuous Controls Monitoring project, which arose from networking sessions with private sector providers, was provided at the December 2010 meeting. Other private sector benchmarking continues and a report will be prepared by July 2011. 98% of the plan for 2010/11 was completed to draft by 30 April 2011 which exceeded the agreed target.	