

Report

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Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	17 September 2013
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Internal Audit Activity as at 31 July 2013
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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 31 July 2013
- ◆ Present the new Key Messages page that has been developed for reporting to the Risk and Audit Scrutiny Form
- ◆ Provide an update to the Risk and Audit Scrutiny Forum on the 2012/2013 annual report from the Chair of the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG)
- ◆ Provide an update to the Risk and Audit Scrutiny Forum on the new Public Sector Internal Audit Standards (PSIAS) effective from 1 April 2013

2. Recommendation(s)

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

- (1) that progress and performance is noted
- (2) that the format of the new Key Messages is noted as a means for future reporting to the Forum
- (3) that the content of SLACIAG's 2012/2013 annual report is noted
- (4) that it be noted that the new PSIAS became effective on 1 April 2013

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 June 2013. This reported on work completed in the period 29 March 2013 to 30 April 2013. This report covers all work completed in the period 1 May 2013 to 31 July 2013. Performance information is also included.

4. Performance

4.1. As at 31 July 2013, 49% of 2013/2014 Audit Plan has been started and 19% delivered to draft report stage. The other key performance indicators reflecting quality, on time and within budget for the period to 31 July 2013 are summarised in Appendix One together with explanations. 86% of draft reports have been delivered on time and 92% within budget, exceeding the targets set 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. 91% of audit assignments were concluded to a signed action plan within the target seven weeks, exceeding the target set of 80%.

5. Findings

- 5.1. Appendix Two lists all assignments completed in the period 1 May 2013 to 31 July 2013. Detailed findings from the more material pieces of work follow with a link to the strategic risks to which these areas are most closely aligned.

5.2. Assurance over contract risks:

♦ I252257 Debt Recovery Contract

There is good assurance that the debt recovery contract is managed in accordance with contract specifications and that all financial and operational aspects are monitored and reported. Value for money is generally being achieved under the existing contract, however, the current diligence arrangements will be reviewed in advance of the next tender exercise.

♦ I251258 Quick Quote

The use of Quick Quote for low value contracts has increased throughout 2012. The inherent system controls implemented by the Finance and Corporate Procurement Team ensures full compliance with the Council's Standing Orders on Contracts. There is scope for further increases in Quick Quote usage and the introduction of some additional controls and enhanced system monitoring would be prudent.

5.3. Assurance over financial risks:

♦ I681335 Savings and Efficiencies

Savings project monitoring and reporting controls are considered to be sufficiently robust to ensure that project shortfalls are quickly identified and appropriate action is taken to address them.

The progress and delivery of 2011/2012 savings projects was found to have been successfully managed and reported.

♦ I682336 Fleet Trading Accounts

There is good assurance that, overall, the trading accounts for Fleet Services are accurate and robust. The Accounting Code of Practice requirements are being complied with and controls over the calculation of charges, reporting of and the accuracy of data throughout the trading account process were found to be generally robust. Some further improvements have been recommended and ongoing work being carried out by Fleet Services on an Asset Management Plan should provide further assurance in some of these areas.

5.4. Assurance over operational risks:

♦ I342756 Common Repairs

There are adequate controls in place for the administration of factoring records and charges and for the investigation of variances in repair costs. Statements of Service have been issued to factored homeowners and charging is carried out in accordance

with Council policy. Although there were no significant areas of weakness, improvements have been recommended within areas that are within the direct control of the Factoring Service and relate to implementing more efficient working practices for the investigation of variances and reviewing procedures surrounding costing of repairs and re-charging.

5.5. Forum members are asked to note performance and findings.

6. Key Messages Page

6.1. In November 2012, an action plan was presented to the Forum that addressed gaps in adherence to the Code of Practice and to best practice in relation to audit committees. One of the actions contained within this action plan was to review the format of audit reports and develop Executive Summaries that improved reporting practice.

6.2. Previously, where risks were deemed to be significant for an audit assignment, a summary of the audit opinion was reported to the Forum as part of the routine 'activity update' report (under Findings - Section 5). As a result of the above review, a new 'key messages' page has been developed to replace this practice. For 2013/2014 onward, key messages from assignments, that derive from significant risks, will be presented to the Forum in separate single page documents appended to the routine 'activity update' report. The intention is to give greater context to key audit findings and to facilitate easier scrutiny.

6.3. The key messages will convey the key points from the assignment in terms of findings, examples of good practice and areas for improvement with an emphasis on framing these in a true and fair manner.

6.4. The format of such a page was developed in a small number of 2012/2013 assignments and for one of these assignments, a copy of the key messages has been included at Appendix Three as an example of the reporting format that will now be adopted. This assignment involved a review of the Council's Financial Strategy to provide assurance that this was robust and set out how financial resources would be matched to priority objectives over the medium term.

6.5. Internal audit will continue to work with Resources to refine this approach during 2013/2014 and to further develop the format to support scrutiny.

6.6. Forum members are asked to note this format and approach to reporting.

7. Progress Against Strategy

7.1. As reported to the Forum in June 2013, the Code of Practice 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.

- 7.2. Delivery of the strategy will be evidenced by completion of the 2013/2014 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.

8. Annual Report from the Chair of SLACIAG 2012/2013

- 8.1. Delivery of the Audit Manager role is supported through the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG). Quarterly meetings are convened and a programme set to undertake cross cutting audit initiatives and ensure continuing professional development of members. The Group has a clear purpose to develop and improve the practice of internal audit in Scottish local authorities and four key objectives have been set:-
- ◆ to raise the profile of the Group
 - ◆ to identify areas of work where an inter-authority approach could be taken
 - ◆ to consider development and training needs
 - ◆ to seek statutory recognition for the role of internal audit in Scotland
- 8.2. The purpose of the annual report is to summarise the activity of the Group and key achievements. The 2012/2013 annual report was presented to members of the Group in June 2013. The most significant development during 2012/2013 was the formalisation of SLACIAG's status as a Special Interest Group of CIPFA Scotland which allows representation on the CIPFA Scottish Branch Committee.
- 8.3. The Group continues to provide a training programme for the collective training and development of its members and their teams and during 2012/2013 was also asked to provide representation on the UK Internal Audit Standards Advisory Board, submitting a collective response to the consultation on the new Code of Practice (see Section 9).
- 8.4. A further Computer Audit sub-group also meets separately from SLACIAG providing a forum to share and discuss computer audit practices and issues. A member of Internal Audit attends these meetings and provides an update to the team at staff meetings.
- 8.5. The Forum is asked to note the Group's work and support the continuing commitment of South Lanarkshire Council to participate.

9. Public Sector Internal Audit Standards

- 9.1. On 1 April 2013, new guidelines were issued to define internal auditing and to set basic principles for carrying out internal audit in the UK public sector. These guidelines are known as the Public Sector Internal Audit Standards (PSIAS), more commonly referred to as 'the Code of Practice'. These guidelines replaced the Code that was previously in place.

- 9.2. Internal Audit's level of compliance with the Code of Practice is self-assessed on an annual basis and reported to the Forum as part of the Annual Assurance Report. This comparison against best practice provides assurance about the quality of work that supports the audit opinion expressed each year within the Annual Assurance Report. The process of self-assessment will continue under the new Code but will now also be supplemented by a requirement for the Service to have an independent external review once every five years.
- 9.3. The Code seeks to establish a framework for providing internal auditing services providing both assurance and consultancy as well as a base for the evaluation of internal audit performance to drive improvement.
- 9.4. A full review of the new Code, that will highlight the main changes, together with an interim assessment of Internal Audit's level of compliance, will be presented to the Forum during 2013/2014.
- 9.5. This will include an action plan to address areas of non-compliance should this be required.
- 9.6. The Forum is asked to note that a new Code of Practice is effective from 1 April 2013 and that a subsequent report on compliance will be presented during 2013/2014.

10. Employee Implications

- 10.1. There are no employee issues.

11. Financial Implications

- 11.1. At the end of accounting period 5 (29 July 2013), the Internal Audit Section was underspent by £11,356 due, in the main, to savings in employee costs and phasing adjustments.

12. Other Implications

- 12.1. 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.
- 12.2. There are no implications for sustainability in terms of the information contained in this report.

13. Equality Impact Assessment and Consultation Arrangements

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

Paul Manning

Executive Director (Finance and Corporate Resources)

21 August 2013

Link(s) to Council Values/Objectives

- ◆ Objective – Governance and Accountability

Previous References

- ◆ Progress report to RASF 18 June 2013

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 July 2013**Appendix One**

Indicator	Numbers	Percentage	Target	Comment
Assignments delivered within budget	60/65	92%	80%	
Draft reports delivered within 21 days of fieldwork completion	44/51	86%	80%	
2013/2014 Audit Plan completed to draft by 30 April 2014	27/140	19%	100%	49% of Audit Plan in progress by the end of July 2013.
Internal Audit recommendations delivered on time	48/58	83%	90%	Refreshed follow-up procedures in place from 15 August 2013 that includes earlier monthly prompts to Resources along with advance prompts at the start of each quarter of actions falling due by the quarter end.
Time taken for clients to agree findings and actions (Target 7 weeks)	32/35	91%	80%	

List of assignments completed 1 May – 31 July 2013
Appendix Two

Job no.	Assignment name	Draft Issue	Final Issue	Assurance Info
Previous Years				
I342797	Education and Training of IT Users	31/03/2013	02/05/2013	Good level of assurance that the IT training provided by the Council is appropriate, effective and meets Council and Resources objectives. Whilst the overall training framework is comprehensive there are a few areas of improvement that, if implemented, will augment an already robust employee development and training process
I685329	LVJB Year End 2013	19/03/2013	08/05/2013	Report to LVJB
I310785	Follow Up Home Care Contract	30/04/2013	10/05/2013	Good progress with 2/2 actions implemented
I540037	External IT Consultants	30/04/2013	10/05/2013	Good level of assurance that procedures are effective in identifying, evaluating and procuring external resources to provide consultancy and expertise required to meet larger and wider project objectives
I252257	Debt Recovery Contract	28/03/2013	15/05/2013	See 5.2
I310831	Follow Up User Verification - Planning Systems	30/04/2013	15/05/2013	Good progress with 4/4 actions implemented
I676390	Direct Debits – Council Tax Bank Account	28/03/2013	15/05/2013	Small number of fraudulent direct debits set up by an external source identified by the Resource through routine checks and by Internal Audit through these reviews. Subsequently reimbursed to Council under Direct Debit Guarantee Scheme. Actions have been agreed by client to further strengthen controls.
I612332	Direct Debits	19/04/2013	24/06/2013	
I681326	Financial Strategy	26/04/2013	15/05/2013	See 6.4 and Appendix 3
I681335	Savings and Efficiencies	06/02/2013	15/05/2013	See 5.3
I342756	Common Repairs	28/03/2013	23/05/2013	See 5.4
I330792	Audit Plan 2013/2014	04/03/2013	28/05/2013	Preparation and reporting of 2013/2014 Audit Plan
I330793	Develop Assurance Mapping Techniques	04/03/2013	28/05/2013	Use of new process to link audit planning more closely to Council's top risks
I251253	Quick Quote	20/03/2013	29/05/2013	See 5.2
I682336	Fleet Trading Accounts	14/03/2013	31/05/2013	See 5.3
I674391	Stock Check	06/06/2013	06/06/2013	Stock write-off procedures reviewed together with financial year-end write-offs. This review confirmed reasonableness of stock items written off and no evidence to substantiate original concern.
I340794	Business Case Documentation	30/04/2013	18/06/2013	Provision of guidance regarding imbedding of business case methodology.
I672367	Conduct Issue	28/05/2013	19/06/2013	Allegation founded and final written warning issued.
I342801	Community Pay-Back Orders	22/04/2013	25/06/2013	Considerable efforts made by Criminal Justice Social Work, recognised at a national level, have helped to develop good controls to manage and support Community Payback arrangements in

Job no.	Assignment name	Draft Issue	Final Issue	Assurance Info
				South Lanarkshire. These controls ensure compliance with Criminal Justice legislation.
I672317	Community Resources Facility	20/11/2012	25/06/2013	Adequate assurance that effective procedures and controls are in operation. Although testing did not extend to testing the operation of these controls, identification of an operational issue by the Resource provides some assurance as to the effectiveness of controls.
I674392	Parking Machine Tampering	06/06/2013	23/07/2013	Evidence to confirm parking machines tampered with although no evidence of financial loss. Client has agreed to implement a number of improvements to strengthen controls.
I210240	CCM – ICON and Iproc	30/04/2013	31/07/2013	Completion of programme of data downloads from main financial systems during 2012/2013 to inform audit sampling and provide management reports
I210241	2011/2012 CCM	30/04/2013	31/07/2013	Completion of programme of data downloads from main financial systems carried forward from 2011/2012 to inform audit sampling and provide management reports
I342800	Child Protection Files	03/04/2013	31/07/2013	Adequate level of assurance that care delivery can be evidenced in Child Protection files and that key data is recorded accurately and in line with procedural requirements. Client has agreed to review areas for improvement in relation to the consistent application of guidance and in evidencing training provided.

2013/2014				
I310832	Follow Up Benefits - Single Sign On	15/05/2013	15/05/2013	Good progress with 2/2 high priority actions followed up confirmed as implemented.
I310836	Follow Up Benefits EDRMS	15/05/2013	15/05/2013	Good progress with 1/1 high priority actions followed up confirmed as implemented.
I310841	Follow Up Benefits Appeals	15/05/2013	15/05/2013	Good progress with 3/3 high priority actions followed up confirmed as implemented.
I310835	Follow Up Control Objectives New Systems	28/05/2013	28/05/2013	Good progress with 2/2 actions implemented.
I310833	Follow Up Primary School Meal Income	15/05/2013	05/06/2013	8 actions across 2 Resources. Community and Enterprise Resources implemented 4/4 actions. Education Resources 1/3 actions, with remaining 2 actions outstanding. Revised completion dates of May and September 2013.
I210270	Journal Entry Data 2012/2013	06/06/2013	06/06/2013	Provision of data to external auditors for the purposes of 31 March 2013 year end audit
I671393	Missing laptop	10/04/2013	06/06/2013	Laptop subsequently found.
I310830	Follow Up Licensing	10/06/2013	10/06/2013	Good progress with 2/2 actions implemented
I678396	Planning Complaint	30/05/2013	19/06/2013	Complaint unsubstantiated and dealt with by Resource under Council's

				complaints procedures
I220298	Grant Certificate - Prettsmill Bridge Design	24/06/2013	24/06/2013	Clean audit certificate
I220291	Grant Certificate - CWSS 2012-13	01/07/2013	12/07/2013	Clean audit certificate
I220292	Grant Certificate - NCN74 2012-13	24/06/2013	12/07/2013	Clean audit certificate
I220293	Grant Certificate - Route Action Plans 2012-13	24/06/2013	12/07/2013	Clean audit certificate
I220294	Grant Certificate - Regional Congestion Measures 2012-13	24/06/2013	12/07/2013	Clean audit certificate
I220295	Grant Certificate - Bus Infrastructure 2012-13	24/06/2013	12/07/2013	Clean audit certificate
I220296	Grant Certificate - Strathclyde Cycle Infrastructure 2012-13	24/06/2013	12/07/2013	Clean audit certificate
I220297	Grant Certificate -Traffic Signal Up-grade	24/06/2013	12/07/2013	Clean audit certificate
I220299	Grant Certificate - Mclver Crescent	24/06/2013	12/07/2013	Clean audit certificate
I220300	Grant Certificate - Electric Charging 2012-13	24/06/2013	12/07/2013	Clean audit certificate
I220301	Grant Certificate - Hamilton Quality Bus	24/06/2013	12/07/2013	Clean audit certificate
I220302	Grant Certificate - Uddingston Park and Ride	24/06/2013	12/07/2013	Clean audit certificate
I310810	Follow Up Information Commissioner Visit	08/07/2013	18/07/2013	Good progress with 7/9 actions implemented and 2 no longer relevant
I632394	SLLC NFI Follow-up	19/07/2013	19/07/2013	Report to SLLC
I675401	Laptop Loss	30/07/2013	30/07/2013	Laptop stolen whilst in ownership of third party contractor. Circumstances being investigated by third party and costs reimbursed to SLC. No loss of data.

I681326 – Financial Strategy**Key Summary**

It is Internal Audit's opinion that there are good controls in place. The Financial Strategy takes account of the Council's priority objectives; draws regular input from Council Resources; is arithmetically accurate, and sets a balanced budget for each of the years it covers; is underpinned by credible and prudent assumptions; and ensures that sufficient reserves are held as a buffer against unforeseen revenue budget shortfalls.

Identification of Key Findings

- ◆ The Council has a medium term Financial Strategy (2013/2014 – 2015/16), which outlines the revenue and capital expenditure expected to be incurred in each of the next 3 financial years, along with details of how this will be funded, in principle.
- ◆ The Financial Strategy takes account of the Council's priority objectives, as outlined in the Council Plan.
- ◆ There is sufficient engagement between the Central Finance Team, Finance and Corporate Resources, and Council Resources to ensure that all material budget assumptions are identified and incorporated into the Financial Strategy.
- ◆ The medium term budget forecasts, which underpin the Financial Strategy, are arithmetically correct and set a balanced budget for each year.
- ◆ The adjustments and assumptions, which underpin the Financial Strategy, are considered to be both credible and prudent.
- ◆ The Council has sufficient useable reserves to draw on if assumptions built into the 2013/2014 – 2015/16 strategy are not as forecast.

Good Practice

- ◆ The Council's Financial Strategy incorporates the key, good practice, elements outlined in *Audit Scotland's Financial Management Best Value Toolkit, 2010*.