Report

Report to:	**Risk and Audit Scrutiny Forum**
Date of Meeting:	**4 September 2012**
Report by:	**Executive Director (Finance and Corporate Resources)**

Subject:	**Internal Audit Activity February to July 2012**

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 since February 2012

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

4. Performance
4.1. As at the end of July 2012, 11 out of a total of 108 assignments included in the 2012/13 Audit Plan, have been delivered to draft stage. The level of progress reflects the carry forward of 2011/12 assignments to April 2012 and the summer holiday period in July 2012. Individual work plans have been developed for each member of the Internal Audit team with an emphasis on delivering audit fieldwork in the first three quarters of the year. By the end of July 2012, 39% of all 2012/13 assignments were in progress which, although impacting on the issue of draft reports, has ensured the Plan is generally being progressed more quickly and non-productive time within the team is being minimised. The other key performance indicators reflecting quality, on time and within budget are summarised in Appendix One together with explanations. 93% of draft reports have been delivered on time and 61% within budget. 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. 87% 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 February to 31 July 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 over governance risks:

♦ I686259 Governance Assurance 2011/12: Audit testing established that the self-assessment checklist in use complies with CIPFA's best practice with reviews planned for future years. The introduction of the FAN self assessment does appear to have had some impact on the quality and level of output at Resource level which may, over time, impact the quality of improvement actions generated by Resources following their own self assessment. There are still some inconsistencies in how Resources interpret their 'scores', albeit the majority of Resources appear to be scoring consistently. Good progress has been made with regards to governance improvement actions although there are still some actions which are being carried forward as 'ongoing'. Declarations within the Governance Statement are supported by evidence held locally and agreed through the Good Governance Group, although it is essential that a central reference file is retained as an audit trail.

5.3. Assurance over IT risks:

♦ I543034 Application Software Acquisition and Implementation: Adequate controls in place governing the process and there is assurance regarding the adequacy of both technical and procurement aspects of projects. Areas for improvement were identified in relation to financial elements being documented in a consistent format and reporting to Committee by the purchasing Resource.

♦ I541035 IT Governance Controls Analysis: All of the expected strategic level controls were confirmed to be in place and there is a good level of assurance with regards to the effectiveness of the IT Governance framework. The testing indicated that there were no specific risk areas for prioritisation in terms of future audits although testing, in some cases, only confirmed the existence of a policy, process or procedure. Detailed audits into specific areas may uncover control weaknesses not apparent from this broader strategic review. Although no significant risks were identified, a number of recommendations were made to further improve the administrative process.

♦ I216208 Review of Roads Costing System : Causeway Project Accounting (CPA) is a relatively user friendly system which provides all of the requisites of a road costing project management system. It has taken time for the system to be implemented and is not yet fully operational. Efficiencies should be realised from the feeder uploads to and from the system, although issues have arisen which are causing inefficiency, in particular with regards to the use of i-proc. Where costs could be adequately substantiated they were, on the whole, found to be correctly reflected on CPA against the correct job. However, there are instances where costs could not be robustly substantiated as accurate by Internal Audit. Developments have taken place since the time of audit testing and it is recognised that additional controls, if implemented timeously and as described, should go some way to mitigating some of the weaknesses identified. Other improvements were recommended to mitigate further risks identified by the audit and although adequate controls were in place, material improvements are required before robust assurances with regards to the accuracy of costs on CPA can be gained.

5.4. Assurance over reputational risks:

♦ I681312 Information Commissioner Visit 2012: Internal Audit provided an overview of FOI procedures throughout the Council in advance of a visit by the Information Commissioner in March 2012. This work concluded that adequate controls are in place over some areas of the FOI process and procedures. However, there are areas where improvements should be made in order to improve assurance over the whole process. The Council's process was supported by a positive feedback report from the Information Commissioner's visit.

5.5. Assurance over procurement risks:

♦ I251219 Pre Contract Risk Evaluation: A number of issues surrounding the application of standard procedures and consideration of adequate contingency measures were identified by the audit. These have been partly addressed by the development of a Sourcing Methodology by Procurement Services. Action is currently ongoing to implement controls in some of the areas where gaps were identified and further action is required to address issues identified by the audit.

5.6. Assurance over anti-fraud risks:

♦ I642321 Secondary School Break-In: A break-in at one of the Council's secondary schools resulted in the theft of cash that had been kept within the school office in a safe and two cash boxes. The theft was reported to the Police and an internal investigation undertaken to identify required improvements surrounding cash-handling and banking. Further actions have now been agreed with the Resource.

♦ I674310 Mobile Communications: Investigation into the misappropriation of Council assets identified that controls had not been fully implemented in some areas and more work needed to be done in others. IT Services had undertaken a significant amount of work in improving mobile phone procedures and data records but this work had been partly impacted by the ineffectiveness of key reconciliations underpinning these procedures. There was scope to improve controls further and a number of recommendations have now been implemented. Council Resources have markedly improved their inventory records and this needs to be maintained before inventory lists can be used as a fully effective control.

♦ I672313 Missing IT Equipment: An investigation was undertaken by Internal Audit of items of IT equipment that could not be located during a refresh process. Five items were capable of storing data, although checks by the Security Manager have ascertained that these have been categorised as low risk in terms of sensitive data content. Heads of Service have been advised to re-issue the Council's inventory procedures to all relevant employees.

5.7. Forum members are asked to note findings.

6. Employee Implications
6.1. There are no employee issues.

7. Financial Implications

7.1. At the end of accounting period 5 (3 August 2012), the Internal Audit Section was underspent by £10,452 due, in the main, to savings in employee costs.

8. Other Implications

8.1. 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. Equality Impact Assessment and Consultation Arrangements

9.1. 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)
23 August 2012

Link(s) to Council Values/Improvement Themes/Objectives
♦ Improvement Theme – Governance and Accountability
♦ Objective – Governance and Risk Management

Previous References
♦ 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:-

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

Indicator	Numbers	Percentage	Target	Comment
Assignments delivered within budget	23/38	61%	80%	11/15 of the assignments over budget related to either complex or protracted 2011/12 audit assignments. Delivery of 2012/13 assignments is being monitored to ensure these are delivered within budget.
Draft reports delivered within 21 days of fieldwork completion	27/29	93%	80%	
2012/13 Audit Plan completed to draft by 30 April 2013	11/108	10%	100% by 30.04.13	Further 7 additional jobs, not included in the 2012/13 Audit Plan, have also been delivered in the period to 31 July 2012.
Audit recommendations delivered on time (as at 31 July 2012)	62/73	85%	85%	
Time taken for clients to agree findings and actions (Target 7 weeks)	20/23	87%	80%	

List of assignments completed 1 February 2012 – 31 July 2012   Appendix Two

Job no.	Assignment name	Draft Issue	Final Issue	Assurance Info
2011/12				
I686259	Governance Assurance 2011/12	14/09/2011	11/04/2012	See main report (5.2)
I675314	Primary School Fund	03/02/2012	03/02/2012	External break-in to employees home. Action taken to prevent loss and control issues communicated to the Resource.
I543034	Application Software Acquisition and Implementation	18/01/2012	07/02/2012	See main report (5.3)
I222211	Trust Funds and Charitable Accounts – South Lanarkshire Council	08/02/2012	08/02/2012	Assistance provided to Treasury re the preparation of Charitable Trust audit file.
I310738	FUP Interventions Housing and Technical Resources	02/02/2012	08/02/2012	All high priority actions have been fully implemented.
I341720	People Connect	12/01/2012	08/02/2012	Adequate assurance that procedures are in place, employees have been trained and controls are in operation. Evidence of a decrease in travel expenses possibly linked to the implementation of the travel plan and pool car scheme.
I222232	Trust Funds and Charitable Accounts – North Lanarkshire Council	28/12/2011	10/02/2012	Provision of audit certificate by SLC Internal Audit for NLC charitable trust funds.
I310726	NFI Follow-up	10/02/2012	10/02/2012	16/17 actions implemented with only one outstanding action re the preparation of documented NFI procedures.
I676305	Fuel Siphoning	09/02/2012	16/02/2012	Suspected fuel theft as anti-siphoning device damaged and fuel cap lost but not confirmed. Procedures and controls verbally communicated and Team Leaders will review fuel reports and follow-up.
I311748	SFR Follow-up Triggers 11/12	07/11/2011	29/02/2012	Reported to SFR
I250200	Motor parts Iproc and Supplier Catalogues	23/01/2012	01/03/2012	Adequate controls in place although improvements required to ensure that documentation is complete and easily located, there is proof of adherence to procedures, and that there are clear audit trails to evidence responsibility at each step in the process. Follow-up work to be undertaken at the request of the Head of Facilities, Fleet and Grounds Services.
I541035	IT Governance Controls Analysis	24/02/2012	01/03/2012	See main report (5.3)
I672303	Misappropriation of Income and Stores at Community Facility	13/01/2012	05/03/2012	Internal review of procedures by Resource identified possible misappropriation of income and store goods. Internal Audit found limited controls in place and evidence to support the allegations although a lack of an audit trail to confirm. Action plan agreed with Resource.
I677315	Civic Amenity Site	23/02/2012	05/03/2012	Claim of employee misconduct not

Job no.	Assignment name	Draft Issue	Final Issue	Assurance Info
				substantiated by investigation. Internal Audit to review controls in 2012/13 to provide assurance over adequacy.
I342721	Licensing	20/02/2012	07/03/2012	Adequate controls over the licensing process are in place and operating effectively. Few areas for improvement identified.
I217221	Debtors	06/03/2012	15/03/2012	Good controls in place regarding the administration of debtor accounts with suggested areas for improvement being full documentation of the process and the use of an aged debt spreadsheet.
I232225	Benefits EDRMS	23/02/2012	16/03/2012	Controls are in place and working satisfactorily within the workflow and document management system. Minor recommendations have been made by Internal Audit to improve the efficiency of working practices within the process.
I678311	Employee Conduct	27/01/2012	19/03/2012	Inappropriate content on employee's Facebook page. Employee subsequently resigned.
I232224	Rolling benefits support programme 2011/12	26/03/2012	26/03/2012	Reliance can be placed on the results of the rolling programme of Benefits audits.
I210228	I Procurement consultancy	27/03/2012	27/03/2012	Advice provided to Community and Housing and Technical Resources. All relevant risks were assessed and good, workable controls put in place.
I310734	FUP Fuel Strategy 2012	27/03/2012	27/03/2012	Adequate progress has been made by the client in implementing audit actions. Internal Audit acknowledges that the progress has been hindered by the loss of the fuel management system provider.
I542033	User Verification Planning Systems	06/03/2012	27/03/2012	Adequate control over access to the K2/M3 systems. Improvements required to procedures, employee responsibilities, documentation of set-up and system house-keeping tasks.
I675318	Missing Laptop	19/03/2012	27/03/2012	Laptop subsequently recovered.
I210927	SLLC Advice & Guidance, planning 2011/12	30/03/2012	30/03/2012	Reported to SLLC
I251229	Equifax Checks	30/03/2012	30/03/2012	Provision of credit reports to Resources as requested.
I311749	LVJB Follow-up Triggers 11/12	16/01/2012	30/03/2012	Reported to LVJB
I686275	SFR Adv Guid, Fraud & Audit Plan 11/12	30/03/2012	30/03/2012	Reported to SFR
I311729	Informal Follow-up 11/12	07/09/2011	31/03/2012	Monthly updates to Resources of actions falling due within month.
I210928	LVJB Business Continuity	20/03/2012	02/04/2012	Reported to LVJB
I216208	Review of Roads Costing System	20/01/2012	02/04/2012	See main report (5.3)
I686299	LVJB Governance 2011/12	20/03/2012	02/04/2012	Reported to LVJB
I214223	Income Management System	19/04/2012	19/04/2012	Good level of assurance that ICON is working effectively and is well controlled.

Job no.	Assignment name	Draft Issue	Final Issue	Assurance Info
I681312	Information Commissioner Visit 2012	13/03/2012	19/04/2012	See main report (5.4)
I213926	SLLC VAT Return	27/04/2012	27/04/2012	Reported to SLLC
I632254	NFI 2010/11	30/03/2012	01/05/2012	Co-ordination of NFI exercise – outcomes reported separately to the Forum.
I222209	Fairer Scotland Fund	30/04/2012	09/05/2012	Overview confirmed approved funding and appropriate accounting.
I285928	SLLC Year End Report 2012	30/04/2012	09/05/2012	Reported to SLLC
I642321	Secondary School – Break In	25/04/2012	10/05/2012	See main report (5.6)
I310747	SFR Formal Follow-up 11/12	29/03/2012	17/05/2012	Reported to SFR
I251219	Pre Contract Risk Evaluation	30/03/2012	21/05/2012	See main report (5.5)
I674316	Diesel Theft at Depot	25/05/2012	25/05/2012	Allegation of fuel theft not substantiated through surveillance although some potential evidence identified. Separate assignment to look at controls within depot and Resource to review issues identified. See I613342 below.
I686276	LVJB Annual Report, Plan, Admin 11/12	30/03/2012	31/05/2012	Reported to LVJB
I674310	Mobile Communications	18/03/2012	07/06/2012	See main report (5.6)
I681264	Service Costing Consultancy	16/02/2012	12/06/2012	Assurance of a sound approach to financial management. Linking financial data to performance has been highlighted as an area for improvement with some good practice being developed in Council Services.
I672313	Missing IT Equipment	14/06/2012	14/06/2012	See main report (5.6)
I342730	SEEMIS Information	23/04/2012	16/06/2012	Sufficient standard reports and an excellent report writing facility. Further use could be made of this if there was improved knowledge and awareness of users and if a comprehensive list of reports was available.
I210929	SFR Procurement	30/04/2012	25/06/2012	Reported to SFR
I210930	SFR Key Controls	30/04/2012	25/06/2012	Reported to SFR
I218931	SFR Fixed Assets	30/04/2012	25/06/2012	Reported to SFR
I242924	SLLC Facility Audit Rutherglen Town Hall	14/03/2012	29/06/2012	Reported to SLLC
I674322	Primary School Meal Income	29/06/2012	11/07/2012	Income misappropriated but was later anonymously returned in part. Investigations were inconclusive and recommended to Resources that controls over cash security should be improved. Action Plan has been agreed.
I676319	Bereavement Services – Theft	08/05/2012	26/07/2012	Loss of cash from office. On investigation found poor assurance over the security of income within Services. Some control procedures were implemented immediately on confirmation that the money was stolen, which will reduce the risk of a future incident occurring.

Job no.	Assignment name	Draft Issue	Final Issue	Assurance Info
2012/13				
I675330	Missing laptop Housing and Technical Resources	09/05/2012	16/05/2012	Laptop stolen from locked vehicle. All reasonable steps taken and low risk of loss of sensitive data. No further action required.
I310754	FUP Business Continuity	11/05/2012	17/05/2012	All high priority actions have been fully implemented.
I674340	Stolen Van	28/05/2012	28/05/2012	Van originally reported as stolen but later located. Resource reviewing controls.
I220239	National Cycle Route 2011/2012	15/06/2012	15/06/2012	Clean audit certificate
I220243	Route Action Plan Safety Schem A72 2012/2013	15/06/2012	15/06/2012	Clean audit certificate
I220244	Bus Infrastructure Improvements 2011/2012	15/06/2012	15/06/2012	Clean audit certificate
I220246	Cycling, Walking and Safer Streets	15/06/2012	15/06/2012	Clean audit certificate
I672345	Housing Allocation	21/06/2012	21/06/2012	No breach of procedures on investigation
I672346	Lost Fraud File	25/06/2012	25/06/2012	Lost benefit fraud file reported to Police.
I676344	Fraudulent Cheques	25/06/2012	25/06/2012	Three fraudulent cheques presented and have been reported to Police for investigation. Resource reviewing short and long term actions to mitigate risks.
I310761	FUP Cheque Issue	26/06/2012	26/06/2012	60% actions implemented with 40% outstanding in relation a contract/agreement document being drawn up with cheque supplier and completion of stock check on cheques on a monthly basis
I674341	Primary School Cash Theft	27/06/2012	27/06/2012	Misappropriation of a pupil's money. Controls improved immediately within school however further improvements in controls were also recommended and agreed.
I613342	Fuel Procedures at Council Depot	22/06/2012	02/07/2012	See I674316 above. Controls within the depot were reviewed and a number of recommendations made over issue of plant fuel. A full audit of controls to be included in the 2013/14 Audit Plan.
I310762	FUP Waste Management IT System	03/07/2012	04/07/2012	Prior to audit, actions were reviewed and rationalised. Adequate progress has been made although Service improvements have been delayed due to lack of resources. The inclusion of audit actions in the 2012/13 IT Service Plan and the submission of a 2012/13 progress report give some positive assurance that the recommended actions will be adopted.
I310764	FUP Motor Parts	06/08/2012	06/08/2012	All actions falling due at date of follow-up had been implemented in full.
I310787	FUP Purchase Cards	06/08/2012	06/08/2012	All high priority actions have been fully implemented.