

Report

Report to:	Executive Committee
Date of Meeting:	8 June 2011
Report by:	Chief Executive

Subject:	Annual Internal Audit Opinion and Report 2010/2011
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ advise on the progress of Internal Audit against plan for the full year 2010/2011 and to provide an audit opinion on the strength of the Council's control environment

2. Recommendation(s)

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

- (1) that the positive Internal Audit performance be noted
- (2) that the adequate level of assurance provided to the Council be noted
- (3) that confirmation that the internal audit opinion will inform the Council's 2010/2011 Governance Statement be noted.

3. Background

3.1. Internal audit activity is delivered in line with the Internal Audit Code of Practice for Local Authorities. The Internal Audit Section work to an approved plan and report to the Risk and Audit Scrutiny Forum. A full report detailing main audit findings and performance was presented to the Forum on 19 May 2011.

4. Audit Performance – 2010/2011

- 4.1. Performance highlights are that 98% of the agreed plan was delivered against a target of 95%. Eighteen additional assignments were also delivered and the targets for "on time" and "within budget" delivery were all met. Overall the quality and coverage of reporting improved as demonstrated by client feedback. The Committee is asked to note this positive position.
- 4.2. Resources delivered 71% of due internal and external audit recommendations on time against a target of 80%. Steps are being taken to re-instate this corporate performance as a statistical indicator within Improve, the Council's performance management system. This should generate a greater focus on this area of performance.

5. Management of fraud risks

5.1. The Internal Audit Section leads on the management of the Council's fraud risk. Mitigation involves handling concerns reported during the year, facilitating the National Fraud Initiative for the Council as well as promoting more local initiatives. An anti-fraud risk control plan developed in 2009/10 was 93% complete by 31 March

2011 with the only open action relating to the final launch of an on-line employee training module. The whistle-blowing telephone line "Fraud Alert" was brought in-house and re-launched in January 2011.

- 5.2. The NFI is a national data matching exercise which identifies benefits fraud and overpayments. The main exercise during 2010/11 was twofold; firstly completion of Single Person Discount (SPD) investigations and secondly supply of data to the Audit Commission for the next national exercise. All SPD investigations are complete and identified £139,237 of recoverable errors. Data transfers for the 2010 exercise were delivered on time and to date errors valued at £28,045 have been uncovered. Most resultant investigations will take place during 2011/12. No frauds from either exercise have been identified to date.
- 5.3. Total fraud identified during 2010/11 amounted to £423,887 (Q4 benefits to be added). This reverts back to 2008/09 levels. Services have agreed to improve their local management controls to reduce future losses.

6. Financial controls and findings

- 6.1. Overall there is an adequate level of financial control across the Council and control within the Council's main financial systems is improving. Highlights in support of this opinion follow and the Committee is asked to note this positive level of assurance.
- 6.2. On balance, the following financial areas showed good control or improvement over the year:-
- ◆ Formal accreditation of main financial systems
 - ◆ Operation of the Housing Revenue Account
 - ◆ Administration of in-coming grants
 - ◆ Appetite for costing goods and services
 - ◆ Benefits administration
- 6.3. Despite some good practice being identified during the audit year, control over the following areas needs to be improved:-
- ◆ Fraud awareness
 - ◆ Implementation of local controls such as ledger coding, segregation of duties, authorisations and reconciliations
 - ◆ Preparation and use of written procedures
 - ◆ Inventory management
 - ◆ Use of exceptions reporting, unit costing and management accounting

7. Operational controls and findings

- 7.1. Operational control across the Council is also adequate. Details in support of this opinion follow and the Committee is asked to note this opinion.
- 7.2. Most operational areas examined during the year demonstrated positive and negative aspects of control. On balance the following processes showed good control or improvement over the year:-
- ◆ Management of key risks including client care, energy use and information governance
 - ◆ Use of the on-line performance management system, IMPROVe
 - ◆ Use of electronic tendering and transparent evaluation of tenders
 - ◆ Stock control
 - ◆ IT project management

- 7.3. Operational controls exist but on occasion lacked implementation by local managers. The areas which identified most scope for controls improvement include the following;
- ◆ Attaining consistency in governance self-assessments
 - ◆ Exposing more services to competition
 - ◆ Delivery of compliant procurement practices
 - ◆ Wider use of project management disciplines
 - ◆ Application of local management controls such as job monitoring, information checks and reconciliations
 - ◆ Improving the quality of file contents

8. Summary of overall assurance and audit opinion

- 8.1. Internal control remains a management responsibility. Internal Audit cannot be expected to give total assurance that control weaknesses or irregularities do not exist but the above adequate financial and operational audit opinions are based upon the audit work undertaken during the year and knowledge of the Council's governance and risk management arrangements. The Committee is asked to note the above findings and note their inclusion in the Council's annual Governance Statement. As required by the Code of Practice, a signed Annual Internal Statement of Assurance is included in appendix one. This does not include the views of external audit.

9. Employee implications

- 9.1. The Internal Audit service is delivered with an establishment of 16.5 posts which includes two part time current vacancies. Training on professional report writing for the full team was delivered during 2010/11. Employees are also working through a two year improvement plan resulting from Empower, the Council's self assessment tool. This is more than 50% complete.

10. Financial implications

- 10.1 The Internal Audit Section, during 2010/11 spent £419,000 against a budget of £483,000 (to period 13). An underspend on employee costs, caused by vacancies, was partially offset by the need to purchase up to date licences for the software used to track audit assignments.

11. Other implications

- 11.1. To help improve the overall control environment, Internal Audit had previously identified strategic improvement areas from their work. Progress has been made in some of the areas highlighted last year. The volume of clean grant certificates this year is an indicator that the Council is "following the public pound" principles. Presentations have been made to both Budgeting and Financial Strategy groups to demonstrate how financial information can be better aligned to other management information such as units of work. Procurement continues to be a key improvement area for the Council.
- 11.2. In order to demonstrate continuous improvement within the Audit Section, a Continuous Controls Project was launched in June 2010. The aim of this pilot is to track trends in the operation of key controls rather than periodically conduct stand alone audit assignments. This demonstrates innovation in the Council's audit practices.
- 11.3. There are no significant implications in relation to sustainability associated with the recommendations contained in this report.

12. Equality impact assessments and consultation arrangements

- 12.1. There is no requirement to carry out an impact assessment in terms of the information contained within this report.
- 12.2. Resource Heads of Service are consulted on every planned audit assignment following completion of fieldwork. Resources and elected members are also consulted during preparation of the annual audit plan.

Archibald Strang
Chief Executive

11 May 2011

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

- Effective and efficient
- Governance and accountability
- Good governance and risk management

Previous References

- 2010/11 progress reports to the Risk Management and Audit Forum

List of Background Papers

- Internal Audit reports
- Figtree statistical and assurance and Eureka time recording extracts
- Code of Practice for Internal Audit for Local Authorities – CIPFA

Contact for Further Information

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

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To the members of South Lanarkshire Council, the Chief Executive and Executive Directors

As Risk and Audit Manager of South Lanarkshire Council, I am pleased to present my annual statement and report on the adequacy and effectiveness of the internal control system of the Council for the year ended 31 March 2011.

Respective responsibilities of management and internal auditors in relation to internal control

It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal control, exercise good governance and to monitor the continuing effectiveness of that system.

It is the responsibility of the Risk and Audit Manager to provide an annual overall assessment of the robustness of the internal control system and the Council's governance arrangements as far as they are reflected in audit work. The Risk and Audit Manager cannot be expected to give total assurance that control weaknesses or irregularities do not exist but can form an opinion based on work undertaken during the year and her knowledge of control systems.

The work of Internal Audit

Internal Audit is an independent appraisal function established to review the internal control system as a service to the Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to general governance arrangements and more specifically the proper, economic, efficient and effective use of resources.

The Internal Audit Service operates in accordance with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in the United Kingdom. The section undertakes an annual programme of work approved by the Risk and Audit Scrutiny Forum and the Executive Committee. All plans are based on a formal risk evaluation process, which reflects agreed and emerging risks and changes within the Council.

All internal audit reports identifying risks, areas for improvement and/or non-compliance with expected controls are brought to the attention of management and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to internal audit reports. Internal auditors ensure that management has understood agreed actions or assumed the risk of not taking action through a system of closing meetings. Follow-up statistics and further audits are used to determine that agreed actions are implemented. Significant matters arising from internal audit work are reported to the Chief Executive and the Council's Risk and Audit Scrutiny Forum.

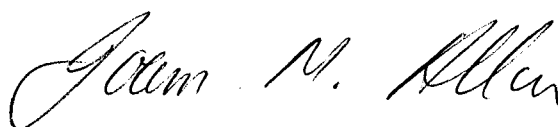
Basis of opinion

My evaluation of the control environment relates only to South Lanarkshire Council and is informed by a number of sources including audit work undertaken during the year, external inputs and involvement in risk and governance activities.

Limitation of scope: No individual audit assignments were specifically limited in scope at the outset but scopes were amended to reflect the progress of the job under scrutiny, the local policy applying at the time of the audit and the resources available.

Subject to the constraints raised in the Internal Audit Annual Assurance Report, it is my opinion, based on the above, that adequate assurance can be placed upon the reasonableness and effectiveness of the Council's internal control system in the year to 31 March 2011.

Signature:-



Joan M. Allan BA ACMA SIRM

21 April 2011