

# Report

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Report to:	<b>Risk and Audit Scrutiny Forum</b>
Date of Meeting:	<b>29 September 2011</b>
Report by:	<b>Executive Director (Finance and Corporate Resources)</b>

Subject:	<b>Internal audit performance and work completed between April 2011 and August 2011</b>
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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 work recently completed by Internal Audit

## 2. Recommendation(s)

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

- (1) that performance is noted
- (2) that findings are 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 July 2011. This reported on work completed between February and May 2011. This is the first report covering all work completed in this financial year. Performance information is also included.

## 4. Performance

4.1. As at the end of August 2011, performance in delivering the 2011/2012 internal audit plan is good with 30% of the plan completed to a draft stage. This compares well when compared to the same point last year. The other key performance indicators reflecting quality, on time and within budget delivery are summarised in Appendix 1 together with explanations. Draft reports have been delivered on time but there is a marginal shortfall in the number of jobs being delivered within budget. Quality is being monitored.

4.2. Client contributions to delivery of the audit plan take the form of responding to draft reports, agreeing to closing meetings and signing reports quickly once agreed. 86% of draft reports were concluded to a final issue within the target five weeks.

## 5. Findings

5.1. Appendix 2 lists all assignments completed since the start of the financial year. Detailed findings from the more material pieces of work follow, where they have not already been reported. Findings have been grouped under the strategic risk to which they are most closely aligned.

- 5.2. Assurance over governance risks: Follow-up of previous audit recommendations indicates that this aspect of governance is well controlled. For the six follow-up assignments not previously reported, 73% of recommendations had been delivered at the date of checking. Although this is still lower than the verbal assurance provided on a monthly basis, there is a significant improvement in control over access to key systems. Treasury controls have also improved as well as stock control within Technical Services. The only exception to this positive picture is the outstanding action to establish a Council wide register of outgoing grants with the result that there is still room for improvement in monitoring and scrutiny of these payments.
- 5.3. Assurance over anti-fraud risks: There is adequate control in place when settling insurance claims. Although Roads procedures are comprehensive, the central written procedures within the Risk Management Section require updating. However, the actual processes which are being followed mitigate the risk of fraud. These include claimant address checks, site visits, payment authorisation and analysis of serial and duplicate settlements as well as regular debt off-setting. In terms of Council cheque issue and control practices, a number of anti-fraud risk controls have been proposed including changes to ordering and storage arrangements, signatories and tighter contractor control when outsourcing the printing of cheques.
- 5.4. Management of “following the public pound” risks: The risk that incoming and outgoing grants are not used for the purpose intended is mitigated by funders often asking for an audit and certification. For the six major grants examined recently, all were issued with clean audit certificates indicating a good level of control. However recommendations were agreed in relation to written procedures, formal programmes of work and matched funding. Only one project had overspent (£8,000). As with incoming grants, the release of housing grants was well controlled with a good standard of application and evidence being processed by competent employees. A small risk remains that some householders are not able to pay their share of improvements.
- 5.5. Management of environmental risks: The risk that the Council is not meeting its carbon reduction commitment is partially mitigated by an annual return supported by evidence. Examination of the first evidence pack returned to the government indicates that there is little risk of non compliance other than the lack of a master list and central location of evidence or overview file. Reliance is placed on a software provider for some information but a good attempt had been made with this first return and all recommendations were agreed. Control is therefore adequate at this stage.
- 5.6. Management of Health and Safety risks: A review of gas servicing has shown that risk management in this area is good but could be even better if controls exercised in domestic properties were extended to non domestic. Of particular note is the full extent of training and qualification of employees and contractors engaged in this work and how well South Lanarkshire Council compares to national performance benchmarks.
- 5.7. Assurance of financial control: Three main areas of work have recently been completed; cash income spot checks, petty cash spot checks and examination of journal entries. The journal entry work has been relied on by external audit.

- 5.8. Spot checks on petty cash revealed correct balances but procedures were not always being followed, VAT was not always being reclaimed and insurance cover was not in place in one area.
- 5.9. Assurance over cash income is mixed. Cash income control within Housing and Technical and Community Resources is well controlled with only one major recommendation required in relation to documentation retention. There are, however, actions required and agreed with Social Work Resources to address limited procedures and cash income controls.
- 5.10. Targeted sampling and full analysis highlighted few concerns with the control of journal entries to the ledger. Most are accurately recorded, carry useful narratives and are supported by adequate working papers. Residual risks relate to lack of segregation of duty in journal authorisation and to the number of users with journal permissions which are not required. The client has agreed to review system permissions but deems the cost of dual authorisation to be too great to introduce when most journals are created by qualified professionals.
- 5.11. Forum members are asked to note findings.

## **6. Employee Implications**

- 6.1. The post of Audit Manager has been filled and steps are now being taken to backfill the resultant Advisor vacancy.
- 6.2. One auditor was recently nominated for “excellence in customer service” for the assistance provided to Enterprise Resources in reconciling the Council’s Asset Registers. The reconciliation model was refined and exception reports prepared which helps target investigation effort by Resource employees.

## **7. Financial Implications**

- 7.1. At the end of accounting period 6 (2 September 2011), the Internal Audit Section was underspent by £37,000 due to additional income and vacancies.

## **8. Other Implications**

- 8.1. The main risks to delivery of the audit plan are vacancies and team upskilling 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 relevant audit assignments.

**Paul Manning**  
**Executive Director (Finance and Corporate Resources)**

13 September 2011

**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

### **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 1 April to end August 2011

Appendix One

Indicator	Numbers	Percentage	Target	Comment
Assignments delivered within budget	45/58	78%	80%	Most over-runs are marginal and several relate to old year work. The following jobs have contributed to target being missed to date; <ul style="list-style-type: none"> <li>◆ Information governance – assignment undertaken by trainee</li> <li>◆ Petty cash spot checks – assignments undertaken by trainees</li> <li>◆ System control objectives – more work than remit</li> <li>◆ Leader programme funding 2010/11 – client negotiations took longer than expected as government requirements had changed from previous years</li> </ul>
Draft reports delivered within 21 days of fieldwork completion	51/61	84%	80%	This PI is well within target and represents improvement on prior years. There were only two significantly late jobs. Both a telecommunications assignment from last year's plan and an SLLC facility visit required additional time to ensure quality of audit work.
Audit plan completed to draft by 31 March 2012	27/89	30%	100% by 31.03.12	Further forward than at this point last year. Most completed assignments relate to follow-up, grant certification or petty cash and income spot checks.
Audit recommendations delivered on time (as at end July 2011)	52/65	80%	80%	August figures are not due until middle of month. External actions are delivered to a better extent (91%) than internal (78%). This PI relies on informal assurances from those tasked with delivery of actions.
Time taken to finalise draft reports with clients (Target 5 weeks)	51/59	86%	100%	Most delays relate to jobs where the lead Resource has not agreed findings with others affected and Internal Audit must then negotiate more widely than intended. Examples include Performance Management System and Chargeable Income.

List of assignments completed since April 2011

Appendix Two

Job no.	Assignment name	Draft Issue	Final Issue	Assurance Info
I612212	High Overtime Earners	01/04/2011	03/05/2011	Reported May 2011
I676256	External client additional work	06/04/2011	08/04/2011	Reported May 2011
I342700	Seemis Audit Service 2010/11	11/04/2011	25/05/2011	Reported in May 2011. As no reply the 2012/13 plan will assume no service required.
I310701	SFR Formal Follow Up 10/11	13/04/2011	27/06/2011	Reported in May 2011
I685221	SFR Annual Report 10/11	13/04/2011	30/04/2011	Reported to SFR
I674272	Materials Theft	20/04/2011	20/04/2011	Reported May 2011
I232226	Benefits - Local Authority Error	27/04/2011	27/04/2011	Job dropped in favour of council tax. Agreed by RSAF in May 2011.
I685218	SLL Annual Report 10-11	27/04/2011	04/05/2011	Reported to SLLC
I342688	Housing Revenue Account	28/04/2011	11/05/2011	Reported in May 2011
I511025	Purchase Card System	28/04/2011	01/06/2011	Reported May 2011
I331007/L	LVJB Annual Report, Plan and Admin 10/11	30/04/2011	11/05/2011	Reported to LVJB
I342692	SEEMIS Data	30/04/2011	06/06/2011	Reported in May 2011
I541031	System Control Objectives Procedures	30/04/2011	01/06/2011	Reported May 2011
I676251	Catering Secondary School 1	30/04/2011	14/06/2011	Reported May 2011
I310731	Follow-up Grant Administration	04/05/2011	25/05/2011	See main report (5.2) 1/6 actions delivered. Following the public pound principles difficult to evidence.
I676281	Catering - Secondary School 2	12/05/2011	12/05/2011	Reported May 2011
I672267	Complaint re Information Breach	18/05/2011	18/05/2011	Reported May 2011
I686216	Information Governance	25/05/2011	25/05/2011	Reported May 2011
I218923	SLLC Stock Check - Rutherglen Town Hall	26/05/2011	20/06/2011	Reported to SLLC
I676278	Fraudulent Standing Order Set Up	26/05/2011	20/07/2011	Reported May 2011
I310739	Follow-up Access Controls SWisPlus	27/05/2011	01/06/2011	Reported in May 2011
I218207	Asset Register Reconciliation	02/06/2011	09/06/2011	See main report (6.2)
I222204	Bus Infrastructure Improvements	03/06/2011	16/06/2011	See main report (5.4) Clean grant certificate but overspend of £7971.77
I222231	Cycle route grant - Lanark to Carstairs	03/06/2011	16/06/2011	See main report (5.4) Clean grant certificate
I678282	NFI employee overpayment	08/06/2011		NFI concern. Employee paid whilst on career break. Disciplinary in progress
I222205	Route Action Plan Safety Scheme A72 10/11	20/06/2011	21/06/2011	See main report (5.4) Clean audit certificate but formal programme of works required.
I310743	Follow-up Computer System Access Controls	20/06/2011	20/06/2011	See main report (5.2) 2/3 actions delivered
I310744	Follow-up Technical Services Over-Ordering	20/06/2011	20/06/2011	See main report (5.2) 9/9 actions delivered

Job no.	Assignment name	Draft Issue	Final Issue	Assurance Info
I678271	Unofficial Uplifts	21/06/2011	21/06/2011	Employee dismissed
I613263	Cheque Issue	22/06/2011	12/07/2011	See main report (5.3)
I677283	Security Contractor	27/06/2011	27/06/2011	Allegation unfounded. No council contact with company.
I679285	NFI employee concern	27/06/2011	30/06/2011	NFI alert. Disciplinary process invoked
I676273	Jerrycan Fuel theft	01/07/2011	01/07/2011	Allegation unsubstantiated. Ongoing monitoring of fuel usage.
I221222	Housing Grants	06/07/2011	27/07/2011	See main report (5.4)
I676268	Fuel Syphoning	07/07/2011	01/08/2011	Allegation unfounded but repeat recommendations relating to control over fuel use
I219199	Petty Cash Spot Checks 11/12	11/07/2011	15/07/2011	See main report (5.8)
I672283	Environmental Service Charges	11/07/2011	11/07/2011	Allegation of free of charge service delivery unfounded
I222203	National Cycle Route Cert 10/11	15/07/2011	01/08/2011	See main report (5.4) Clean audit certificate
I222202	CWSS Grant Certificate 10/11	27/07/2011	27/07/2011	See main report (5.4) Clean audit certificate
I676252	Client's Missing Money	27/07/2011	27/07/2011	Allegation that client's money was missing is unsubstantiated.
I613262	Insurance Claims Procedures	29/07/2011		See main report (5.3)
I672290	Care of Gardens	01/08/2011	01/08/2011	Allegation unsubstantiated but ongoing monitoring required
I613257	Cash income spot checks 11/12	05/08/2011	05/09/2011	See main report (5.9)
I672289	Garden Services	09/08/2011	09/08/2011	Allegation that employee using Council resources for own use unsubstantiated
I214213	Journal Entries (CCM)	10/08/2011	31/08/2011	See main report (5.10)
I674280	Stolen Equipment	10/08/2011	10/08/2011	Allegation unsubstantiated. Security within depot adequate.
I674291	Housing grant contractor	11/08/2011	07/09/2011	Allegation unsubstantiated. Police called - no case to answer
I310742	Follow-up Single Outcome Agreement	12/08/2011	12/08/2011	See main report (5.2) 4/6 actions delivered. Still to improve scrutiny but quality of data better
I252190	Telecommunications	16/08/2011	31/08/2011	BT One Bill system is providing sufficient control to ensure Council bills are correct. Resources are not however performing sufficient checks to ensure that services are only paying for extensions they own and calls they make. There was also a small residual concern that internal charging rates were not transparent enough to determine whether or not there is an internal surplus or deficit.
I342719	Carbon Footprint Evidence Certificate	17/08/2011		See main report

Job no.	Assignment name	Draft Issue	Final Issue	Assurance Info
I611261	School Meal Income	18/08/2011		Sound revised procedures have been implemented and employees adequately trained. Audit analysis and testing shows however that a few schools have low comparative levels of income per pupil and a low number of bankings per annum. For four schools selected detailed recommendations have been proposed to tighten income controls to address the residual risk.
I310735	Follow-up Control Objectives - Treasury	23/08/2011	01/09/2011	See main report. (5.2) 5/5 actions delivered
I310733	Follow-up AMP Feeder - Control Testing	24/08/2011	24/08/2011	See main report (5.2) 1/1 action completed
I222206	LEADER Programme Funding 2010/11	29/08/2011	31/08/2011	See main report (5.4) clean audit certificate but repeat findings re matched funding
I674295	Missing telecoms equipment	29/08/2011	30/09/2011	Allegation of theft unsubstantiated
I342725	Gas Servicing	30/08/2011		See main report (5.6)