

Report

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Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	3 November 2011
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Internal Audit Activity at End September 2011
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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
- ◆ present the highlights from the 2011 annual report from Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG)
- ◆ seek suggestions from the Forum for the 2012/2013 Audit Plan

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 summary of the SLACIAG annual report is noted
- (3) that the invitation to suggest ideas for consideration in the 2012/13 Internal Audit Plan 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 September 2011. This reported on work completed between April and August 2011. This report covers all work completed in September 2011. Performance information is also included.

4. Performance

4.1. As at the end of September 2011, performance in delivering the 2011/2012 internal audit plan is good with 33% of the plan completed to a draft stage. This evidences improvement when compared to the same point last year. The other key performance indicators reflecting quality, on time and within budget are summarised in Appendix One 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 (79% against target of 80%). Quality continues to be 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. 78% of audit assignments were concluded to a signed action plan within the target seven weeks, marginally below the target set of 80%.

5. Findings

- 5.1. Appendix Two lists all assignments completed during September 2011. 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 of financial control, I210180 Continuous Controls Monitoring: Work has been concluded on the 2010/2011 Continuous Control Monitoring (CCM) project and a progress plan developed for 2011/2012. A summary of the achievements of this work to date include;
 - ◆ a review of both CIPFA and External Audit accounting system programmes, identifying key risks which can be monitored by CCM
 - ◆ CCM data used for audit of journal controls
 - ◆ general ledger data downloaded for the complete 2010/2011 year and year to date for 2011/12
 - ◆ system extract (IDEA) code written and internal data download procedures prepared.

During 2011/2012, work on a “traffic light” system will continue with the focus being on identified risks. In addition, it is intended to extend CCM data download work to accounts payable and to participate in a joint working update with South Ayrshire Council. Towards the end of the current year a formal evaluation of the project will be undertaken to establish the benefits in further developing this area of work. Already this project is proving to have significant benefits in assisting with other audit work. The analysis of trends and identification of risks is helping to more intelligently target samples for audit testing.

- 5.3. Forum members are asked to note findings.

6. Annual Report of SLACIAG September 2011

- 6.1. 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. 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 and to seek statutory recognition for the role of internal audit in Scotland. These key objectives have now been translated into an action plan and responsibilities and implementation dates agreed.
- 6.2. An annual report was presented to members of the Group in September 2011 providing a brief summary of the work of the Group throughout the year. Attendance at meetings on this Group continues to ensure awareness of current issues and allow sharing of best practice.
- 6.3. The Forum is asked to note the Group’s work and support the continuing commitment of South Lanarkshire Council to participate.

7. Internal Audit Plan 2012/2013

- 7.1. Work is about to commence on the preparation of the 2012/2013 Internal Audit Plan. Consultation meetings have been set up with each Resource during October and November 2011 to discuss ideas and suggestions for inclusion in the Plan. Members of the Forum are invited to suggest areas for consideration and these

should be passed to the Audit Manager by 30 November 2011. Any suggestions should focus on areas of control weaknesses and will be risk assessed and matched to available skills before inclusion in the plan.

7.2. Once the consultation process has been concluded, the comprehensive list of audit 'ideas' will be risk assessed and an audit plan drafted that ensures adequate coverage across all Resources, risk areas and type of audit work.

8. Employee Implications

8.1. There is a vacancy at Adviser level at September 2011 although the recruitment process to fill this is ongoing.

9. Financial Implications

9.1. At the end of accounting period 7 (3 October 2011), the Internal Audit Section was underspent by £34,000 due to additional income and vacancies.

10. Other Implications

10.1. The main risks to 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 the inclusion of contingency time within the annual plan.

11. Equality Impact Assessment and Consultation Arrangements

11.1. There is no requirement to equality assess the contents of this report. Heads of Service are consulted on every audit assignment.

Paul Manning

Executive Director (Finance and Corporate Resources)

18 October 2011

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

- ◆ 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
- ◆ Progress report to RASF September 2011

List of Background Papers

- ◆ Figtree extracts of Action Plans
- ◆ SLACIAG Annual Report 2010/11

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 30 September 2011
Appendix One

Indicator	Numbers	Percentage	Target	Comment
Assignments delivered within budget	61/77	79%	80%	Most over-runs are marginal and several relate to old year work. In September 2011, additional jobs contributing to the target being missed to date; <ul style="list-style-type: none"> ◆ Governance Assurance 2011/12 – work completed by trainee and required some additional support
Draft reports delivered within 21 days of fieldwork completion	63/75	84%	80%	This PI is well within target and represents improvement on prior years. In addition to the two significantly late jobs previously reported there is only one further job for an external client. The issue of the draft report has been delayed as the auditor was needed for work on the Council's Procurement Capability Assessment.
Audit plan completed to draft by 31 March 2012	30/92	33%	100% by 31.03.12	Continues to be further forward than at this point last year with most completed assignments relating to follow-up, grant certification or petty cash and income spot checks. Division of jobs and re-negotiations with external clients has resulted in a marginal increase in the number of planned jobs.
Audit recommendations delivered on time	78/117	67%	80%	External actions are continuing to be delivered to a better extent (75%) than internal (65%), although both percentages represent a reduction in performance in actions delivered compared with the last report to the Forum. This PI relies on informal assurances from those tasked with delivery of actions. New Corporate Improvement Advisory Board standing item should help address this issue.
Time taken for clients to agree findings and actions (Target 7 weeks)	61/78	78%	80%	The PI reported to the Forum has changed to align to Internal Audit's own suite of PI's. In September 2011, delays resulted from additional audit work being required before the issue of a draft report, negotiations with a client and audit employee resourcing constraints.

List of assignments completed September 2011

Appendix Two

Job no.	Assignment name	Draft Issue	Final Issue	Assurance Info
I679294	Employee Benefit Fraud	26/08/2011	26/08/2011	Employee failed to disclose increased earnings. Administrative penalty accepted.
I310732	Follow-Up SEEMIS System House-keeping	31/08/2011	05/09/2011	91% of actions now delivered. Now more control over SEEMIS user set-up and action agreed to minimise risk of duplicate users.
I674255	Tyre Fraud	01/09/2011	06/09/2011	Internal controls identified charging anomalies. Further checks within the Resource underway.
I210932	SFR Payments Analysis	06/09/2011	06/09/2011	Reported to SFR.
I676277	Service User Complaint	07/09/2011	08/09/2011	Breach of conduct through failure to comply with procedures and non-declaration of gift. Employee dismissed.
I671296	Missing Laptop	14/09/2011	15/09/2011	Unable to identify where loss occurred
I678287	Conduct issue	15/09/2011	15/09/2011	Insufficient information to proceed
I671298	Missing Laptop	16/09/2011	16/09/2011	Unfounded as laptop located.
I210180	Continuous Controls Monitoring	20/09/2011	23/09/2011	See main report at 5.3.
I678300	Allegation of driving without licence	30/09/2011	30/09/2011	Resource already taken employee off driving duties