

Report

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Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	3 March 2011
Report by:	Chief Executive

Subject:	Internal Audit Update on Progress as at end January 2011
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Highlight progress and performance in delivering the 2010/11 audit plan.

2. Recommendation(s)

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

- (1) that they note progress and performance.

3. Background

3.1. Regular reports are presented to the Forum showing progress in delivering the approved Internal Audit Plan for 2010/11 and in dealing with unplanned concerns reported during the year. The Internal Audit section delivers all work in line with the Code of Practice for Local Authority Internal Audit.

4. Progress with 2010/11 assignments

4.1. Output since previous reports to the Forum is listed in Appendix One (planned work) and Appendix Two (unplanned work). It should be noted that, since the beginning of the financial year, Internal Audit has undertaken fifteen unplanned pieces of work, of which nine were investigative. Three of these were undertaken jointly with the service and of the 140 investigative contingency days allowed in the plan, only 117 days have been spent on the above investigations. Main findings arising from recent planned assignments are outlined below.

4.2. Procurement Compliance: In July 2009, the Scottish Government introduced the procurement capability assessment (PCA) to monitor how far public bodies adopt good purchasing practice. The aim was to ensure all bodies could be assessed as at least 'conformant' (ie, operate essential good purchasing practice and control) by the second round of assessments at the end of 2010. The first round of PCAs was completed at the end of 2009. The second assessment (Dec. '10) showed a modest degree of improvement in score but did not meet the level required for PCA conformance. This indicates a need to refocus procurement strategies, plans and approach.

- 4.3. Education Maintenance Allowances(EMA's): An annual total of £1.6million is paid out in EMA's for which SLC receives an administration fee of £47,000. Returns made to the Scottish Government were 100% accurate and formally approved although a few supporting schedules were incomplete. Around 30% of claims are late but extensions have been agreed with the government. Eligibility, authorisation and payment procedures are being followed but not all are documented in formal written procedures. Segregation of duties is in operation in all areas. Eligibility claims and payments were accurate and authorisations complete. There were no payment errors and a full audit trail was in place. Some user log-ins prohibit the insertion of a specific name in the module which shows that pupil attendances have been validated. This carries the risk that attendance figures could be falsified. All recommendations were agreed.
- 4.4. External Funding: The process for attracting external funds is sound with £13million sourced in the last two years. Bids are well justified. Project estimates are fully backed up but matched funding claims are neither specific nor detailed. There is, however, no overarching policy or strategy governing this area of work. Successful bids are recorded but resultant funding is not always registered centrally. EU expenditure is easily traced back to ledgers and a 6 part monitoring process is in place within central finance to ensure compliance with conditions and that all claimed expenditure is allowable. No exceptions were found during audit testing but this sound approach only applies to EU funding and should be extended to significant other funds such as lottery. Project management disciplines are being exercised centrally and in services but where projects cross local authority boundaries these controls can be diminished. Partner communications are, however, good which partially mitigates this risk. Reporting income, expenditure and project progress, however, needs to be addressed in the interest of transparency.
- 4.5. Asset reconciliation (Info prop): Asset systems were easily reconciled to identify differences. There is approximately a 16% difference in the number of recorded assets between systems and these differences have been categorised. This does not necessarily mean that assets have been missed as one system included leased properties, for example. Management have agreed to investigate other differences. Internal Audit has proposed a spreadsheet model to be used in future regular reconciliations.
- 4.6. Quality of financial management systems: The following areas were all examined to determine compliance with quality procedures; HR and Payroll, FMS, IProc and Finance Systems Development. Overall there is a sound 87% compliance rate and the client has further agreed to minute meetings, prepare a quality review timetable and to implement a control document which will refer to supporting evidence. A very recent external BSI inspection noted that the internal audit report was fully detailed, reviewed and ensured that improvement requirements had been met.
- 4.7. Carbon Reduction commitment: SLC's carbon emissions baseline is estimated at 67,700 tons per annum. The Council requires to purchase CRC allowances to cover at least 90% of these emissions which could cost up to £1.2million per annum by 2014/15. This requires to be built into the next revision of the financial strategy and is in addition to the increasing unit cost of energy. The target reduction is around 2% per annum. Other external requirements included registration prior to September 2010 and the regular reporting of emissions. SLC not only registered on time but also attained carbon trust accreditation.

Monitoring and reporting will be controlled through use of a comprehensive spreadsheet showing all types of carbon emissions. The sheet is populated with electricity and gas information from suppliers' on-line software which holds readings from electronic energy meters fitted in more than 580 Council premises. Spreadsheet standing data and formula are correct and comply with current guidance.

The Council has a Carbon Management Plan which now requires an update. It also has an Energy Management Strategy focusing on gas and electricity consumption and related efficiency savings. A formal return is required in July 2011 supported by full evidence. Responsibility for co-ordination needs to be assigned and it is suggested that evidence is held electronically. It is likely that Internal Audit will require to sign off the submission. Overall SLC is well placed to meet the requirements of the scheme and the Council is alert to the risk of further change.

- 4.8. **Benefits Fraud Prevention:** A positive outcome from audit testing provides good assurance that fraud prevention aspects of the benefits service are operating well and are being well managed. Strategies and investigative procedures are in place and working, employees are fraud aware and keep the above documentation up to date. Employees are appropriately vetted, investigations are well managed and sanctions properly applied. Confidential data is protected and good reports are issued to, and used by, management. Only minor improvements were suggested namely the content of case files and informing employees on the outcomes of investigations.

5. Performance

- 5.1. 61% of the plan has been completed to a draft stage. Reports are now largely being delivered on time (78%) and within budget (77%). Appendix Three provides further detail of performance. The Forum is asked to note progress and performance.

6. Employee Implications

- 6.1. As planned, the vacancy position was reviewed before the festive break and an application to fill two part-time Auditor and Advisor posts was made. Permission has recently been granted to recruit for the posts.

7. Financial Implications

- 7.1. The section has a net budget of £510,000 for 2010/11. The underspend caused by vacancies is currently £46,320. £10,500 of this will be used to purchase licences to enable the Internal Audit section to fully access the Council's risk management system, Figtree.

8. Other Implications

- 8.1. There are no new risks attached to delivery of the audit plan. There is a little slippage but only the Housing Revenue Account and SEEMIS data assignments are at any real risk of non completion by end March 2011. Every auditor is required to set a promise date for the next stage of every assignment. This is closely monitored by management.
- 8.2. At the last meeting of the Forum in December a question was raised in relation to recovery of third party motor accident expenses. The figures reported reflect recoveries made from third parties for "at fault" accidents" where a recovery has been made. As recoveries are made the figures are adjusted.

9. Equality Impact Assessment and Consultation Arrangements

- 9.1. There is no requirement to undertake an equality impact assessment.
- 9.2. Clients are consulted on all audit assignments prior to release.

Archibald Strang
Chief Executive

3 February 2011

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

- ◆ Values: Accountable, Effective and Efficient
- ◆ Improvement Themes: Governance and Accountability

Previous References

- ◆ August and November 2010 reports to the Risk and Audit Scrutiny Forum

List of Background Papers

- ◆ Figtree extracts
- ◆ Internal Audit reports

Contact for Further Information

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

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Planned draft and final Internal Audit reports not yet reported to Forum

Appendix One

Job Number	Assignment name	Draft Issue	Final Issue	Assurance Info
I310707	Follow-up HRMS and FMS Access	15/10/2010	15/10/2010	Good progress has been made in tightening access controls in personnel and payroll systems. Access rights have been reviewed and permissions changed to reflect job responsibilities. Employees have been briefed on the importance of using the flexible working time recording system as this can be used to confirm whether or not passwords are being shared.
I310713	Follow-up Grass Cutting	18/10/2010	18/10/2010	Time on this job was combined with joint investigative work in this area
I341696	Procurement Compliance (McLelland)	19/10/2010	02/12/2010	See main report
I310711	Follow-up District Court Cash Checks	20/10/2010	09/11/2010	A third of original actions remained open. They include double checking of income reconciliations, control over spoiled cheques and use of bank bags. Improvements were however made in procedures and other general checking.
I220184	2010 Grant Certificate – Leader	28/10/2010	25/11/2010	Spending was generally in line with terms and conditions but nearly £12,000 may be re-claimed. Other issues included the failure to notify central finance of additional funding which allows accurate reporting to Executive Committee and the rate of delivery of recommendations. Controls which were working well include application process, declaration of interests, availability of guidance, project management, Board reporting and checking of works prior to invoice payment.
I310714	Follow-up High Value Consumables	29/10/2010	29/10/2010	All four actions delivered on time and improvements have been made in training, procedures and spot checks. These actions prevent the risk of fraud in that requisitions should not now be changed after authorisation and that job cards clearly show which parts are needed for what jobs.
I221188	Education Maintenance Allowances	11/11/2010	10/01/2011	See main report
I221176	External Funding	11/11/2010	26/01/2011	See main report
I310715	Follow-up System Security (Housing & Tech)	12/11/2010	12/11/2010	100% of actions delivered so good assurance that systems security within H&T Resources has improved.
I212919	SFR Employee Expenses	14/11/2010		Reporting to SFR
I218189	Asset (InfoProp) Reconciliation	17/11/2010	13/12/2010	See main report
I216179	Costing Study	19/11/2010		With client
I612219	SLL Payroll Data Mining	19/11/2010	20/01/2011	Reported to SLL
I342693	Care of Older People	26/11/2010		With client
I210182	Quality of Financial Management Systems	30/11/2010	21/12/2010	See main report
I341695	Audit of Organisational Change	30/11/2010		With client
I311703	SLL Follow Up Triggers	01/12/2010		Reported to SLL

Job Number	Assignment name	Draft Issue	Final Issue	Assurance Info
I516024	Roads Costing System	05/12/2010	16/12/2010	Postponed with approval of RASF
I219921	SFR Petty Cash	17/12/2010	22/12/2010	Reported to SFR
I330636	Audit Planning for 2011/12	20/12/2010		Refer March 2011 report to RASF
I331007/S	SLL Advice & Guidance & Audit Planning	20/12/2010		Reported to SLL
I342690	Carbon Reduction Commitment	21/12/2010	25/01/2011	See main report
I541027	PC Controls	07/01/2011		With client
I542026	SEEMIS System - Housekeeping	10/01/2011		With client
I631213	Benefits - Fraud Prevention	14/01/2011	27/01/2011	See main report
I342691	Building Warrants Controls	20/01/2011		With client
I214177	Non-delivery of Savings	21/01/2011		With client
I217186	Community Halls Financial and Operational Management	25/01/2011		With client
I220920	SFR Pension Transition Arrangements	26/01/2011		Reported to SFR
I310716	Follow-up Info Gov & Records Mgt	31/01/2011	31/01/2011	All ten actions aimed at improving data security in Finance Services have been fully implemented reflecting an improved information governance regime.
I541030	System Control Objectives - Treasury	31/01/2011		With client

Unplanned draft and final Internal Audit reports not yet reported to Forum

Appendix Two

Job Number	Assignment name	Investigated by	Draft Issue	Final Issue	Assurance Info
I675238	School Cash Theft	Referred to police	16/09/2010	09/12/2010	New procedures introduced including cash bags with pre numbered seals, tracking documentation and key handling protocols.
I677240	Building contractors	Joint Social Work and Audit	15/10/2010	19/10/2010	SLC no longer doing business with any of the 13 suppliers listed in the concern.
I222197	Road Safety Forum audit certificate	Internal Audit	27/10/2010	04/11/2010	The 2009/10 Forum accounts are accurate, and comply with rules and procedures. Recommendations have been made to rotate accounting responsibilities and a book-keeping template for future use has been supplied as there is no need for the accounts to be formally audited.
I674242	Citizens missing belongings	Housing and Technical Resources	22/11/2010	09/12/2010	No evidence to suggest that SLC employees were involved.
I672243	Employee qualifications	Education Resources	26/11/2010	26/11/2010	Allegation of false information on application form were unfounded.
I674241	Missing Cash - Larkhall Leisure Centre	Internal Audit	03/12/2010	21/12/2010	Work requested by and reported to SLL at their expense.
I678247	Snow clearing complaint	Not investigated	21/12/2010	21/12/2010	Whistleblower withdrew allegation.
I674245	Fraudulent benefit cheque presented for payment	Referred to police	21/12/2010	22/12/2010	Controls implemented include a reconciliation of cheque numbers and quantities.
I679246	Employee housing benefit fraud	Housing and Technical Resources	22/12/2010	22/12/2010	Employee admitted fraud and disciplinary action is planned.

Key audit performance indicators 1 April to end January 2011

Appendix Three

Indicator	Numbers	Percentage	Target	Comment
Assignments delivered within budget	79/102	77%	80%	Most over-runs are assignments carried forward from last year. Few recent over-runs and checks are being undertaken on open jobs to determine whether or not scopes need to be re-defined.
Draft reports delivered within 21 days of fieldwork completion	83/102	78%	80%	Most over-runs were marginal.
Audit plan completed to draft by 30 April 2010	53/87	61%	95% by 30.04.11	Removing jobs such as year end assurance reports which can only be undertaken at the end of the year improves this PI to 69%.
Audit recommendations delivered on time	n/a at time of writing	%	80%	Most open actions relate to improvements in the procurement service. A new approach is being taken and actions re-assigned so the number of open actions should reduce but it is unlikely that performance will improve before the end of the year.
Time taken to finalise draft reports with clients (Target 5 weeks)	72/108	67%	100%	Most recent delays are either in Social Work Resources (7off) who take all audit reports for review to a monthly management team before the Head of Service signs. Other recent delays are external clients (6 off) who also consult widely before finalising agreements. Removal of these two clients improves the PI to 76% and most of the residual delays were for prior year reports.