

Report

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Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	14 July 2011
Report by:	Chief Executive

Subject:	Internal Audit Work Completed between February and May 2011
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ update the Forum on work completed since the last full progress report to the Forum

2. Recommendation(s)

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

- (1) that findings are noted
- (2) that planned benefits work is replaced with Council tax audit

3. Background

3.1. Findings from internal audit assignments are reported to the Forum throughout the year. Although the year end Annual Internal Audit Assurance report for 2010/11 was recently presented to the Forum, the last progress report, showing assignment findings, was 3 March 2011. This covered work completed to end January 2011.

3.2. It is the responsibility of the Forum to consider all of the work undertaken by Internal Audit so this report provides an opportunity for that consideration.

4. Findings

4.1. Appendix 1 lists all assignments completed since end January 2011. More detailed findings from the more material pieces of work follow.

4.2. VAT in Income Management System: Internal Audit has assisted services in a self-review of VAT flags, used on the income management system, by preparing schedules of data sorted by VAT, payment type and ledger codes to ease checking. This activity should ensure greater regulatory compliance in future. Although there are no material issues, a low level risk remains in relation to a few VAT flag inconsistencies. These are being addressed by implementation of an agreed action plan.

4.3. Mobile phones: Planned work in this area was over-taken by an investigation. Key findings related to issues with incomplete inventory records. Corrective action has now been taken and new procedures have been put in place by IT Services and by Resource managers. There was no clear audit trail from initial requisition to final billing. Orders were topped up beyond requisition levels to take advantage of bulk buying discounts but without the sim cards being securely stored. Returns were also

an issue and there was a lack of direct billing to user services. A full joint action plan has been put in place and is being managed as a formal project.

- 4.4. Taxi contracts: Good pre-contract controls are in place to mitigate personal safety risks but there are no VAT checks. Over 10% of invoices checked had invalid VAT numbers and invoice styles were non compliant. Coding is also an issue with more than 40 accounting subjective codes being used for taxi payments. Expenditure for eight accounting periods was more than £2m but there was no overarching procurement framework. This level of spend should be considered for competition. Recommendations were agreed.
- 4.5. General Contracts: Although the contracts register for 2009/10 was incomplete content is improving and all Resources are properly reporting contract awards to committee. Evaluation of tenders is mainly correctly based on pre-set evaluation criteria but the level of evidence retained in support of final scores could be improved. In addition, membership of evaluation panels is not always formally noted in files and notes from each individual member are not always retained. Financial and insurance checks are not consistently applied. Other tendering requirements were mostly well controlled with compliance rates against audit tests of 80% or more. Overall, assurance is mixed.
- 4.6. Improve (Performance Management System): Data owners were identified for all performance indicators held within the system. 92% had retained sufficient back-up to validate the published information. 83% of tested indicators were accurate and mistakes immaterial. Common indicators have been consistently reported and testing confirms accuracy. Published guidelines are being followed, timescales are being met and traffic light flags are being consistently applied. Recent system developments allow automatic updates of measures being reported at more than one level but this functionality depends on the skill of the Resource co-ordinator. Good back-up processes are in place and some Resources have developed specific guidance on system use including password control. Overall there is good assurance over performance reporting.
- 4.7. Chargeable income: There are inconsistencies in the subjective codes being used for identical income streams. Benchmarks with other authorities indicate minor potential for additional charging but prices are generally comparable. Although a central list of charges is maintained this is incomplete. Actual rates charged largely agreed to listed prices. Only a very small proportion of income was collected through the debtors system and many of these were high volume low value transactions which are administratively expensive. Similarly ICON is being used to collect high value single transactions which would be more transparent if an invoice was raised. Recommendations were agreed.
- 4.8. High overtime earnings: A three year overtime reduction target of 8% p.a. was set last year, approximately £735,000. In 2010/2011 the actual reduction was 7.9% or nearly £726,000. Winter weather demands explain the slight shortfall. A low proportion of the workforce earning more than £10,000 per annum had high overtime rates of more than 50%. This pattern continued into 2010/11. Not all Resources are using the electronic feeder spreadsheet for uploading data to the payroll system. All sampled payments were supported by a timesheet, a formal claim or both. 86% were signed by local managers prior to payment and this authorisation was subsequently checked by those inputting data to payroll. Control and savings achievement is therefore good.

5. Other progress information

- 5.1. 42% of the Internal Audit Plan for 2011/12 has started with most completed assignments (11%) relating to grant certificates. Checks on high value and volume petty cash holdings have also been completed. All grant certificates provide assurance that the Council is using funding for the purpose intended. There are no material findings from cash checks but routine procedures are not always being consistently applied.
- 5.2. Two assignments from the 2010/11 audit plan remain open. These relate to "Delivery of Savings" (some information is still being checked by the client) and "Telecommunications" (the draft report is being re-worked to clarify financial information and the level of controls assurance).

6. Employee Implications

- 6.1. There are no employee implications.

7. Financial Implications

- 7.1. The Internal Audit Section is currently under-spent by £31,000 due to additional income and vacancies.

8. Other Implications

- 8.1. The work that Internal Audit undertakes for Strathclyde Fire and Rescue, Lanarkshire Valuation Joint Board and South Lanarkshire Leisure and Culture provides assurance that members of the SLC group have a sound internal control environment. For the 2010/11 financial year all three external clients had a clean internal audit opinion.
- 8.2. Housing and Technical Resources has requested that Internal Audit work on benefits is postponed due to structural and legislative changes within the service. As assurance of benefits administration has been good for the last two years, the Forum is asked to endorse the replacement of benefits audit work with Council tax.

9. Equality Impact Assessment and Consultation Arrangements

- 9.1. There is no requirement to assess the contents of this report. Heads of Service are consulted on each and every audit assignment.

Archibald Strang
Chief Executive

29 June 2011

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

- ◆ Governance and accountability
- ◆ Governance and Risk Management

Previous References

- ◆ Annual Internal Audit Assurance Report 2010/11 report to RASF May 2011
- ◆ Progress report to RASF March 2011

List of Background Papers

- ◆ 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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List of assignments completed between February and May 2011

Job No.	Assignment name	Draft Issue	Final Issue	Assessment
I310712	Follow-up Construction Industry Tax	01/02/2011	10/02/2011	100% actions delivered
I610220	SLL Fraud Awareness Training	03/02/2011	03/02/2011	Reported to SLLC
I678244	Land conduct and theft	23/02/2011	23/02/2011	Joint investigation. No new concerns raised
I310710	Follow-up School Furniture Contract	24/02/2011	07/03/2011	100% actions delivered
I341698	Children's' Games	24/02/2011	07/04/2011	Recommended reporting progress to committee and improved access to minutes
I311704	LVJB Follow Up Triggers	28/02/2011	02/03/2011	Reported to LVJB
I310717	Follow-up Common Good Funds	28/02/2011	21/03/2011	Acceptable progress
I613211	Management of Fraud Risk - Mobile Phones	28/02/2011	03/03/2011	See main report
I311705	SFR Follow Up Triggers	28/02/2011	31/03/2011	Reported to SFR
I632206	NFI 2010/11	28/02/2011	01/04/2011	Separate report to RASF
I513023	ICON VAT Flags	28/02/2011	13/04/2011	See main report
I331007/F	SFR Advice, Guidance, Fraud & Audit Plan	28/02/2011	31/03/2011	Reported to SFR
I674249	Mobiles investigation and consultancy	02/03/2011	02/03/2011	See main report
I210181	Control Testing AMP feeders	04/03/2011	29/03/2011	All risks adequately mitigated
I214918	LVJB Spend Analysis	04/03/2011	31/03/2011	Reported to LVJB
I633214	Benefits - Intervention	07/03/2011	31/03/2011	Adequate assurance
I342689	Energy Efficiency	11/03/2011	28/04/2011	Good plans in place
I251198	Primary School tender stage 2 advice	13/03/2011	17/03/2011	Well controlled tender process
I251192	Contract Spend - taxis	14/03/2011	09/05/2011	See main report
I218187	School Inventory	16/03/2011	06/04/2011	Only 2/20 schools examined had fully authorised inventories and none were fully valued.
I253191	Analytical Review of Contract Award	16/03/2011	29/03/2011	See main report
I678253	CRM - Cleansing Conduct	18/03/2011	18/03/2011	Resource investigation. Allegations were unfounded.
I341697	Use of External Consultants	28/03/2011	05/05/2011	See main report
I672265	Missing Laptop - Social Work	28/03/2011	28/03/2011	Resource investigation. Loss confirmed. Procedures re-enforced
I682215	IMPROVe	29/03/2011	12/05/2011	See main report
I217178	Chargeable Income Analytical Review	30/03/2011	01/06/2011	See main report
I679250	CRM - Benefits	30/03/2011	30/03/2011	Resource investigation. Allegations unsubstantiated due to insufficient information.
I120002	I Proc Consultancy 2010/11	31/03/2011	31/03/2011	Audit advice was well received resulting in improved controls.
I232174	Benefits - Rolling Programme	31/03/2011	31/03/2011	Good level of assurance
I612212	Mgt of Fraud Risk - High Overtime Earners	01/04/2011	03/05/2011	See main report

Job No.	Assignment name	Draft Issue	Final Issue	Assessment
I676256	SFR Investigative assignment	06/04/2011	08/04/2011	Reported to SFR
I342700	Seemis Audit Service 2010/11	11/04/2011	25/05/2011	Service offer still under consideration.
I685221	SFR Annual Report 10/11	13/04/2011	30/04/2011	Reported to SFR
I674272	WB Materials Theft	20/04/2011	20/04/2011	Investigated by Resource. Allegations unfounded.
I685218	SLL Annual Report 10-11	27/04/2011	04/05/2011	Reported to SLL
I232226	Benefits - Local Authority Error	27/04/2011	27/04/2011	Job dropped in favour of Council tax
I511025	Purchase Card System	28/04/2011	01/06/2011	Good controls in place
I342688	Housing Audit - Housing Revenue Account	28/04/2011	11/05/2011	Account soundly controlled
I676251	Theft - Secondary School Catering	30/04/2011	14/06/2011	Resource investigation. Employee resigned
I331007/L	LVJB 2010/11 Annual Report, Plan and Administration	30/04/2011	11/05/2011	Reported to LVJB
I342692	SEEMIS Data	30/04/2011	06/06/2011	System overwrites historical teacher and pupil numbers so IA recommended a system change request be proposed. No written procedures but few errors in government census.
I541031	System Control Objectives Procedures	30/04/2011	01/06/2011	Process established to regularly update system controls information
I310731	Follow-up Grant Admin	04/05/2011	25/05/2011	Only 1 of 6 actions delivered. Recommendations carried forward
I676281	Catering – Secondary School Hamilton	12/05/2011	12/05/2011	Investigated by Resource and new procedures introduced
I672267	CRM - Complaint Information Breach	18/05/2011	18/05/2011	Low risk passed to Resource for investigation
I686216	Information Governance	25/05/2011	25/05/2011	Good level of assurance
I676278	WB Fraudulent Standing Order Set Up	26/05/2011		Referred to police
I218923	SLLC Stock Check - Rutherglen Town Hall	26/05/2011	20/06/2011	Reported to SLLC
I310739	Follow-up Access Controls SWisPlus	27/05/2011	01/06/2011	Good progress