

Report to: **Risk and Audit Scrutiny Forum**
Date of Meeting: **19 May 2011**
Report by: **Chief Executive**

Subject: **Internal Audit Annual Assurance Report 2010/11**

1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ report on the progress of Internal Audit against plan for the full year 2010/11 and to provide an audit opinion on the strength of the Council's control environment

2. Recommendation(s)

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

- (1) note that Internal Audit performance is positive
- (2) note that the level of assurance is adequate
- (3) note the overall findings from internal audit work and that these will inform the Council's 2010/2011 Governance Statement

3. Background

3.1. Internal audit activity is delivered in line with the Internal Audit Code of Practice for Local Authorities. External auditors monitor the service against this code. Since 2002, there has been a requirement within the Accounting Code of Practice for Internal Audit to inform the Governance Statement, which is published in the Council's Annual Report.

3.2. Internal audit employees work to an annual plan which also allows time to deal with concerns which arise during the year. The plan for 2010/11 took account of management concerns and the growing knowledge of key Council risks. External auditors were also consulted. An evaluation of risk was used to prioritise the assignments within the plan and, as a result, there were operational reviews as well as traditional audits of financial systems.

3.3. The Risk and Audit Scrutiny Forum met seven times during 2010/11 to undergo training, review risk management arrangements and consider internal and external audit reports in the main areas of regulatory, investigative, computer and contract audit. Internal Audit also delivered services to South Lanarkshire Leisure and Culture, Strathclyde Fire and Rescue and the Lanarkshire Valuation Joint Board under the terms of agreed Service Level Statements.

4. Internal Audit Performance – 2010/11

4.1. The number of audit days delivered (2358) was slightly below plan due to vacancies. This has, however, been more than offset by an increased productivity rate of 76%

compared to the plan of only 70%. A summary of Internal Audit performance is included in appendix one.

- 4.2. 98% of the agreed plan was delivered which is the best annual performance to date. There continues to be a little room for improvement in finalising jobs within budget, 78% compared to the target of 80%. Overall, the quality and coverage of reporting improved as demonstrated by client feedback. The Forum is asked to note this positive position.

5. Council wide Performance – Focus on internal audit

- 5.1. A sound Council wide approach to audit and inspection is a requirement of the Code of Practice. Appendices two and three show how services have performed against agreed targets for implementing audit recommendations and in co-operating with Internal Audit. Delivery of audit recommendations has slipped since last year and on time delivery is now only 71% against a target of 80%. Steps are being taken to re-instate this performance as a statistical indicator within Improve to allow greater focus on this area of performance.
- 5.2. Feedback is sought from auditees following each assignment and from Heads of Services annually. This year the results indicated that;
- The planning process is well understood and valued
 - Auditors have improved their “working knowledge of systems and processes”
 - There is “good engagement and dialogue”
 - Clarity, precision, prompt delivery and efficiency have been recognised by clients
 - There is an over 90% satisfaction with audit reports
 - The demand for improved quality of recommendations in addressing the level of risk is being met
 - Technical competency remains the only main area for further improvement. This is being addressed through a series of training events planned for 2011/12 and through a review of working paper styles

6. Internal Audit Workload – 2010/11

- 6.1. The audit plan was reviewed mid year and work on the Roads Costing System was postponed as a result. The final workload is shown in Table One below. Outstanding assignments will be carried forward and the 2011/12 internal audit plan allows 40 days for completion of this work.

Table One- Internal Audit workload analysis for 2010/11

	Total No. Jobs	Regulatory / benefits	Computer / contract	Operational/s crutiny and performance	Anti Fraud/ Specials	Follow-up
Planned	87	24	12	24	9	18
Dropped	1	0	1	0	0	0
Added	18	5	1	1	11	0
b/fwd	21	3	7	4	5	2
Adjusted workload	125	32	19	29	25	20
Reports completed to draft	116	32	16	24	25	19
<i>Drafts o/s at 30 April 2011</i>	9	0	3	5	0	1

6.2. Appendices four and five show a full list of planned and unplanned audit assignments which were completed to a draft stage during the year.

7. Management of fraud risks

- 7.1. The previous external provision for telephone reporting of concerns was replaced by an in-house provision "Fraud Alert" launched in January 2011. This alternative links into the Council's CRM system and information is passed directly to the Internal Audit section. Only seven calls were received during the year and most of these related to benefits. Telephone reporting lines also act as deterrents. There are a number of other routes to report concerns but the level of investigation is dependent on an initial evaluation of risk.
- 7.2. Appendix six shows the source and outcomes which relate to additional concerns reported to Internal Audit during the year. In all, nine were investigated by Internal Audit and 24 by Resource personnel.
- 7.3. Almost half of all allegations investigated were proven but a further 30% could not be concluded due to lack of proper paperwork or audit trails. On twelve occasions disciplinary or legal processes were invoked which reflects application of the Council's zero tolerance attitude to fraud. To date, four have resulted in resignations or dismissals but not all are complete. Internal Audit assisted the police in three investigations, one of which has resulted in an arrest being made. In a further two cases, audit files have been used by loss adjustors, resulting in successful insurance recoveries.
- 7.4. An anti-fraud risk control 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.
- 7.5. In addition to the above investigative work, Internal Audit and Benefits personnel from Housing and Technical Resources continued to work on the National Fraud Initiative (NFI) during 2010/11. 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.
- 7.6. Aside from the NFI, the Benefits team will also address benefits fraud identified through other avenues. Benefits fraud amounted to £198,460 for the first three quarters of 2010/11.
- 7.7. 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.

8. Financial controls and findings

- 8.1. Overall, there is an adequate level of financial control across the Council and control within the Council's main financial systems is improving with the expanded use of income management (ICON) and electronic procurement (IPROC). Some areas previously suggested for improvement have nevertheless re-occurred. These mainly focus on application of local controls by management such as accuracy of ledger coding, segregation of duties, appropriate levels of authorisation and use of

reconciliations as control tools. Highlights in support of this opinion follow and the Forum is asked to note this positive level of assurance.

- 8.2. Main financial systems: As well as providing advice on ICON and IProc, audit work on Treasury, HRMS and service feeders to the ledger all showed positive levels of control including on-going work on business continuity. Internal Audit recommended that the main financial management systems were worthy of formal accreditation and assessors relied on this audit testing. In addition, the Housing Revenue Account is working well in terms of eligible properties, repairs, debtors processing and journal entries. Some key systems, such as the SEEMIS system used by Education Resources, require a regular review of user log-ins and permissions in order to maintain appropriate levels of security.
- 8.3. Tax: Earlier concerns around construction industry taxation have largely been addressed but new issues were raised regarding VAT in relation to taxi provision and income processing. Actions were quickly put in place which allowed a full VAT reconciliation by the year end.
- 8.4. Efficiencies and savings: Testing of management arrangements for dealing with recessionary risks and delivery of approved efficiencies confirms that the Council was well prepared and is delivering the expected level of savings. Informal but material overtime targets (8%) have also largely been met against the backdrop of increased service demand caused by the severe winter weather.
- 8.5. Grants and allowances: Education Maintenance Allowances were appropriately administered and all grant audits resulted in clean audit certificates. Evidencing matched funding continues to be an area for review. The project management of grants received by the Council is ensuring that all expenditure has been checked for eligibility prior to claims for payment being lodged.
- 8.6. Procedures: More attention could be paid to writing, training, reviewing and monitoring the implementation of formal explicit procedures. Procedures are the primary control in preventing financial loss and must be kept up to date. Procedural audit actions, for example, relating to cashless school meals, payments, school funds, benefits and overtime management have all been agreed locally. This type of recommendation accounts for 40% of all audit actions.
- 8.7. Inventory and assets: School inventories are not yet valued although registers in new schools show signs of improvement. Mobile and local computer equipment inventories also required significant review. Council wide inventory procedures were revised by Internal Audit and re-launched in time for the 2010/11 year end. Internal audit provided assistance in reconciling the Council's asset registers.
- 8.8. Management information: Although there has been an improved appetite for costing goods and services, there is still reluctance at local levels to design and fully utilise exception reporting and management accounts. There is also a reliance on spreadsheets for local control which can carry a material risk of error. Control over capital projects is compliant with national requirements but debts were allowed to build up in relation to community halls.
- 8.9. Benefits: All areas of the benefits service were well controlled with only minor improvements suggested during audit work. Joint working with the service has also taken place this year which will allow a greater reliance to be placed on the work of Housing and Technical Resources.

9. Operational controls and findings

- 9.1. Operational control across the Council is also adequate. Details in support of this opinion follow and the Forum is asked to note this opinion.
- 9.2. Follow-up: Formal follow-up audit work confirms the extent to which previous audit recommendations have been implemented. 87% of tests confirmed delivery of agreed actions by services.
- 9.3. Governance and risk management: Self assessments and the work of the governance group indicate improvements but there are inconsistencies in self assessments undertaken by Resources. Although better than in previous years, full financial and risk information is not always provided as part of the decision making process. Key risks such as information governance, care for older people and energy and carbon use are being actively and positively managed. Compliance with the risk management strategy has improved as a result. Partnership governance and risk management arrangements are still, however, being developed following a revision to the strategy in 2009.
- 9.4. Performance reporting: The corporate reporting tool, Improve, has led to more complete and accurate reporting of performance but developments are still required in terms of tracking trends through greater use of statistical information. Reporting of waste and carbon statistics has also shown a demonstrable improvement, albeit with reliance on spreadsheet analyses.
- 9.5. Contracts and procurement: Contracts management in nursery provision and home care has improved. Audit work highlighted a few areas where supplies such as food, non alcoholic drinks, calibration services and taxi use should be subjected to greater competition due to the level of aggregated spend and off contract buying. Other procurement development areas include reducing the number of duplicate suppliers, maintaining a full and complete contracts register and pre-contract risk evaluation. Proposals have, however, been made to improve the financial appraisal process. A positive and key area of contractual control is the transparent evaluation of tenders using pre set criteria. This includes the schools build programme. The use of electronic tendering systems has also contributed to improved transparency in this area.
- 9.6. Stock control and security: With only a few exceptions, such as heating spares, stock control is sound and vehicle movements are now being more widely tracked. The need for improved security over keys and low value Council property such as car park passes and mobile equipment has been demonstrated as expected during this recessionary period. Security over access to buildings was refreshed during 2010/11.
- 9.7. IT project management and PC controls: IT project management is sound with only closure reviews and resultant actions needing a little more attention. Application of project management for other strategic projects is not, however, consistently applied. Security over personal computer use is good and guidance on storage devices is comprehensive. Redundant PCs are being appropriately redeployed or disposed of.
- 9.8. Local management controls. Like local financial controls, operational controls exist but, on occasion, lacked implementation by local managers. Such controls include job and task monitoring, management checks and accuracy and completeness of filed and system information which can be used as an audit trail or as evidence in support of decisions and actions. Data reconciliations and application of procedures have also been highlighted in audits looking at repairs stock and income

management. The focus on procedures has improved but usually in areas which experienced a prior breach such as building warrants.

10. Summary of overall assurance and audit opinion

10.1. 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 (refer paragraphs 8.1 and 9.1) are based upon the audit work undertaken during the year and knowledge of the Council's governance and risk management arrangements. The Forum is asked to note that the above findings will inform the Council's annual Governance Statement. As required by the Code of Practice, a signed Annual Internal Statement of Assurance is included in appendix seven. This does not include the views of external audit.

11. Employee implications

11.1. The Internal Audit service is delivered with an establishment of 16.5 posts which includes two part time current vacancies. A newly qualified accountant will join the team in summer 2011.

11.2. Training for the full team was delivered during 2010/11. This targeted the writing of reports to court standards. This was well received. 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. Production of a promotional leaflet for audit services, a review of performance indicators and intranet pages as well as exploration of shared services for audit provision feature in the actions.

12. Financial implications

12.1. The Internal Audit service, 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.

13. Other implications

13.1. 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.

13.2. Although it has been agreed that procurement is still a key improvement area for the Council, a repeat of a 2007 study clearly showed progress with the creation of one central group, post contractual reviews and the commitment to identifying and achieving greater procurement efficiency within the Council.

13.3. In order to demonstrate continuous improvement within the audit section, a Continuous Controls Project was launched in 2010/11. This project regularly downloads data from financial systems and analyses it to identify anomalies. This then focuses audit testing on high risk areas which is an improvement on random sampling. Data has already been used in seven audit assignments with time and quality benefits. Data and work on financial journals will be shared with external audit.

14. Equality impact assessments and consultation arrangements

- 14.1. There is no requirement to carry out an impact assessment in terms of the information contained within this report.
- 14.2. 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

26 April 2011

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

Priority: Effective and efficient/ Improvement Theme: Governance and Accountability
Resource objective: 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
Benefits Assurance Statement and NFI progress report to RSAF 2010/11
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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Performance Indicator	Target	Actual	Assessment	Comment	2008/09	2009/10
Delivery of planned audit days	2470 days	2358 days	✓	One auditor returned from maternity leave part time and the residual hours remain unfilled. One audit advisor started her maternity leave which created a further vacancy gap of four months.	2527 days	2232 days
Completion of audit plan	95% planned assignments complete to draft by 30 April	98% (85/87)	✓	The continuous controls monitoring (CCM) project was not completed as the lead auditor was seconded to other duties during the year. The other delay related to the implementation of a programme of information governance checks which requires further discussion.		92 % (67/73)
Completed assignments delivered within budget	80% within budgeted audit days specified in remit	78% (108/139)	✗	There were eight major over-runs, three of which were caused by the complexity of the findings. Most of the others were undertaken by an employee who was new to the role.	72%	73 %
Drafts reports on time	80% of drafts prepared within 21 days of completion of fieldwork	80% (107/134)	✓	Most are marginal over-runs with only four jobs significantly over budget; one was caused by late supply of information, one due to employee turnover and a costing study involved presentations to financial strategy and three year budget groups prior to approval. A further job was carried forward from last year.	79%	81%
Productive time	70% of available days	76%	✓	Unplanned IIP and Empower activity absorbed through increased productivity at both auditor and assistant levels.	71%	74%

Performance Indicator	Target	Actual	Assessment	Comment	2008/09	2009/10
Audit work for Clients	Client bookings to be consistent with plan	Most within 15%	✓	Unplanned work almost fully covered by contingency allowance and included cross cutting and Finance and IT investigations as well as Child Protection file reviews.	Both Social Work and Community over	40% variances for internal clients
Audit work by Category (type of work for example contract)	Work Category bookings to be consistent with plan	No significant variances	✓	There was only marginally more computer audit work than planned due to carry forward from prior year and system access issues within Education Resources.	Wide variations for most categories	Wide variations in three areas
NFI overpayments and frauds	90% of SPD matches to be investigated by year end and overpayments to be identified	2347/2347 i.e. 100% £139,237 overpayments	✓ ✓	464 investigations relating to the new 2010 exercise were also completed, in addition to the SPD target, resulting in a further identification of £28,045 errors.	5685/7494 i.e. 76% £82,029	99% (2154/2182) £165979 o'payments 23% (£38532) fraudulent

Council's approach to audit during 2010/11 – Performance in delivering audit recommendations

Appendix Two

INTERNAL

Resource	Due	Closed On Time	Closed Late	% Complete [on time]	Open 10/11	Open 09/10	Open 08/09	Open 06/07	Comments
Community	59	23	13	39%	23	0	0	0	Most open actions relate to cashless school meals, implementation of the Fuel Strategy and waste operations. Revised dates have been agreed for all 23 outstanding actions
Corporate	49	44	4	90%	1	0	0	0	The slightly delayed actions relates to implementation of the Control of Asbestos Policy and Training Strategy.
Education	47	31	16	66%	0	0	0	0	-
Enterprise	44	41	3	93%	0	0	0	0	-
Finance & IT	99	56	27	57%	16	0	0	0	Due to the current reviews of the strategic procurement team, most open actions will be reviewed, amended and new dates set as part of the 2011/12 audit work. Items include pre selection and tender processes. Also small project management improvements within IT service are still being finalised.
Housing & Technical	84	64	15	76%	5	0	0	0	Open actions are varied but relate to defining the roles of employees in the asbestos unit, amending benefits proformas and inserting flags on the asset register.
Social Work	32	29	3	91%	0	0	0	0	-
Total	414	288	81	70%	45	0	0	0	

EXTERNAL

Resource	Due	Closed On Time	Closed Late	% Complete [on time]	Open 10/11	Open 09/10	Open 08/09	Open 06/07	
Community	1	1	0	100%	0	0	0	0	-
Corporate	1	1	0	100%	0	0	0	0	-
Education	0	0	0	N/A	0	0	0	0	-
Enterprise	0	0	0	N/A	0	0	0	0	-
Finance & IT	13	11	1	85%	1	0	0	1	-
Housing & Technical	4	4	0	100%	0	0	0	0	-
Social Work	2	2	0	100%	0	0	0	0	-
Total	21	19	1	90%	1	0	0	1	
Grand Total	435	307	82	71%	46	0	0	1	

N.B. Above results based on verbal assurance information supplied by services at requested date for returns.

Performance Indicator	Target	Actual	Assessment	Comment	2008/09	2009/10
External audit recommendations on time	80%	81%	✓		78%	85 %
Numbers of external outstanding actions	<5 from preceding year	1	✓		2	3
Internal audit recommendations on time	80%	70%	✗	This PI is no longer being routinely reported as a statistic at senior levels	76%	77 %
Numbers of internal outstanding actions	<10 from preceding year	0	✓		30	28
Closing meeting within 4 weeks of fieldwork completion	90%	73%	✗	Auditors are reluctant to escalate in the interest of client relationships.	74%	75%
Signed Action Plan within 2 weeks of draft being agreed	90%	86%	✗		85%	89%
Overall performance in agreeing and finalising audit reports	8 weeks	4.5 weeks	✓	Small Resource led investigations included in average		
Client feedback; Purpose Audit planning Understanding Fieldwork Technical Reporting Actions	n/a	100% 87.5% 75% 78% 73% 90% 81%	✓	Huge improvement in client comments re reports. Clients may not be best placed to evaluate technical competence	n/a	n/a

Job No.	Assignment name	Status	Draft Issue	Final Issue
I120002	I Proc Consultancy 2010/11	Closed	31/03/2011	31/03/2011
I210181	Control Testing AMP feeders	Closed	04/03/2011	29/03/2011
I210182	Quality of Financial Management Systems	Closed	30/11/2010	21/12/2010
I212917	SLL Travel Expenses	Closed	02/08/2010	10/09/2010
I212919	SFR Employee Expenses	Closed	14/11/2010	16/03/2011
I214177	Non-delivery of Savings	Negotiating	21/01/2011	
I214185	Education Ledger Coding	Closed	14/09/2010	06/10/2010
I214918	LVJB Spend Analysis	Closed	04/03/2011	31/03/2011
I215159	Capital Project Estimating	Closed	30/06/2010	29/09/2010
I216179	Costing Study of Trading Operations	Closed	19/11/2010	28/02/2011
I217178	Chargeable Income Analytical Review	Draft with client	30/03/2011	
I217186	Community Halls Financial and Op Mgt	Closed	25/01/2011	17/03/2011
I218187	School Inventory	Closed	16/03/2011	06/04/2011
I218189	InfoProp Reconciliation	Closed	17/11/2010	13/12/2010
I218915	SLL 2009/10 Stock Count	Closed	20/05/2010	28/06/2010
I219921	SFR Petty Cash	Closed	17/12/2010	22/12/2010
I220183	Grant Certificate - CW&SS	Closed	16/06/2010	16/06/2010
I220184	2010 Grant Certificate - Leader	Closed	28/10/2010	25/11/2010
I220920	SFR Pension Transition Arrangements	Closed	26/01/2011	28/02/2011
I221175	Trust Fund and Charitable Accounts 2010	Closed	23/08/2010	23/09/2010
I221176	Regeneration Services - External Funding	Closed	11/11/2010	26/01/2011
I221188	Education Maintenance Allowances	Closed	11/11/2010	10/01/2011
I232174	Benefits - Rolling Programme	Closed	31/03/2011	31/03/2011
I251192	Contract Spend - taxis	Negotiating	14/03/2011	
I253191	Analytical Review of Contract Award	Closed	16/03/2011	29/03/2011
I310649	Formal FUP Community Audit 2007/08	Closed	02/11/2010	24/02/2011
I310686	Benefits Follow-Up 2010/11	Closed	02/06/2010	15/06/2010
I310687	Benefits - Self Assessment	Closed	10/09/2010	11/10/2010
I310701	SFR Formal Follow Up 10/11	Draft with client	13/04/2011	
I310707	F/U HRMS and FMS Access	Closed	15/10/2010	15/10/2010
I310708	F/U Cleaning Overtime	Closed	10/09/2010	10/09/2010
I310709	F/U Client Property & Security -pocket œ	Closed	13/09/2010	22/09/2010
I310710	F/U School Furniture Contract	Closed	24/02/2011	07/03/2011
I310711	F/U District Court Cash Checks	Closed	20/10/2010	09/11/2010
I310712	F/U Construction Industry Tax	Closed	01/02/2011	10/02/2011
I310713	F/U Grass Cutting	Closed	18/10/2010	18/10/2010
I310714	F/U High Value Consumables	Closed	29/10/2010	29/10/2010
I310715	F/U System Security (Housing & Tech)	Closed	12/11/2010	12/11/2010
I310716	F/U Info Gov & Records Mgt	Closed	31/01/2011	31/01/2011
I310717	F/U Common Good Funds	Closed	28/02/2011	21/03/2011
I311702	Informal Follow Up 2010/11	Closed	01/10/2010	31/03/2011
I311703	SLL Follow Up Triggers	Closed	01/12/2010	28/02/2011
I311704	LVJB Follow Up Triggers	Closed	28/02/2011	02/03/2011
I311705	SFR Follow Up Triggers	Closed	28/02/2011	31/03/2011
I321660	SLL Shared Systems	Closed	27/04/2010	26/05/2010
I330636	Audit Planning for 2011/12	Closed	20/12/2010	04/03/2011
I331007/F	SFR Advice, Guidance, Fraud & Audit Plan	Closed	28/02/2011	31/03/2011
I331007/S	SLL Advice & Guidance & Audit Planning	Closed	20/12/2010	24/03/2011
I341695	Audit of Organisational Change	Closed	30/11/2010	09/03/2011
I341696	Compliance with McClelland	Closed	19/10/2010	02/12/2010
I341697	Use of External Consultants	Finalising	28/03/2011	
I341698	Childrens Games	Closed	24/02/2011	07/04/2011

Job No.	Assignment name	Status	Draft Issue	Final Issue
I341699	SLL Community Facilities	Closed	23/08/2010	16/03/2011
I342648	Fuel Strategy	Closed	20/04/2010	02/06/2010
I342689	Energy Efficiency	Client signing	11/03/2011	
I342690	Carbon Reduction Commitment	Closed	21/12/2010	25/01/2011
I342691	Building Warrants Controls	Closed	20/01/2011	23/02/2011
I342693	Care of Older People	Closed	26/11/2010	28/03/3011
I342694	Aids and Adaptations	Closed	07/09/2010	20/10/2010
I342700	Seemis Audit Service 2010/11	Negotiating	11/04/2011	
I513023	ICON VAT Flags	Closed	28/02/2011	13/04/2011
I541013	Project Closure Reports	Closed	09/06/2010	28/07/2010
I541016	Data Security	Closed	28/06/2010	06/08/2010
I541027	PC Controls	Closed	07/01/2011	18/02/2011
I541030	System Control Objectives - Treasury	Closed	13/01/2011	16/03/2011
I542015	Waste Management IT System	Closed	13/05/2010	27/05/2010
I542018	SLL Gladstone MRM System Implementation	Closed	20/04/2010	15/07/2010
I542026	SEEMIS System - Housekeeping	Closed	10/01/2011	02/03/2011
I542028	Access Checks - SWIS	Closed	17/09/2010	24/12/2010
I542029	Access Checks - Debtors	Closed	11/10/2010	15/11/2010
I545017	LVJB Stress (was Disaster Recovery)	Closed	20/04/2010	18/05/2010
I547032	Steering Group Attendance 2010/11	Closed	30/08/2010	07/09/2010
I610220	SLL Fraud Awareness Training	Closed	03/02/2011	03/02/2011
I612151	Procurement Data Mining	Closed	18/08/2010	30/08/2010
I612212	Mgt of Fraud Risk - High OT Earners	Finalising	01/04/2011	
I612219	SLL Payroll Data Mining	Closed	19/11/2010	20/01/2011
I613209	Management of Fraud Risk - School Income	Closed	09/08/2010	10/10/2010
I613210	Management of Fraud Risk - Recruitment Checks	Closed	13/09/2010	13/10/2010
I613211	Management of Fraud Risk - Mobile Phones	Closed	28/02/2011	03/03/2011
I616208	Management of Fraud Risk - General	Closed	02/12/2010	04/02/2011
I631213	Benefits - Fraud Prevention	Closed	14/01/2011	27/01/2011
I632150	NFI 2009/10	Closed	30/04/2010	01/05/2010
I632206	NFI 2010/11	Client signing	28/02/2011	
I632207	NFI Follow-Up 2010/11	Closed	31/08/2010	11/10/2010
I633214	Benefits - Intervention	Closed	07/03/2011	31/03/2011
I682215	IMPROVe	Finalising	29/03/2011	
I683154	Best Value-Performance Management	Closed	19/05/2010	15/06/2010
I684153	Impact of Economic Downturn in SLC	Closed	10/08/2010	08/11/2010
I685158	LVJB Annual Report	Closed	27/04/2010	19/05/2010
I685160	SLL Annual Report 0910	Closed	27/04/2010	01/05/2010
I685221	SFR Annual Report 10/11	Draft with client	13/04/2011	
I686217	Annual Governance Checks 09/10 year end	Closed	31/08/2010	30/09/2010

Job no.	Assignment name	Audit Status	Draft Issue	Final Issue
I219173	Training Unit trainee payments	Closed	14/04/2010	26/04/2010
I220193	GC Park and Ride 2010	Closed	14/07/2010	14/07/2010
I220194	GC Bus Infrastructure Improvements 2010	Closed	14/07/2010	14/07/2010
I220195	GC Route Action Plans 2010	Closed	05/07/2010	05/07/2010
I220196	GC National Cycle Route 74 2010	Closed	05/07/2010	05/07/2010
I222197	Road Safety Forum audit certificate	Closed	27/10/2010	04/11/2010
I251198	Primary School tender stage 2 advice	Closed	13/03/2011	17/03/2011
I310684	FU Procurement Data	Closed	18/06/2010	06/08/2010
I534022	System Access Controls ICON	Closed	07/04/2010	21/06/2010
I674196	Stolen Vehicle	Closed	15/04/2010	01/06/2010
I674205	WB Heating spares	Closed	06/07/2010	21/09/2010
I674241	External client review 1	Closed	03/12/2010	21/12/2010
I674245	Fraudulent HB cheque cashiers	Closed	21/12/2010	22/12/2010
I674249	Mobiles investigation and consultancy	Closed	02/03/2011	02/03/2011
I676231	Theft – Primary school catering	Closed	09/08/2010	06/09/2010
I676232	Nursery Funding	Closed	30/07/2010	30/09/2010
I676234	Creditors - Change of Bank Details	Closed	18/08/2010	18/08/2010
I676236	Taxi VAT	Closed	30/08/2010	31/08/2010
I676256	External client review 2	Closed	06/04/2011	08/04/2011
I677240	Building contractors	Closed	15/10/2010	19/10/2010
I678178	Landfill Site	Closed	10/04/2010	16/06/2010
I678201	WB- Vehicle Use	Closed	24/06/2010	06/08/2010
I678244	Land Services issues	Closed	23/02/2011	23/02/2011
I683230	Management of Child Protection Cases	Closed	16/08/2010	28/10/2010

Source of Special Investigation	Total	Not Investigated	Internal Audit review	Resource Review	
Whistleblowing - Letter/email/verbal	9		4	5	
Whistleblowing - CRM	7			7	
Local management	16		4	12	
Data Mining					
Other Audit Work	1		1		
Total number reported	33		9	24	
Number WIP or still at draft			0	7	
Number finalised			9	17	26
Number unsubstantiated i.e. insufficient information found			2	6	8
Number unfounded i.e. allegation correct			2	4	
Number founded i.e. allegation proved correct			5	7	12
Dismissed or resigned			1	3	
Other formal disciplinary action			3	2	
Outcome not yet known/ in progress			1	2	
No disciplinary action			4	10	

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.

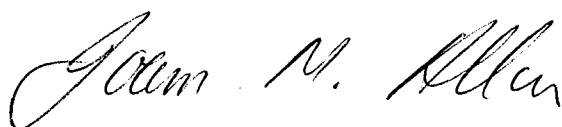
Basis of opinion

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