

Report To: Audit Committee **Date:** 20.10.09
Report By: Corporate Director Improvement and Performance **Report No:** AC/25/09/PW/APr
Contact Officer: Andi Priestman **Contact No:** 01475 712251
Subject: INTERNAL AUDIT PROGRESS REPORT – 3 AUGUST TO 25 SEPTEMBER 2009

1.0 PURPOSE

- 1.1 The purpose of this report is to enable members to monitor the performance of Internal Audit, to discharge their scrutiny and performance monitoring roles and gain an overview of the overall control environment throughout the Council.
- 1.2 The Monitoring Report from 3 August to 25 September 2009 is attached as an Appendix to this report since its content is essential to the understanding of the Council's control environment. **Appendix 1**

2.0 SUMMARY

- 2.1 Four internal audit reports have been finalised since the last Audit Committee meeting:
- School Funds and Petty Cash Accounts
 - Roads Network – Direct Payments
 - Managing Attendance
 - Statutory Performance Indicators – 2008/09

- 2.2 These reports contains a total of 22 recommendations, categorised as follows:

Red	Amber	Green
0	9	13

- 2.3 The fieldwork for the 2008/2009 Audit Plan is now complete and reports are being finalised for the remaining 2 reviews.
- 2.5 The team are now working on the 2009/2010 Audit Plan which was approved by Audit Committee in August 2009.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that Members note the progress made by Internal Audit in the period from August to September 2009.

Paul Wallace
Corporate Director
Improvement and Performance

4.0 BACKGROUND

4.1 None.

5.0 IMPLICATIONS

5.1 Legal: Relevant action plans will bring processes in line with regulatory and legislative requirements where applicable.

Finance: There are no financial implications arising from this report.

Personnel: There are no personnel implications arising from this report.

Equalities: There are no equalities issues arising from this report.

6.0 CONSULTATIONS

6.1 Relevant officers have been consulted in the preparation of this report.

7.0 LIST OF BACKGROUND PAPERS

7.1 File of completed internal audit reports: By Andi Priestman, Chief Internal Auditor.



Audit Committee Report
Report on Internal Audit Activity from 3 August to 25 September 2009

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1 Audit work undertaken in the period

Reports issued since last update

1.1 Detailed findings and recommendations reported to management are currently graded using the following criteria:

Red	<ul style="list-style-type: none"> • In our opinion the control environment is insufficient to address the risk and this could impact the Council as a whole. • Corrective action must be taken and should start immediately. • Overseen to completion by Corporate Management Team.
Amber	<ul style="list-style-type: none"> • In our opinion there are areas of control weakness which we consider to be individually significant but which are unlikely to affect the Council as a whole. • Corrective action must be taken (some exceptions may be agreed with IA) within reasonable timeframe. • Overseen to completion by Head of Service.
Green	<ul style="list-style-type: none"> • In our opinion the risk area is well controlled or our audit highlighted areas for minor control improvement and/or areas of minor control weakness. • Process improvements/efficiencies may be actioned at management discretion in consultation with Internal Audit (IA). • Managed by service owner.

1.2 Four reports have been finalised since the August 2009 Audit Committee, which are identified below, together with a summary of the gradings of the recommendations made to management. In Section 2 we have provided a summary of the main findings from the review.

Reports finalised since previous Audit Committee	Grading			Total Recommendations
	Red	Amber	Green	
2008/2009 plan				
School Funds and Petty Cash Accounts	0	5	3	8
Roads Network – Direct Payments	0	0	3	3
Managing Attendance	0	3	3	6
2009/2010 plan				
Statutory Performance Indicators	0	1	4	5
Total	0	9	13	22

Work in progress on the 2008/2009 internal audit plan

1.3 Fieldwork for the 2008/2009 Audit Plan is now complete. Draft reports for the 2 remaining reviews are being finalised.

Work in progress on the 2009/2010 internal audit plan

1.4 The status of work in progress on the 2009/2010 internal audit plan is detailed in Section 3 of this report.

Other activities

Risk Management

1.5 Risk Management is the subject of separate reporting to Audit Committee and a full report is submitted separately.

1.6 Internal Audit Action Plan Follow Up

The current status of Internal Audit Action plans is set out as an attachment at Appendix 2 to this report.

2 Summary of main findings from reports issued since previous Audit Committee

2.1 We have provided below a summary of the key findings from the final reports issued since 3 August 2009.

2008/2009 Plan

School Funds and Petty Cash Accounts

2.2 In addition to the provision of mainline educational services, schools have from time to time a need to provide children with additional materials and learning opportunities. Separate fund raising events are organised by school staff, parents and friends and income generated is then used to provide the additional funding required by the schools.

2.3 Income arising from these external sources and fund raising events does not belong to the schools and must be kept separate from their delegated budget funds. School Fund accounts are generally used to account for all income and expenditure relating to these additional fund raising activities.

2.4 The objective of this audit was to provide management and the Audit Committee with an assessment of the adequacy and effectiveness of the governance, risk management and controls surrounding the key risks in relation to the School Funds and petty cash accounts.

2.5 The overall control environment opinion for this audit review was **Satisfactory**. However, areas of control weakness surrounding School Funds and Petty Cash Accounts were identified as follows:-

Consistency of School Funds accounts format (Amber)

Education Services require income and expenditure statements to be prepared each year for all secondary, primary and nursery School Fund accounts. Through audit testing we identified issues surrounding the format of the accounts which impacted on the ability to compare results year on year and across all schools and, for a number of schools, accounts were either not submitted by the required date or were not submitted at all.

School Fund bank reconciliations (Amber)

A key control over ensuring that only bona fide transactions are recorded in the bank account is the regular performance of reconciliations between the bank and cash book records. Bank reconciliations are also necessary to control the risk of undetected errors or fraud by the bank or the staff. Performing regular bank reconciliations is vital to ensuring that accounts are as up-to-date and accurate as possible. However, audit testing identified a number of issues over the completeness, accuracy and timeliness of bank reconciliations submitted.

2 Summary of main findings from reports issued since previous Audit Committee (Continued)

2.6 **School Fund activities and income receipts (Amber)**

A key control over ensuring that income received is properly recorded is the use of receipts to confirm funds received. Standard Circular 5.2 requires schools to use pre-numbered, duplicate receipt books for donations and other payments to the Fund. However, audit testing identified that not all schools are using pre-numbered duplicate receipt books and for some types of income, there was no evidence of receipts being issued at all.

Security and banking procedures (Amber)

A key control over ensuring access to School Funds is adequately controlled is the storage of funds in a secure location prior to banking. However, audit testing identified that not all schools have access to a safe and School Fund income held overnight can vary considerably from school to school and can be significantly greater during peak activity or fundraising periods. In addition, where School Fund income is not held in a safe and exceeds the current insurance levels of £500, there is a risk that this income might not be recoverable in the event of a loss claim.

Petty cash administration and processing (Amber)

A key control over ensuring the validity of petty cash claims submitted is the independent review and approval of the claim prior to payment being made. Through audit testing it was identified that the standard claim forms are not being used for all School Fund petty cash accounts, different practices are in use for the reimbursement of School Fund petty cash funds and input VAT on school petty cash expenditure is not always identified, recorded and reclaimed.

2.7 The review identified 8 issues, 5 of which we consider to be individually significant. An action plan is in place to address all issues identified by 31 December 2009.

Roads Network – Direct Payments

2.8 Roads network management is responsible for the repair and maintenance of the non-trunk roads network and pavements within Inverclyde. A key service objective is to maintain and improve the area's roads and pavements within available resources and the requirements of the roads trading account.

2.9 The objective of this audit was to provide management and the Audit Committee with an assessment of the adequacy and effectiveness of the governance, risk management and controls surrounding the key risks faced by Inverclyde Council in relation to roads network management.

2.10 The overall control environment opinion for this audit review was **Strong**.

2.11 The review identified 3 areas where controls could be enhanced including developing a scoring matrix to support the appraisal process for the roads capital programme and enhancing existing procedural documentation, and an action plan is in place to address all issues identified by 30 April 2010.

2 Summary of main findings from reports issued since previous Audit Committee (Continued)

Managing Attendance

2.12 The Council has a policy on managing attendance, which is supported by further operational guidance issued by Organisational Development and Human Resources for Managers. The policy is designed to provide support for employees who are ill and to improve attendance levels across the Council. Absence levels are a key performance indicator and the Council has set a target for sickness absence of 5%. High levels of attendance lead to higher levels of service provision and heightened morale among employees.

2.13 The objective of this audit was to provide management and the Audit Committee with an assessment of the adequacy and effectiveness of the governance, risk management and controls over the key risks faced by Inverclyde Council in relation to Managing Attendance.

2.14 The audit approach included:

- Discussions with management responsible for managing employee staff attendance with the particular aim of identifying and agreeing risk areas.
- Examination and evaluation of appropriate documentation, including reports, procedures and system manuals.
- Analysis and sample testing of control self-assessment returns completed by line managers responsible for managing attendance to confirm the accuracy of the responses received in order to place reliance on the control self assessment process.

2.15 The overall control environment opinion for this audit review was **Satisfactory**. However, areas of control weakness within Managing Attendance were identified as follows:-

Recording Non-Attendance at Work (Amber)

Communication from employees about their non-attendance is required to ensure that:-

- their health and welfare is being safeguarded;
- line managers are kept up-to-date and can take appropriate steps to ensure that essential work is covered; and
- maximum possible notice is given of the likely date of return to work.

The Control Self-Assessment process has identified a number of improvements are required in relation to the recording of the communication undertaken in relation to staff absences.

Where adequate record keeping is not maintained, Management may be unable to demonstrate that the correct procedures have been followed, in the event that further action requires to be taken.

Return to Work Interview (Amber)

An essential element of the Managing Attendance Policy is the return to work interview, conducted by the line manager. These interviews should follow each absence from work and should ideally take place on the day the employee returns after a period of non-attendance. Audit testing has identified that although managers confirmed that return to work interviews were carried out, evidence is not routinely available to demonstrate that this was carried out and return to work interviews are not always carried out on the first day the member of staff returns to work.

2 Summary of main findings from reports issued since previous Audit Committee (Continued)

2.16 Where return to work interviews are not performed, line managers may not fully consider the effect the absence has on the individual's overall effectiveness and the impact that the absence may have on work colleagues.

Monitoring and Reporting of Sickness Absence: Attendance Cards (Amber)

The attendance card is used to record and report all absences from work including leave, training and sickness absence. It is a useful tool for line managers to monitor employee absence levels. In addition, information from attendance cards is collated to report on sickness levels for the Statutory Performance indicators. Through analysis of returns provided it was identified that some line managers do not review their attendance cards on a quarterly basis to ensure compliance with the Attendance Management Policy and for some schools, attendance cards are not maintained.

Where attendance cards are not kept up to date or are not completed correctly, there is a risk that information provided for statistical purposes is not accurate or consistent.

2.17 The review identified 6 issues, 3 of which we consider to be individually significant. An action plan is in place to address all issues identified by 31 January 2010.

Statutory Performance Indicators

2.21 Under the Local Government Act (1992) the Accounts Commission is required to direct that councils publish information relating to their activities, so that comparisons can be made between authorities and between years for a single authority with regard to standards of performance.

2.22 Each year the Council is required to:

“Make such arrangements for collecting and recording the information as are necessary to ensure that the information is available for publication and, so far as practicable, that everything published in pursuance of the direction is accurate and complete’ (LG Act 1992, section 1(2)(a)).”

2.23 Publication of the SPIs is required by 30 September following the year end.

2.24 The overall control environment opinion for this audit review was **Satisfactory**. However, one area of control weakness was identified as follows:-

Errors Identified in the SPI Information

As part of the agreed arrangement with External Audit, Internal Audit carried out a review of 25 SPIs. Through audit testing, we identified errors in 7 SPIs which required the reported SPI to be amended.

Several reasons can be identified for the errors and the fact they were not discovered prior to Internal Audit review:

- Inadequate checks being carried out on the SPI produced and that it agreed with the Audit Scotland definition.
- In some cases, an independent check was not carried out at all.
- For one indicator (HL1), at the time the indicator was produced, adequate guidance was not available to ensure the indicator was produced in line with Audit Scotland guidance resulting in the indicator having to be recalculated after further guidance was received.

2 Summary of main findings from reports issued since previous Audit Committee (Continued)

Where there is no independent check of SPI information or the check is not adequately performed, there is a risk that errors go undetected resulting in incorrect information being used to as the basis for SPI returns.

2.25 The review identified 5 issues, 1 of which we consider to be individually significant. An action plan is in place to address all issues identified by 31 March 2010.

**INVERCLYDE COUNCIL – REPORT ON INTERNAL AUDIT ACTIVITY
FROM 3 AUGUST TO 25 SEPTEMBER 2009**

APPENDIX 1

3. Audit Plan for 2009/2010 – Progress to 25 September 2009

Planned Audit Cover	Planning	TOR Issued	Fieldwork in Progress	Fieldwork Complete	Draft Report Issued	Report Finalised	Reported to Audit Committee
Education and Social Care							
Homelessness	✓	✓	✓				
Regeneration and Resources							
Fairer Scotland Fund – Monitoring Arrangements	✓	✓	✓	✓			
Improvement and Performance							
Strategic Partnerships – SOA PM Arrangements	✓						
Corporate Reviews							
Flexi Scheme	✓	✓	✓				
Performance Audits							
Statutory Performance Indicators	✓	✓	✓	✓	✓	✓	October 2009

4 Ad hoc activities undertaken since the previous Audit Committee

- 4.1 From time to time, management will request the assistance of Internal Audit in certain activities that are in addition to the annual Operational Plan. Examples of such activities include investigations of alleged irregularities, review of changes in system procedures etc.
- 4.2 Contingency has been made available in the Operational Plan for such ad hoc activities. Since the previous Audit Committee, ad hoc activity undertaken in the period is as follows:
- Advice was given to Finance in relation to staff changes impacting on the treasury management process.
 - A risk assessment exercise was facilitated for Social Work in relation to new policy directions.