

Report To:	Audit Committee	Date:	23 August 2011
Report By:	Corporate Director Regeneration & Environment	Report No:	AC/27/11/AF/APr
Contact Officer:	Andi Priestman	Contact No:	01475 712251
Subject:	Internal Audit Progress Report – 4 April To 29 July		

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 4 April to 29 July 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 Six internal audit reports have been finalised since the last Audit Committee meeting:
- Freedom of Information Arrangements;
 - Building Standards;
 - Control Self Assessment – Education;
 - Control Self Assessment – CHCP;
 - Workforce Development – Appraisal Process; and
 - HR/Payroll – Limited Scope Review.

- 2.2 These reports contain a total of 43 issues, categorised as follows:

Red	Amber	Green
0	15	28

- 2.3 The fieldwork for the 2010/11 Audit Plan is now complete and reports are being finalised for the remaining 3 reviews. Staff are now working on the 2011/12 plan and progress is as follows:

Stage	Number of Reports
Final Report	0
Draft Report	0
Fieldwork Complete	0
Fieldwork in Progress	3
Planning	4
Not started	11
Total	

3.0 RECOMMENDATIONS

- 3.1 It is recommended that Members agree to note the progress made by Internal Audit in the period from 4 April to 29 July 2011.

Aubrey Fawcett
Corporate Director Regeneration & Environment

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
4 April to 29 July 2011**

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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 5 reports have been finalised since the April 2011 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 Number of Issues
	Red	Amber	Green	
2010/2011 plan				
Freedom of Information Arrangements	0	2	6	8
Building Standards	0	1	6	7
Control Self Assessment – Education	0	1	3	4
Control Self Assessment – CHCP	0	1	3	4
Workforce Development – Appraisal Process	0	2	3	5
HR/Payroll Administration	0	8	7	15
Total	0	15	28	43

Other activities

Risk Management

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

1.5 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 1 April 2011.

Freedom of Information Arrangements

- 2.2 The Freedom of Information (Scotland) Act 2002 came into effect on 1 January 2005 with the aim of increasing openness and accountability in Government and across the public sector. The Act has far reaching consequences for all Council services in relation to the provision of information to the public as well as the way in which records are stored. Members of the public are now able to see and question how Councils and other public sector organisations function and how decisions are made. Any individual or organisation can ask for information no matter how old it is, or why it was created.
- 2.3 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 ensuring compliance with the Freedom of Information (Scotland) Act 2002.
- 2.4 The overall control environment opinion for this audit review was **satisfactory**. There were 2 AMBER issues identified as follows:

Completeness of FOI request records

FOI requests are routed to Legal & Democratic Services where they are recorded on the Requests Control spreadsheet, given a sequential reference number and forwarded to the relevant Services for action. On a monthly basis, Services are required to complete the Corporate Monitoring spreadsheet giving details of FOI requests received for a particular month and report progress on the requests recorded. Not all Services comply with the requirement to submit monthly progress reports and returns from some Services can be outstanding for several months.

Timeliness of responses to FOI requests

The Freedom of Information (Scotland) Act 2002 requires public authorities to provide a response to the applicant within 20 working days unless an 'exemption' applies or the applicant has been advised of and given the reasons for a delay. However, there is currently no formal monitoring mechanism across Services to ensure responses are actioned within that timescale.

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

- 2.6 The review identified a total of 8 issues, 2 of which we consider to be individually significant, and an action plan is in place to address all issues by 30 September 2011.

Building Standards

- 2.7 The principal aim of Building Standards is to “promote the health, safety, welfare and convenience of persons in or about buildings, furthering energy conservation and sustainable development”. This is achieved through the application of the Building (Scotland) Act 2003 and the associated Building (Scotland) Regulations 2004. The Building Standards system is in place to protect the public’s interest in 2 main areas, ie verifying compliance with standards and enforcing building standards regulations.
- 2.8 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 key risks in relation to Building Standards and ensuring compliance with the various Acts and technical standards.
- 2.9 The overall control environment opinion for this audit review was **satisfactory**. There was one AMBER issue identified as follows:

Section 29 notices – use of contractors

Section 29 enforcement notices are issued in respect of dangerous buildings and enable Building Standards Officers to make properties safe, instruct contractors to undertake the work and invoice the Council for costs incurred. Records show that approximately £100,000 has been incurred to date in 2010/11. However, the Council does not have formal contracts in place with any of the contractors.

The Building Standards Team Leader and the Procurement Manager have started preparing the way for formal contract arrangements to be established in relation to demolition and other remedial works.

- 2.10 The review identified a total of 7 issues, 1 of which we consider to be individually significant, and an action plan is in place to address all issues by 31 January 2012.

Control Self Assessment – Education

- 2.11 Control Self Assessment is a process through which the adequacy and effectiveness of internal controls are examined, with the goal of providing assurance that key objectives are being met.

The process allows Heads of Establishments and support staff to participate in the assessment of internal controls and develop action plans to address any weaknesses which are identified. In turn these action plans assist in the evaluation of risks which, if not properly addressed can undermine the achievement of these key objectives.

In addition to this, the Control Self Assessment process can increase awareness of internal control issues and motivate staff to carefully design and implement suitable control processes.

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

- 2.12 The objective of this audit was to provide senior management and the Audit Committee with an assessment of the adequacy and effectiveness of the governance, risk management and controls of key strategic risks within Education Services.
- 2.13 The overall control environment opinion for this audit review was **satisfactory**. There was one AMBER issue identified as follows:

Communication between schools and headquarters staff

A key control in ensuring the effective management of school budgets is the regular communication and consultation that is in place between both school and headquarters based staff. However, through discussions with staff it has been highlighted that during financial year 2010/11 the levels of communication maintained between Education HQ and schools has significantly reduced and that the number of formal group and individual meetings between School Finance Officers (SFO) and Education Headquarters staff have also significantly reduced.

We understand that the reduction of both formal and informal contact during 2010/11 has contributed to delays in information being communicated to establishments and a lack of clarity over individual roles. There is therefore a risk that Heads of Establishments may not be provided with the required level of support which may in turn result in any issues relating to budgetary control not being dealt with in a timely manner.

- 2.14 The review identified a total of 4 issues, 1 of which we consider to be individually significant, and an action plan is in place to address all issues by 31 October 2011.

Control Self Assessment – CHCP

- 2.15 Control Self Assessment is a process through which the adequacy and effectiveness of internal controls are examined, with the goal of providing assurance that key objectives are being met. The process allows Service Managers and Assistant Service Managers to participate in the assessment of internal controls and develop action plans to address any weaknesses identified. In turn these action plans assist in the evaluation of risks which, if not properly addressed can undermine the achievement of these key objectives. Finally, the Control Self Assessment process can increase awareness of internal control issues and motivate staff to carefully design and implement suitable control processes.
- 2.16 The objective of this audit was to provide senior management and the Audit Committee with an assessment of the adequacy and effectiveness of the governance, risk management and controls of key strategic risks within CHCP.
- 2.17 The overall control environment opinion for this audit review was **satisfactory**. There was one AMBER issue identified as follows:

Visitor access and general security arrangements within CHCP locations.

CSA responses have highlighted several concerns in relation to visitor access and general security arrangements within a number of CHCP sites. These include;

- The lack of sign in logbooks at reception areas or building entrances to record details of any visitors attending CHCP locations. In addition where sign in books are in operation there is little or no review undertaken of entries made for completeness and accuracy.
- Visitors to CHCP locations are not issued with visitor identification badges.

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

- Access codes for building alarms or for secure door entry systems are not subject to regular changes.
- For locations where CCTV cameras are installed, appropriate signage is not in place to alert service users and employees aware that cameras are in operation.

2.18 The review identified a total of 4 issues, 1 of which we consider to be individually significant, and an action plan is in place to address all issues by 31 December 2011.

Workforce Development – Appraisal Process

2.19 In June 2010 the Council introduced a competency based appraisal process for all Scottish Joint Council (SJC) employees. The key aim of the workforce development appraisal process is to identify skills needs within each Service and provide the Council with a starting point for benchmarking the skills of existing and future employees. To ensure excellent service delivery over time, it is important that performance appraisals are not only seen as a review exercise, but also as a tool to allow the Council to measure and develop its workforce as a whole.

2.20 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 the workforce development appraisal process.

2.21 The overall control environment opinion for this audit review was **satisfactory**. There were two AMBER issues identified as follows:

Performance Appraisal Training

The Control Self Assessment process has identified a number of issues regarding the training received in relation to the performance appraisal scheme and how the scheme should be implemented. In addition, the performance appraisal training course is not a mandatory course for all managers who must appraise employee performance. Where training provided does not adequately meet the needs of staff there is a risk that appraisals may not be carried out adequately and in a consistent manner.

Management Information

Within Services, performance information should be available which is up to date and relevant for managers to utilise when preparing to undertake employee performance appraisals. This information should be used to review employee's performance against the core competencies, which are detailed in the performance appraisal scheme.

The Control Self Assessment process has identified that the provision of suitable performance management systems is an area for development in some Services e.g. customer surveys, work plans or file reviews. Where performance management information is not produced for managers use when preparing for performance appraisal meetings, there is a risk that they will not be able to demonstrate the contribution employees are making towards the achievement of the Council's corporate objectives and provide appropriate evidence to support the performance grade applied.

2.22 The review identified a total of 5 issues, 2 of which we consider to be individually significant, and an action plan is in place to address all issues by 31 March 2012.

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

HR/Payroll Administration

- 2.23 The most significant payments made by the Council relate to employee costs. During 2009/10 employee costs amounted to over £120m and there approximately 3,950 full time equivalent employees. The HR/Payroll administration team undertakes the processing work associated with these staff and it aims to make accurate payments within pre-set timescales.
- 2.24 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 HR/Payroll administration.
- 2.25 The overall control environment opinion for this audit review was **requires improvement**. There were 8 AMBER issues identified as follows:

Separation of input and authorisation duties within HR/Payroll

The HR/Payroll system is used to generate regular contractual payments to employees. A key control over ensuring that all new starts added to the system are bona fide and amendments are completely and accurately processed prior to processing by Payroll is the independent review and authorisation by appropriate staff. Through discussions with staff we understand that the HR/Payroll system can enforce this separation of duties. However, following initial set-up of the system, bottlenecks arose during the authorisation stages and the functionality was disabled. As a compensatory control management introduced a manual check whereby HR administration staff use computer screen prints to record input and authorisation tasks. This well intended check adds complexity to the process and takes place after the event.

In addition, the HR Administration Team has arrangements in place for processing staff leavers' details through the HR/Payroll system. We understand that in some rare circumstances a leaver's termination date may need to be changed e.g. following input of an incorrect leaving date. However, there is no mechanism in place to identify and validate this type of change. Whilst the process of checking computer screen prints can confirm legitimate termination dates, it cannot detect unauthorised changes to leaving dates.

Payroll control account reconciliations

The HR/Payroll computer system is used to generate salaries and record deductions such as income tax. In turn, postings are made to the financial ledger. It is essential that amounts processed through the HR/Payroll system are regularly and completely reconciled to the financial ledger. During each month the HR/Payroll system is used to deduct income tax and national insurance contributions (NICs). For example the statutory deductions made during February are paid over in full to HM Revenues & Customs (HMRC) by no later than 19th March. Relevant payroll control account reconciliations are used to validate the monthly payments made to HMRC. However, we found during our fieldwork that the income tax and NIC payroll control account reconciliations were not always regularly and completely reconciled each month. In addition, these reconciliations were not available within a reasonable time after each month-end. Also, some low value differences had not been resolved which meant the reconciliations were not complete. It was in this context that flat rate payments on account were made to HMRC during Winter 2009/10 and Summer 2010. In practice, we found that a service standard for managing the payroll control accounts does not yet operate.

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

However, we acknowledge that time pressures on senior Payroll staff when introducing the new HR/Payroll system impacted on priorities whilst ensuring that staff were paid on time. We understand management are working on moving the payroll control account reconciliations to a high standard of timeliness and completeness.

HR/Payroll computer system – managing a single person dependency

The HR/Payroll system is one of the Council's core financial systems and is supported by a systems administrator who aims to maximise its availability and reliability. This function is provided by a Database Analyst, who is effectively seconded from Customer Services & Business Transformation. Through discussions with staff we understand that currently there is a single person dependency over the Database Analyst's technical duties.

Information governance – managing passwords

Under the Council's Acceptable Use of Information Systems policy it is important to safeguard sensitive information via adequate computer security arrangements. These arrangements include requiring users to change their computer passwords at set intervals and limiting the number of unsuccessful user logon attempts. We understand that users of the HR/Payroll computer system are not required to change their passwords and there is no limit on the number of unsuccessful logon attempts. Neither situation is consistent with the acceptable use policy.

Managing key data within the HR/Payroll computer system

The HR/Payroll computer system is central to managing both employees and their costs across the Council. However, the nature of HR and Payroll activities does not remove the role of service managers in controlling employee costs. We understand that comprehensive employee existence checks have not been undertaken since the new HR/Payroll system was introduced during 2009.

It is important that key data fields within the HR/Payroll computer system are regularly checked for completeness and consistency. These data fields are wide ranging and include employees' postcodes, termination dates for staff on temporary contracts and National Insurance numbers. We understand that the data "housekeeping" arrangements associated with HR/Payroll have not been fully developed and applied regularly.

Adequacy of systems updates testing

From time to time the HR/Payroll computer system is updated for changes required by HM Revenues & Customs (HMRC) such as new income tax thresholds. In order to facilitate this, a testing regime is used to ensure that these updates are successful. However, the payroll testing regime does not always cover a full range of employee situations regarding income tax and national insurance contributions (NICs). These statutory deductions vary, for example when comparing a full time Chief Officer against a much lower paid part-time cleaner who is exempt from NICs. We understand that the payroll testing regime involves confirming that the rates and thresholds for new tax year's agree to the corresponding tables within the HR/Payroll computer system. However, no evidence of this check is retained by senior Payroll staff.

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

Security over payroll BACS payments files

The HR/Payroll computer system is used to pay employees using bank credit transfers i.e. BACS. It is important to strike a balance between maximising computer security over payroll payment files and always ensuring staff are paid on time when ICT staff resources are limited. To facilitate BACS processing Customer Service & Business Transformation staff move payroll payment files within the Council's computer network. In turn, selected Payables & Income staff use BACS computer software which enables payments to employees. We understand that this arrangement could be changed to remove Customer Service & Business Transformation's involvement in it without compromising the payment process.

Correctness of overtime payments made to senior staff

A wide range of employees work overtime and are paid in accordance with the Council's terms and conditions. Employees with a salary grade of less than "J" are paid 1.5 times their hourly rate for overtime hours. However, employees with a salary grade of "J" or above are paid 1.5 times the hourly rate associated with the top of grade "I" for overtime hours. Through audit testing we found three staff, graded J or above, were overpaid. Namely, the hourly rate had not been adjusted for the overtime limit noted above. We understand this error was caused when a manual salary review process within Payroll had not been applied in the way management had intended.

- 2.26 The review identified a total of 15 issues, 8 of which we consider to be individually significant, and an action plan is in place to address all issues by 31 January 2012.

**INVERCLYDE COUNCIL – REPORT ON INTERNAL AUDIT ACTIVITY
FROM 4 APRIL TO 29 JULY 2011**

APPENDIX 1

3. Audit Plan for 2010/11 – Progress to 29 July 2011

Planned Audit Cover	Planning	TOR Issued	Fieldwork in Progress	Fieldwork Complete	Draft Report	Report Finalised	Reported to Audit Committee
Risk-Based Reviews							
Elderly Care Payments	✓	✓	✓				
Registration Process – Births, Deaths and Marriages	✓	✓	✓				
Community Warden Service	✓	✓					
Limited Scope Financial System Reviews							
Council Tax	✓	✓					
General Ledger	✓						
Arms Length Organisation Reviews							
Riverside Inverclyde – Governance Arrangements	✓						
Performance Reviews							
Statutory Performance Indicators	✓	N/A	✓				
Corporate Governance							
SSIFC 2010/11	Input provided by CIA.						
Projects/Key Change Initiatives							
Information Governance and Management	Input provided by CIA.						

**INVERCLYDE COUNCIL – REPORT ON INTERNAL AUDIT ACTIVITY
FROM 4 APRIL TO 29 JULY 2011**

APPENDIX 1

3. Audit Plan for 2010/11 – Status as 29 July 2011

Planned Audit Cover	Planning	TOR Issued	Fieldwork in Progress	Fieldwork Complete	Draft Report	Report Finalised	Reported to Audit Committee
Risk-Based Reviews							
Freedom of Information Arrangements	✓	✓	✓	✓	✓	✓	August 2011
Waste Management	✓	✓	✓	✓	✓	✓	March 2011
Building Standards	✓	✓	✓	✓	✓	✓	August 2011
Community Learning and Development	✓	✓	✓	✓	✓		
Budgetary Control	✓	✓	✓	✓	✓		
Workforce Development – Appraisal Process	✓	✓	✓	✓	✓	✓	August 2011
Limited Scope Financial System Reviews							
Non-Domestic Rates	✓	✓	✓	✓	✓	✓	January 2011
Housing Benefit	✓	✓	✓	✓	✓	✓	January 2011
HR/Payroll Administration	✓	✓	✓	✓	✓	✓	August 2011
Business Assurance Reviews							
Procurement Compliance – Pre-Contract Stage	Deferred to 2011/12 Audit Plan						
Arms Length Organisation Reviews							
Transfer of Community Facilities to ILT	✓	✓	✓	✓	✓	✓	April 2011
Riverside Inverclyde – Corporate Governance	Deferred to 2011/12 Audit Plan						
Performance Reviews							
Statutory Performance Indicators	✓	N/A	✓	✓	✓	✓	October 2010
Mailroom Services and Postages	✓	✓	✓	✓	✓	✓	August 2010
VFM – Use of Council Vehicles	✓	N/A	✓	✓			
Regularity Audits							
Control Self Assessment - Education	✓	✓	✓	✓	✓	✓	August 2011
Control Self Assessment – CHCP	✓	✓	✓	✓	✓	✓	August 2011
Corporate Governance							
SSIFC 2009/10	Input provided by CIA.						
Projects/Key Change Initiatives							
Elections Process	Input provided by CIA.						
Operating Model	Input provided by CIA.						
Information Governance and Management	Input provided by CIA.						

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:
- Providing input to FOI requests as appropriate.
 - Audit/Risk Management input to By Election process.
 - Certification of Grant Claim.



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Report on Internal Audit Activity from
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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 5 reports have been finalised since the April 2011 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.

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HR/Payroll Administration	0	8	7	15
Total	0	15	28	43

Other activities

Risk Management

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

1.5 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 1 April 2011.

Freedom of Information Arrangements

- 2.2 The Freedom of Information (Scotland) Act 2002 came into effect on 1 January 2005 with the aim of increasing openness and accountability in Government and across the public sector. The Act has far reaching consequences for all Council services in relation to the provision of information to the public as well as the way in which records are stored. Members of the public are now able to see and question how Councils and other public sector organisations function and how decisions are made. Any individual or organisation can ask for information no matter how old it is, or why it was created.
- 2.3 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 ensuring compliance with the Freedom of Information (Scotland) Act 2002.
- 2.4 The overall control environment opinion for this audit review was **satisfactory**. There were 2 AMBER issues identified as follows:

Completeness of FOI request records

FOI requests are routed to Legal & Democratic Services where they are recorded on the Requests Control spreadsheet, given a sequential reference number and forwarded to the relevant Services for action. On a monthly basis, Services are required to complete the Corporate Monitoring spreadsheet giving details of FOI requests received for a particular month and report progress on the requests recorded. Not all Services comply with the requirement to submit monthly progress reports and returns from some Services can be outstanding for several months.

Timeliness of responses to FOI requests

The Freedom of Information (Scotland) Act 2002 requires public authorities to provide a response to the applicant within 20 working days unless an 'exemption' applies or the applicant has been advised of and given the reasons for a delay. However, there is currently no formal monitoring mechanism across Services to ensure responses are actioned within that timescale.

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

- 2.6 The review identified a total of 8 issues, 2 of which we consider to be individually significant, and an action plan is in place to address all issues by 30 September 2011.

Building Standards

- 2.7 The principal aim of Building Standards is to “promote the health, safety, welfare and convenience of persons in or about buildings, furthering energy conservation and sustainable development”. This is achieved through the application of the Building (Scotland) Act 2003 and the associated Building (Scotland) Regulations 2004. The Building Standards system is in place to protect the public’s interest in 2 main areas, ie verifying compliance with standards and enforcing building standards regulations.
- 2.8 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 key risks in relation to Building Standards and ensuring compliance with the various Acts and technical standards.
- 2.9 The overall control environment opinion for this audit review was **satisfactory**. There was one AMBER issue identified as follows:

Section 29 notices – use of contractors

Section 29 enforcement notices are issued in respect of dangerous buildings and enable Building Standards Officers to make properties safe, instruct contractors to undertake the work and invoice the Council for costs incurred. Records show that approximately £100,000 has been incurred to date in 2010/11. However, the Council does not have formal contracts in place with any of the contractors.

The Building Standards Team Leader and the Procurement Manager have started preparing the way for formal contract arrangements to be established in relation to demolition and other remedial works.

- 2.10 The review identified a total of 7 issues, 1 of which we consider to be individually significant, and an action plan is in place to address all issues by 31 January 2012.

Control Self Assessment – Education

- 2.11 Control Self Assessment is a process through which the adequacy and effectiveness of internal controls are examined, with the goal of providing assurance that key objectives are being met.

The process allows Heads of Establishments and support staff to participate in the assessment of internal controls and develop action plans to address any weaknesses which are identified. In turn these action plans assist in the evaluation of risks which, if not properly addressed can undermine the achievement of these key objectives.

In addition to this, the Control Self Assessment process can increase awareness of internal control issues and motivate staff to carefully design and implement suitable control processes.

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

- 2.12 The objective of this audit was to provide senior management and the Audit Committee with an assessment of the adequacy and effectiveness of the governance, risk management and controls of key strategic risks within Education Services.
- 2.13 The overall control environment opinion for this audit review was **satisfactory**. There was one AMBER issue identified as follows:

Communication between schools and headquarters staff

A key control in ensuring the effective management of school budgets is the regular communication and consultation that is in place between both school and headquarters based staff. However, through discussions with staff it has been highlighted that during financial year 2010/11 the levels of communication maintained between Education HQ and schools has significantly reduced and that the number of formal group and individual meetings between School Finance Officers (SFO) and Education Headquarters staff have also significantly reduced.

We understand that the reduction of both formal and informal contact during 2010/11 has contributed to delays in information being communicated to establishments and a lack of clarity over individual roles. There is therefore a risk that Heads of Establishments may not be provided with the required level of support which may in turn result in any issues relating to budgetary control not being dealt with in a timely manner.

- 2.14 The review identified a total of 4 issues, 1 of which we consider to be individually significant, and an action plan is in place to address all issues by 31 October 2011.

Control Self Assessment – CHCP

- 2.15 Control Self Assessment is a process through which the adequacy and effectiveness of internal controls are examined, with the goal of providing assurance that key objectives are being met. The process allows Service Managers and Assistant Service Managers to participate in the assessment of internal controls and develop action plans to address any weaknesses identified. In turn these action plans assist in the evaluation of risks which, if not properly addressed can undermine the achievement of these key objectives. Finally, the Control Self Assessment process can increase awareness of internal control issues and motivate staff to carefully design and implement suitable control processes.
- 2.16 The objective of this audit was to provide senior management and the Audit Committee with an assessment of the adequacy and effectiveness of the governance, risk management and controls of key strategic risks within CHCP.
- 2.17 The overall control environment opinion for this audit review was **satisfactory**. There was one AMBER issue identified as follows:

Visitor access and general security arrangements within CHCP locations.

CSA responses have highlighted several concerns in relation to visitor access and general security arrangements within a number of CHCP sites. These include;

- The lack of sign in logbooks at reception areas or building entrances to record details of any visitors attending CHCP locations. In addition where sign in books are in operation there is little or no review undertaken of entries made for completeness and accuracy.
- Visitors to CHCP locations are not issued with visitor identification badges.

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

- Access codes for building alarms or for secure door entry systems are not subject to regular changes.
- For locations where CCTV cameras are installed, appropriate signage is not in place to alert service users and employees aware that cameras are in operation.

2.18 The review identified a total of 4 issues, 1 of which we consider to be individually significant, and an action plan is in place to address all issues by 31 December 2011.

Workforce Development – Appraisal Process

2.19 In June 2010 the Council introduced a competency based appraisal process for all Scottish Joint Council (SJC) employees. The key aim of the workforce development appraisal process is to identify skills needs within each Service and provide the Council with a starting point for benchmarking the skills of existing and future employees. To ensure excellent service delivery over time, it is important that performance appraisals are not only seen as a review exercise, but also as a tool to allow the Council to measure and develop its workforce as a whole.

2.20 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 the workforce development appraisal process.

2.21 The overall control environment opinion for this audit review was **satisfactory**. There were two AMBER issues identified as follows:

Performance Appraisal Training

The Control Self Assessment process has identified a number of issues regarding the training received in relation to the performance appraisal scheme and how the scheme should be implemented. In addition, the performance appraisal training course is not a mandatory course for all managers who must appraise employee performance. Where training provided does not adequately meet the needs of staff there is a risk that appraisals may not be carried out adequately and in a consistent manner.

Management Information

Within Services, performance information should be available which is up to date and relevant for managers to utilise when preparing to undertake employee performance appraisals. This information should be used to review employee's performance against the core competencies, which are detailed in the performance appraisal scheme.

The Control Self Assessment process has identified that the provision of suitable performance management systems is an area for development in some Services e.g. customer surveys, work plans or file reviews. Where performance management information is not produced for managers use when preparing for performance appraisal meetings, there is a risk that they will not be able to demonstrate the contribution employees are making towards the achievement of the Council's corporate objectives and provide appropriate evidence to support the performance grade applied.

2.22 The review identified a total of 5 issues, 2 of which we consider to be individually significant, and an action plan is in place to address all issues by 31 March 2012.

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

HR/Payroll Administration

- 2.23 The most significant payments made by the Council relate to employee costs. During 2009/10 employee costs amounted to over £120m and there approximately 3,950 full time equivalent employees. The HR/Payroll administration team undertakes the processing work associated with these staff and it aims to make accurate payments within pre-set timescales.
- 2.24 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 HR/Payroll administration.
- 2.25 The overall control environment opinion for this audit review was **requires improvement**. There were 8 AMBER issues identified as follows:

Separation of input and authorisation duties within HR/Payroll

The HR/Payroll system is used to generate regular contractual payments to employees. A key control over ensuring that all new starts added to the system are bona fide and amendments are completely and accurately processed prior to processing by Payroll is the independent review and authorisation by appropriate staff. Through discussions with staff we understand that the HR/Payroll system does not have the functionality to enforce this separation of duties. As a compensatory control management introduced a manual check whereby HR administration staff use computer screen prints to record input and authorisation tasks. This well intended check adds complexity to the process and takes place after the event.

In addition, the HR Administration Team has arrangements in place for processing staff leavers' details through the HR/Payroll system. We understand that in some rare circumstances a leaver's termination date may need to be changed e.g. following input of an incorrect leaving date. However, there is no mechanism in place to identify and validate this type of change. Whilst the process of checking computer screen prints can confirm legitimate termination dates, it cannot detect unauthorised changes to leaving dates.

Payroll control account reconciliations

The HR/Payroll computer system is used to generate salaries and record deductions such as income tax. In turn, postings are made to the financial ledger. It is essential that amounts processed through the HR/Payroll system are regularly and completely reconciled to the financial ledger. During each month the HR/Payroll system is used to deduct income tax and national insurance contributions (NICs). For example the statutory deductions made during February are paid over in full to HM Revenues & Customs (HMRC) by no later than 19th March. Relevant payroll control account reconciliations are used to validate the monthly payments made to HMRC. However, we found during our fieldwork that the income tax and NIC payroll control account reconciliations were not always regularly and completely reconciled each month. In addition, these reconciliations were not available within a reasonable time after each month-end. Also, some low value differences had not been resolved which meant the reconciliations were not complete. It was in this context that flat rate payments on account were made to HMRC during Winter 2009/10 and Summer 2010. In practice, we found that a service standard for managing the payroll control accounts does not yet operate.

However, we acknowledge that time pressures on senior Payroll staff when introducing the new HR/Payroll system impacted on priorities whilst ensuring that staff were paid on time. We understand management are working on moving the payroll control account reconciliations to a high standard of timeliness and completeness.

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

HR/Payroll computer system – managing a single person dependency

The HR/Payroll system is one of the Council's core financial systems and is supported by a systems administrator who aims to maximise its availability and reliability. This function is provided by a Database Analyst, who is effectively seconded from Customer Services & Business Transformation. Through discussions with staff we understand that currently there is a single person dependency over the Database Analyst's technical duties.

Information governance – managing passwords

Under the Council's Acceptable Use of Information Systems policy it is important to safeguard sensitive information via adequate computer security arrangements. These arrangements include requiring users to change their computer passwords at set intervals and limiting the number of unsuccessful user logon attempts. We understand that users of the HR/Payroll computer system are not required to change their passwords and there is no limit on the number of unsuccessful logon attempts. Neither situation is consistent with the acceptable use policy.

Managing key data within the HR/Payroll computer system

The HR/Payroll computer system is central to managing both employees and their costs across the Council. However, the nature of HR and Payroll activities does not remove the role of service managers in controlling employee costs. We understand that comprehensive employee existence checks have not been undertaken since the new HR/Payroll system was introduced during 2009.

It is important that key data fields within the HR/Payroll computer system are regularly checked for completeness and consistency. These data fields are wide ranging and include employees' postcodes, termination dates for staff on temporary contracts and National Insurance numbers. We understand that the data "housekeeping" arrangements associated with HR/Payroll have not been fully developed and applied regularly.

Adequacy of systems updates testing

From time to time the HR/Payroll computer system is updated for changes required by HM Revenues & Customs (HMRC) such as new income tax thresholds. In order to facilitate this, a testing regime is used to ensure that these updates are successful. However, the payroll testing regime does not always cover a full range of employee situations regarding income tax and national insurance contributions (NICs). These statutory deductions vary, for example when comparing a full time Chief Officer against a much lower paid part-time cleaner who is exempt from NICs. We understand that the payroll testing regime involves confirming that the rates and thresholds for new tax year's agree to the corresponding tables within the HR/Payroll computer system. However, no evidence of this check is retained by senior Payroll staff.

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

Security over payroll BACS payments files

The HR/Payroll computer system is used to pay employees using bank credit transfers i.e. BACS. It is important to strike a balance between maximising computer security over payroll payment files and always ensuring staff are paid on time when ICT staff resources are limited. To facilitate BACS processing Customer Service & Business Transformation staff move payroll payment files within the Council's computer network. In turn, selected Payables & Income staff use BACS computer software which enables payments to employees. We understand that this arrangement could be changed to remove Customer Service & Business Transformation's involvement in it without compromising the payment process.

Correctness of overtime payments made to senior staff

A wide range of employees work overtime and are paid in accordance with the Council's terms and conditions. Employees with a salary grade of less than "J" are paid 1.5 times their hourly rate for overtime hours. However, employees with a salary grade of "J" or above are paid 1.5 times the hourly rate associated with the top of grade "I" for overtime hours. Through audit testing we found three staff, graded J or above, were overpaid. Namely, the hourly rate had not been adjusted for the overtime limit noted above. We understand this error was caused when a manual salary review process within Payroll had not been applied in the way management had intended.

- 2.26 The review identified a total of 15 issues, 8 of which we consider to be individually significant, and an action plan is in place to address all issues by 31 January 2012.

**INVERCLYDE COUNCIL – REPORT ON INTERNAL AUDIT ACTIVITY
FROM 4 APRIL TO 29 JULY 2011**

APPENDIX 1

3. Audit Plan for 2010/11 – Progress to 29 July 2011

Planned Audit Cover	Planning	TOR Issued	Fieldwork in Progress	Fieldwork Complete	Draft Report	Report Finalised	Reported to Audit Committee
Risk-Based Reviews							
Elderly Care Payments	✓	✓	✓				
Registration Process – Births, Deaths and Marriages	✓	✓	✓				
Community Warden Service	✓	✓					
Limited Scope Financial System Reviews							
Council Tax	✓	✓					
General Ledger	✓						
Arms Length Organisation Reviews							
Riverside Inverclyde – Governance Arrangements	✓						
Performance Reviews							
Statutory Performance Indicators	✓	N/A	✓				
Corporate Governance							
SSIFC 2010/11	Input provided by CIA.						
Projects/Key Change Initiatives							
Information Governance and Management	Input provided by CIA.						

**INVERCLYDE COUNCIL – REPORT ON INTERNAL AUDIT ACTIVITY
FROM 4 APRIL TO 29 JULY 2011**

APPENDIX 1

3. Audit Plan for 2010/11 – Status as 29 July 2011

Planned Audit Cover	Planning	TOR Issued	Fieldwork in Progress	Fieldwork Complete	Draft Report	Report Finalised	Reported to Audit Committee
Risk-Based Reviews							
Freedom of Information Arrangements	✓	✓	✓	✓	✓	✓	August 2011
Waste Management	✓	✓	✓	✓	✓	✓	March 2011
Building Standards	✓	✓	✓	✓	✓	✓	August 2011
Community Learning and Development	✓	✓	✓	✓	✓		
Budgetary Control	✓	✓	✓	✓	✓		
Workforce Development – Appraisal Process	✓	✓	✓	✓	✓	✓	August 2011
Limited Scope Financial System Reviews							
Non-Domestic Rates	✓	✓	✓	✓	✓	✓	January 2011
Housing Benefit	✓	✓	✓	✓	✓	✓	January 2011
HR/Payroll Administration	✓	✓	✓	✓	✓	✓	August 2011
Business Assurance Reviews							
Procurement Compliance – Pre-Contract Stage	Deferred to 2011/12 Audit Plan						
Arms Length Organisation Reviews							
Transfer of Community Facilities to ILT	✓	✓	✓	✓	✓	✓	April 2011
Riverside Inverclyde – Corporate Governance	Deferred to 2011/12 Audit Plan						
Performance Reviews							
Statutory Performance Indicators	✓	N/A	✓	✓	✓	✓	October 2010
Mailroom Services and Postages	✓	✓	✓	✓	✓	✓	August 2010
VFM – Use of Council Vehicles	✓	N/A	✓	✓			
Regularity Audits							
Control Self Assessment - Education	✓	✓	✓	✓	✓	✓	August 2011
Control Self Assessment – CHCP	✓	✓	✓	✓	✓	✓	August 2011
Corporate Governance							
SSIFC 2009/10	Input provided by CIA.						
Projects/Key Change Initiatives							
Elections Process	Input provided by CIA.						
Operating Model	Input provided by CIA.						
Information Governance and Management	Input provided by CIA.						

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:
- Providing input to FOI requests as appropriate.
 - Audit/Risk Management input to By Election process.
 - Certification of Grant Claim.