

EAST AYRSHIRE COUNCIL

GOVERNANCE AND SCRUTINY COMMITTEE – 21 DECEMBER 2007

PROGRESS REPORT - INTERNAL AUDIT PLAN 2007/08

Report by the Chief Auditor

1. PURPOSE OF REPORT

- 1.1** To submit to the Governance and Scrutiny Committee a mid year progress report on performance against the Audit Plan for financial year 2007/08.

2. BACKGROUND

- 2.1** In East Ayrshire Council, the Internal Audit Service independently reports to the Chief Executive and the Governance & Scrutiny Committee.
- 2.2** The Internal Audit section 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 2006.

3. PLAN ACHIEVEMENT

- 3.1** The attached report (Appendix 1) summarises the activities of Internal Audit in the first half of the 2007/08 audit year.
- 3.2** Action plans have been developed in consultation with management to address all areas for improvement identified which, when implemented, will further strengthen the Council's control environment.
- 3.3** Internal Audit has undertaken follow-up work on a number of previous audit assignments, with a view to establishing progress on the implementation of audit control recommendations.
- 3.4** Under the shared services agenda, the three Ayrshire Council Internal Audit sections have been engaged on cross boundary assignments. Three assignments have been worked on; absence management led by EAC, internet and email policy arrangements led by SAC and energy management led by NAC. The work on the absence and internet/email assignments has been completed, and reports have been issued. The energy management assignment is at an advanced stage.

3.5 There have been a number of investigation assignments in the first half of the year, and this has used up the full investigation contingency at the mid point in the year. Staff turnover and illness to a member of staff have impacted on available resource. Any further unplanned work will cause slippage in the plan.

4. RECOMMENDATIONS

4.1 Members are asked to note the 2007/08 mid year progress report on Internal Audit plan achievement.

Colin Houston
Chief Auditor
CH/G&S.coverv1

6 Dec 2007

LIST OF BACKGROUND PAPERS

CIPFA Code of Practice for Internal Audit in Local Government 2006.

Anyone wishing further information on the content of this report should contact the Chief Auditor on Tel. No. (01560) 323836.

EAST AYRSHIRE COUNCIL

INTERNAL AUDIT MID YEAR PROGRESS REPORT 2007/08

Report by the Chief Auditor

1 PURPOSE OF REPORT

- 1.1 This report directs attention to matters of significance that have arisen out of the activities of internal audit for the first half of the 2007/08 audit year.
- 1.2 The annual assurance programme of work was set out in the 2007/08 Internal Audit Plan. The plan was approved by the Risk and Audit Scrutiny Group on 24 April 2007. The role and remit of the Risk and Scrutiny Group has now been overtaken by the new Governance and Scrutiny arrangements implemented by the Council.

2 INTERNAL CONTROL ENVIRONMENT

- 2.1 In order to ensure the proper conduct of its business, the Council has a responsibility to develop and implement systems of internal control. It should be noted that it is primarily the responsibility of management to ensure that internal controls are in place and are operating effectively.
- 2.2 A sound control environment will help to safeguard assets, ensure records are reliable, promote operational efficiency and ensure adherence to Council policy and procedures. Such systems of internal control can provide only reasonable and not absolute assurance against loss.
- 2.3 The control framework includes regular management information, financial regulations, standing orders, administrative procedures, management supervision and a system of delegation and accountability.

3 CODE OF PRACTICE

- 3.1 Internal Audit is an assurance function that provides independent and objective opinion to the Council on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- 3.2 The Internal Audit section 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 2006. The Code defines the way in which the internal audit service should undertake its functions.

4 AUDIT APPROACH

- 4.1 Audit plans are prepared following full consultation with the Chief Executive, Executive Head of Finance & Asset Management, service directors and the Corporate Management Team. An element of contingency is built into the audit plan to enable resources to be deployed on investigations and advisory services.
- 4.2 Audit reports are presented to the relevant Executive Director and include recommendations which, when implemented, will improve the control environment.
- 4.3 Internal Audit routinely undertake follow-up work on all major audit assignments in order to assess progress on the implementation of audit recommendations.
- 4.4 As part of Internal Audit monitoring procedures, copies of all assignment reports, including follow-ups, are presented to the Chief Executive, the Executive Head of Finance & Asset Management, the Council's External Auditor and, where appropriate, to the Council Monitoring Officer.

5 PLAN ACHIEVEMENT

- 5.1 Performance statistics have been collated from the audit management systems for the 2007/08 audit year. The section has issued 26 outputs relating to audit assignments in the year to date. A total of 69 audit recommendations were agreed with clients covering a wide range of work. Agreed action plans are in place covering all audit recommendations.
- 5.2 Under the shared services agenda, the three Ayrshire Council Internal Audit sections have been engaged on cross boundary assignments. Three assignments have been worked on; absence management led by EAC, internet and email policy arrangements led by SAC and energy management led by NAC. The work on the absence and internet/email assignments has been completed, and reports have been issued. The energy management assignment is at an advanced stage. Further details of all of this work are in the body of this report.
- 5.3 There have been a number of investigation assignments in the first half of the year, and this has used up the full investigation contingency at the mid point in the year. Any further unplanned work will cause slippage in the plan.
- 5.4 A qualified member of staff has recently moved to a promoted post in another area of the Council and this has caused some staff turnover. The staff vacancy has been advertised, and the post will be filled as soon as possible. Illness to a member of staff has also impacted on available resource. A trainee accountant is on a six month secondment from Finance and this has provided some additional resource. Audit resources are being kept under review.

6 PLAN ASSIGNMENTS

6.1 Overview

- 6.1.1 The mid year report is designed to direct attention to matters of significance that have arisen out of the 2007/08 audit process. The findings arising from all audit assignments have been discussed with appropriate officers of the Council and agreed action plans, including timetables and responsibilities, have been put in place to address all identified areas for improvement.
- 6.1.2 The 2007/08 assurance programme included assignments on the full range of audit activity, including internal controls, performance studies, computer audit, contract audit and investigations.

A full listing of audit assignments completed at this mid year review is presented at Appendix 1(a). In addition to the full listing of audit assignments, the following paragraphs provide a summary of the main findings arising from a selection of significant planned assignments. The selections cover major systems, departmental systems, computer audit, contract and performance studies.

- ◆ systems work (section 5.2)
- ◆ regularity audits (section 5.3)
- ◆ computer audit (section 5.4)
- ◆ contract audit (section 5.5)
- ◆ performance studies (section 5.6)
- ◆ performance Indicators (section 5.7)
- ◆ audit follow-up (section 5.8)
- ◆ investigations (section 5.9)

6.2 Systems Audits

- 6.2.1 Systems based audits continue to represent one of the main elements of planned activity. Systems reviews focus on identifying, assessing and testing the adequacy and effectiveness of controls in place to ensure the underlying objectives of the system are met.
- 6.2.2 Full systems reviews in Council Tax and Non-Domestic Rates are in progress at the current time. The work also includes a logical access review of both systems. The Council Tax and Non Domestic Rates assignments are end to end audits on core financial systems agreed with Audit Scotland. The audit findings arising from this work will be included in the annual audit report.
- 6.2.3 Internal Audit has completed an assessment of procurement arrangements within the Council. The assignment driver is Public Sector Reform of Procurement in Scotland. In 2005, John McClelland was asked by the Scottish Executive to carry out a Review of Public Procurement in Scotland. The report, published in March 2006, proposed significant changes to the procurement landscape in Scotland. A programme for the reform of public sector procurement in Scotland, known as 'The McClelland Programme' has been agreed. Included in the McClelland report, was a recommendation that Internal Audit should carry out annual work on the procurement governance framework for all organisations in the public sector.
- 6.2.4 The audit was completed using a work programme developed by the Scottish Local Authorities Chief Internal Auditors' group. The overall assessment is that East Ayrshire Council is well positioned to meet the challenges presented by the national reform of procurement and that the Council displays many examples of good practice in this area. East Ayrshire Council's compliance rating compared favourably with other Scottish Councils. Several areas for improvement were identified, and these further improvements should be considered within the context of the improvement agenda already in place for the service. A revised Corporate Procurement Strategy 2007 – 2010 was approved by Cabinet on 21 November 2007.
- 6.2.5 It is the intention of the Chief Auditors Group to issue a Scotland-wide summary of the results of the cross-authority procurement evaluation assignment. The national report is being produced by East Ayrshire Internal Audit section.
- 6.2.6 Internal Audit received a whistleblowing letter which raised personnel and finance concerns around the Working for Families (WFF) project, which is a project managed by Planning and Economic Development. Internal Audit has carried out an investigation into the concerns raised in the letter, and has examined controls. The control environment within Working for Families was found to be unsatisfactory, and a number of recommendations have been raised to address the weaknesses identified. These included improvements around service level agreements, payments processes, project monitoring and declaration of interests. The new management for the programme had already identified scope for improvements to be made to financial systems and the audit findings have contributed to this improvement programme. It is essential that projects managed by the

Council operate within a sound framework of controls, and this area will be considered for future audit attention in the programme of work for next year. The investigation findings are summarised at paragraph 6.9.2.

6.3 Regularity Audits

- 6.3.1 As part of the programme of regularity work in relation to Financial Systems, Internal Audit has completed an audit of payroll accuracy and payroll authorisations in Neighbourhood Services. A sample of payroll input, covering the highest bonus and overtime payments, was tested. Some errors were noted, although the overall monetary value was relatively low compared to the amounts tested. Areas for improvement have been agreed with the client.
- 6.3.2 Internal Audit has also completed an audit of payroll accuracy and authorisations in Educational & Social Services. Weekly payrolls in Social Work and Community Learning were selected for testing. A sample of payroll input was tested. Some errors were noted, although the overall monetary value was low relative to amounts tested. Areas for improvement have been agreed with the client.
- 6.3.3 Internal Audit has completed an examination of the 2006/07 grant claim for the 20mph speed limits around schools & related safety projects grant claim. The work by Internal Audit identified two errors, both relating to calculation of designers payroll costs. One error failed to include employer's oncosts of National Insurance and superannuation contributions. The other error failed to take account of payroll rate increases produced by the Single Status/Job Evaluation review. The impact of both errors was to understate the amount claimed. The grant claim has now been increased by £8,106 from £251,164 to £259,270. A revised claim was compiled, and was certified by Internal Audit. Internal Audit recommended that management consider whether these errors have been replicated in other claims, and make corrections as appropriate.
- 6.3.4 Internal Audit attended the continuous stock counts at the Building & Works stores in Kilmarnock , and the Roads stores at Bonnyton, Gauchalland, and Underwood and were satisfied that the arrangements conformed to the guidance issued by the Executive Head of Finance and Asset Management.

6.4 Computer Audit

- 6.4.1 Within the shared working agenda, Internal Audit has participated in a cross-boundary audit exercise led by South Ayrshire Council, to review internet and email policies against practice. South Ayrshire Council produced a best practice checklist, following a survey of policies from a number of Scottish authorities. East Ayrshire Council conducted local compliance testing.
- 6.4.2 Areas for improvement identified during the review were implemented during the revision of the Council's internet and email policy in 2007, leading to improvements in the acceptable use policies before issue in July 2007.
- 6.4.3 The Council's acceptable use policies show over 80% compliance with the best practice checklist, with a score of 40 out of 48. In most of the eight points short of full compliance, the shortfall is covered either by other documentation or by acceptable EAC policy decisions. The only significant action point arising is for management to continue to develop guidance and procedures for dealing with investigation of suspected policy breaches. The results of this review provide sound assurance that EAC acceptable use policies adhere to best practice.

- 6.4.4 Within the shared services assignment on internet/email arrangements, Internal Audit has conducted a local review of policy compliance. The work performed during this assignment included: examination of monitoring reports; discussion with relevant client staff; and detailed search of internet logs. In most areas covered by this assignment, sound assurance of effective control can be gained from the evidence gathered.
- 6.4.5 A new process is being devised for monitoring internal email traffic. Scanning of internal emails began in August 2007. Internal Audit has conducted testing and research to assist Council management in determining a suitable strategy and methodology for monitoring internal emails. Issues around testing strategies, technical arrangements and email decorations have been brought to management attention. A draft report is with management for consideration.
- 6.4.6 An assignment on logical access in Council Tax and Non Domestic Rates is in progress.

6.5 Contract Audit

- 6.5.1 The Council is preparing a new Best Value Building Maintenance Contract for Housing and Property Maintenance. The programme for the Best Value Contract covers a range of work including consideration of revised conditions of service, contract form and conditions, and revised schedule of items and rates. A project team has been set up to complete the preparatory work around revisions to the schedule of items and rates.
- 6.5.2 Internal Audit has made three contributions around the work of the project. Two briefing notes and a memorandum have been issued so far to the Steering Group. The first briefing note covered project arrangements, including terms of reference, methodologies and progress reporting, and the second briefing note covered item miscodings and price range comparison tests. The memorandum presented the results of an analysis of the make-up of new draft composite codes. The briefing notes and memorandum raised points for consideration by the Steering Group in their management of the project. The results of audit price comparison testing have been passed to the Principal Quantity Surveyor to consider in his review and sign-off of the revised schedule of items.

6.6 Performance Studies

- 6.6.1 The Scottish Executive's Efficient Government Initiative is a five-year programme to secure efficiency, effectiveness and productivity in Scotland's public sector. This agenda has been the driver for the cross boundary assignments on absence management and energy management.
- 6.6.2 The cross boundary absence assignment was completed in August, and the findings arising from this work was included in annual Internal Audit report for 2006/07 which was tabled at Governance and Scrutiny on 24 August 2007. The Corporate Management Team considered the cross boundary report and the local absence management report on 14 November 2007, and agreed forward action on this matter. Executive Directors were instructed to take immediate action in respect of compliance with self certificated absence and absence review procedures.
- 6.6.3 Energy Management is an integral element of Asset Management, which is one of the five efficient government key workstreams. A cross boundary assignment, involving all three Ayrshire councils, is examining the energy management arrangements in each Council. The objective is to share knowledge and best practice and help all three Councils better prepare for energy management challenges. North Ayrshire Council has acted as the lead Council for the assignment. The assignment is at an advanced stage, and the findings will be covered in my annual report to Members.

6.7 Performance Indicators

- 6.7.1 Internal Audit has completed an audit of the 2006/07 Statutory Performance Indicators. This assignment was included in the annual audit plan for 2007/08. The overall purpose of the audit assignment is to support the External Auditors in their duty to audit the statutory performance indicators ("PIs") for the financial year ended 31 March 2007.
- 6.7.2 There are 57 performance indicators for 2006/07, spread over all Services. East Ayrshire Council is reporting on all indicators. Internal Audit selected 11 indicators for testing. As a consequence of the audit, three indicators required minor adjustments.
- 6.7.3 After adjustment of these indicators, all 11 indicators audited were found to be reliable. Two internal control recommendations were made, one on guidance procedures and one on audit trails.

6.8 Audit Follow Up

- 6.8.1 Internal Audit routinely undertake follow-up work on all major audit assignments in order to assess progress on the implementation of audit recommendations arising from earlier audit work. 6 audits have been followed up in the year, and these revealed that agreed audit recommendations had been substantially implemented by the time of follow-up review.
- 6.8.2 The 6 follow-up reports included 54 audit recommendations, and the auditors found that 51 agreed actions had been fully implemented by the date of the follow-up audit visit, which is a fully implemented score of 94%. There were three actions where no progress had been made at the time of the audit follow-up visit – two actions in Corporate Support in respect of the follow-up on the internet and email monitoring assignment, and one action in Finance in respect of the security uplift. Client assurance statements are in place covering the actions that were not implemented at the time of follow-up.
- 6.8.3 A number of follow-up assignments were conducted in E&SS earlier in this calendar year, as part of the continuing work around Social Work financial control systems. The results of this work was reported on in the 2006/07 annual report.
- 6.8.4 Internal Audit is satisfied that there is management commitment to act where control improvement opportunities are identified, and the overall implementation score is demonstration of this commitment. Appendix 1(b) provides a listing of all audit follow-up assignments, the implementation score for each assignment, and an overall score by service.

6.9 Investigations

- 6.9.1 A number of incidents have been investigated by Internal Audit at the time of reporting. The full investigation contingency has been used by the mid point in the year. A summary of the incidents is presented below.
- 6.9.2 In May 2007, the Chief Auditor received a whistleblowing letter which raised personnel and finance concerns involving the Working for Families (WFF) project. Internal Audit has carried out an investigation into the financial and personnel concerns raised in the letter. Internal Audit has found no evidence to substantiate any of the claims in the whistle-blowing letter. The audit investigation concluded that the weak control environment in WFF, rather than a lack of probity, had contributed to the concerns raised.

- 6.9.3 In August 2007, Internal Audit was advised of allegation of financial irregularities at Bellsford Children's Unit. Allegations of personal use of the purchase order book were made against the unit manager. Investigations into personal use of the order book were inconclusive, however, the audit uncovered excessive purchasing of stationery (£56k from one supplier over a recent 17 month period). The supplier used by the manager was not an approved supplier for stationery, and the unit was paying excessive prices for items purchased. Excessive quantities of stationery are held at the unit, and some stock cannot be accounted for. Clothing imprest, school clothing monies and holiday fund monies are unaccounted for. The investigation findings have been reported to the Executive Director of Educational and Social Services for him to take appropriate action.
- 6.9.4 In August, Internal Audit was passed an allegation relating to overtime working. Internal Audit has investigated the complaint. The investigation has found some discrepancies around overtime claimed, however, satisfactory explanation has been provided for these. Internal Audit has identified an overpayment in holiday overtime entitlement and a further minor overpayment affecting one member of staff. Recovery action has been taken with regard to the overpayments, and recommendations have been made around improvements to overtime controls.
- 6.9.5 In August, the Transport Manager contacted Internal Audit to report the theft of 1,000 litres of red diesel from the Gauchalland Roads' Depot in Galston. The loss was valued at around £380. The incident was also reported to the Police. CCTV footage was examined and accounting records used to manage stock levels were checked. Despite extensive inquiries, including discussions with the Police, the audit investigations have been inconclusive. Internal Audit has made a number of recommendations to improve depot security.
- 6.9.6 Internal Audit received a report from the Cleansing Services Manager reporting the disappearance of an electric motor from the Western Road Depot, Kilmarnock. The motor was supplied under warranty, and had a market value of £3,000. The part was subsequently tracked down to a haulage depot in England. The audit investigation found that the foreman who said that he had taken delivery had provided inaccurate information and the controls around taking delivery of goods at the depot needed to be strengthened. Disciplinary action has been taken against the foreman involved, and procedures around ordering and receipt of goods at the depot have been tightened.
- 6.9.7 An investigation into payments to the Glaisnock Trust is in progress at the time of reporting.

6.10 Corporate Anti-Fraud and Anti-Corruption policy

- 6.10.1 Internal Audit contributed to the consolidated anti-fraud and anti-corruption policy produced by Finance and approved by Cabinet on 24 October 2007. This document draws together the various policy arrangements in this area, including the fraud response plan, whistleblowing policy and benefit fraud and prosecution policy. The policy presents a clear statement on the Council's commitment to combat fraud.

7 SUMMARY OF PERFORMANCE

- 7.1 Internal Audit carried out assignments in a number of areas during the first half of the audit year. These include cross boundary assignments on absence, internet/email and energy, procurement, payroll, building maintenance contract, performance indicators, external funding, stores and grants.
- 7.2 As a result of these assignments, Internal Audit has put forward a range of recommendations to address areas for improvement identified, covering a wide range of issues. Action plans have been developed in consultation with management to address all areas for improvement identified, which should result in continued improvement in the overall control environment.

- 7.3 Internal Audit has undertaken follow-up work on a number of previous audit assignments, with a view to establishing progress on the implementation of audit control recommendations. This work revealed that agreed actions had been substantially implemented by the time of the audit visit. Where audit recommendations have not been fully implemented the further action required has been agreed with the service.
- 7.4 There have been a number of investigation assignments in the first half of the year, and this has used up the full investigation contingency at the mid point in the year. Staff turnover and illness to a member of staff have impacted on available resource. Any further unplanned work will cause slippage in the plan.

Colin Houston
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Assignment	Findings	Report Issued
Anti Fraud & Corruption Policy	Contribution towards the development of a corporate anti-fraud and anti-corruption policy for the Council.	16 May 2007
Social Work Financial Control Systems	Updated assessment based on selected aspects of children and families, community care and resources systems.	24 May 2007
2006/07 Stocktaking Arrangements (B&W)	Reasonable assurance can be taken from the controls currently being operated.	7 June 2007
2006/07 Stocktaking Arrangements (Roads)	Reasonable assurance can be taken from the controls currently being operated.	7 June 2007
Best Value Building Maintenance Briefing Note 1	Contribution towards project arrangements, terms of reference, methodologies and progress reporting.	12 June 2007
Grant Claims	The 20mph Speed Limit grant claim was increased by £8,106 from £251,164 to £259,270.	14 June 2007
Working for Families Investigation	The audit investigation concluded that the weak control environment in WFF, rather than a lack of probity, had contributed to the concerns.	22 June 2007
Payroll (Neighbourhood Services)	A sample of payroll input, covering the highest bonus and overtime payments, was tested. Some errors were noted, although the overall monetary value was relatively low compared to the amounts tested.	29 June 2007
Payroll (Educational & Social Services)	A sample of high value overtime inputs were tested. Some errors were identified, but the monetary value was low compared to the value tested.	29 June 2007
Best Value Building Maintenance Briefing Note 2	Raised issues around item miscodings and rejections, and results of price range comparison test.	19 July 2007
Audit of Procurement	The overall assessment is that east Ayrshire Council is well positioned to meet the challenges presented by the national reform of procurement and that the Council displays many examples of good practice in this area. East Ayrshire Council's compliance rating compared favourably with other Scottish Councils.	20 July 2007

Assignment	Findings	Report Issued
2006/07 Statutory Performance Indicators Assignment tested the accuracy/reliability of selected PIs.	All selected indicators tested were found to be correct and reliable.	31 July 2007
Cross Boundary Absence Report	Assignment involved the three Ayrshire Councils and NHS Ayrshire & Arran.	17 August 2007
Adherence to Absence Policy	Assignment tested compliance with policy and procedures.	17 August 2007
Overtime Investigation	Assignment identified an overpayment in holiday overtime entitlement and a further minor overpayment affecting one member of staff.	23 August 2007
Building Maintenance Contract Memorandum	Analysis of the make-up of composite codes, and further work around price range comparison test.	24 August 2007
Missing Equipment investigation	The part was tracked down to a haulage depot in England.	5 October 2007
Overtime Controls	Recommendations were made to strengthen overtime arrangements.	16 October 2007
Cross Boundary Internet & Email Policies	The results of review provide sound assurance that EAC Acceptable Use Policy shows significant adherence to best practice.	31 October 2007
Examination of Internet Activity	In most areas covered by this assignment, sound assurance of effective control can be gained from the evidence gathered.	31 October 2007

Assignment	Findings	Report Issued
Follow-up of Freedom of Information (Corporate Support)	7 of 7 recommendations were fully implemented = 100% implementation.	13 June 2007
Follow-up of Refuse Recycling Income (Neighbourhood Services)	8 of 8 recommendations were fully implemented = 100% implementation.	14 June 2007
Follow-up of Vehicle Fuel Procurement (Neighbourhood Services)	6 of 6 recommendations were fully implemented = 100% implementation.	29 June 2007
Follow-up of Internet & Email Monitoring Arrangements (Corporate Support)	16 of 18 recommendations were fully implemented = 89% implementation. Client assurance Statement signed.	3 July 2007
Follow-up of On-street & Off-street Parking (Neighbourhood Services)	8 of 8 recommendations were fully implemented = 100% implementation.	11 September 2007
Follow-up of Security Uplift (Finance)	6 of 7 recommendations were fully implemented = 86% implementation. Client assurance statement issued.	19 November 2007

Client Performance By Department	Assignments Conducted	Recommendations			
		Raised	Implemented	Not implemented	Percentage implemented
Corporate Support	2	25	23	2	92%
Finance Service	1	7	6	1	86%
E&SS	0*	0	0	0	n/a
Neighbourhood Services	3	22	22	0	100%
All Services	6	54	51	3	94%

* A number of follow-up assignments were conducted in E&SS earlier in this calendar year, and were reported on in the 2006/07 annual report.