

EAST AYRSHIRE COUNCIL

GOVERNANCE AND SCRUTINY COMMITTEE – 27 JUNE 2008

ANNUAL REPORT 2007/08

Report by the Chief Auditor

1 PURPOSE OF REPORT

- 1.1 Internal Audit has completed the audit of the Council's internal control systems for the year ended 31 March 2008.
- 1.2 The Annual Report is primarily designed to direct your attention to matters of significance that have arisen out of the 2007/08 audit process, and offer an opinion on the adequacy and effectiveness of the Council's systems of internal control.

2 BACKGROUND

- 2.1 The Financial Regulations of the Council require that Internal Audit present an annual report to members, showing the activity of the Internal Audit section, progress achieved against plan, and a summary of the significant audit findings for the previous financial year.
- 2.2 The 2006 CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom sets out organisational and operational standards for internal audit services.

3 INTERNAL CONTROL

- 3.1 In order to ensure the proper conduct of its business, the Council has a responsibility to develop, implement and maintain systems of internal control. The framework of internal control is defined as the whole system of controls, financial and otherwise, established by management in order to carry out the business of the authority in an orderly and efficient manner.
- 3.2 A sound control system will help 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 assurance and not absolute assurance against loss.
- 3.3 It is primarily the responsibility of management to establish an appropriate and sound system of internal control, and to monitor the continuing effectiveness of that system. It is the responsibility of the Chief Auditor to provide an independent and objective opinion on the overall adequacy and effectiveness of the control environment and stewardship of public funds. The Chief Auditor's annual report is presented to those charged with governance and should be used to support the Council's Statement on Internal Control.

4 ANNUAL REPORT 2007/08

- 4.1 The attached report (Appendix 1) summarises the audit work carried out in 2007/08. The report presents an analysis of the performance of the Internal Audit section during the year ending 31 March 2008, and provides a summary of the significant audit assignments completed in the financial year.
- 4.2 The Internal Audit Annual Statement on the adequacy of Internal Control is contained within Appendix 1(a) of the annual report.
- 4.3 Internal Audit has put forward a range of recommendations in the areas examined and action plans have been developed in consultation with the relevant Executive Director or Executive Head of Service which, when implemented, will result in a continued improvement in the overall control environment.

5 POLICY/LEGAL/FINANCIAL/RISK IMPLICATIONS

- 5.1 The Council's Financial Regulations and Standing Orders set out responsibilities for governance.
- 5.2 The Council places a high degree of importance on the need to ensure that its arrangements for corporate governance are adequate and effective and are subject to ongoing review and improvement, and to this end the Council has adopted a Local Code of Corporate Governance modelled on the CIPFA/SOLACE framework for Corporate Governance in Local Government. The Code is reviewed annually.

6 RECOMMENDATIONS

- 6.1 The Governance and Scrutiny Committee is asked to note the contents of the Annual Report 2007/08.

Colin Houston
Chief Auditor
13 June 2008
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LIST OF BACKGROUND PAPERS

East Ayrshire Council Financial Regulations and Standing Orders
Mid Year Progress Report 2007/08
East Ayrshire Council Local Code Of Corporate Governance
CIPFA Code of Practice for Internal Audit in Local Government in the UK

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 ANNUAL 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 2007/08 internal audit process, and offers an independent and objective opinion on the adequacy and effectiveness of the Council's systems of internal control, and the Council's stewardship of public funds.
- 1.2 The annual assurance programme of work was set out in the 2007/08 Internal Audit Plan. The plan was presented to the Risk and Audit Scrutiny Group on 24 April 2007.
- 1.3 A mid year progress report on audit activity was presented to the Governance and Scrutiny Committee on 21 December 2007.

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.
- 2.4 The Council's Statement on the System of Internal Financial Control is included in the annual accounts for the Council. The statement is signed by the Chief Executive and the Executive Head of Finance and Asset Management. The review of the effectiveness of the systems of internal financial control is informed by the work of management, the work of finance staff and the work of internal and external audit. The Internal Audit Annual Statement on the Adequacy of Internal Control is set out in Appendix 1(a) of this report.
- 2.5 The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom defines organisational and operational standards for the Internal Audit Service. East Ayrshire Council endeavour to comply with all aspects of the Code.

3 AUDIT APPROACH

- 3.1 Internal Audit has an important role to play in assisting the Council to discharge its governance responsibilities. The responsibilities and duties of Internal Audit and those charged with governance of the Council are set out in the Financial Regulations of the Council.
- 3.2 Audit plans are prepared following full consultation with the Chief Executive, Executive Head of Finance & Asset Management, and service directors. Plans take into account a range of factors, including client priorities, local and national agenda areas, risk registers and previous audit work, all with a view to identifying relevant areas for attention and with the objective of helping the Council secure continuous improvement and best value services. An element of contingency is built into the audit plan to enable resources to be deployed on investigations and advisory services.
- 3.3 Audit reports are presented to the relevant Executive Director and include agreed actions which, when implemented, will improve the control environment. 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.
- 3.4 Internal Audit undertake follow-up work on all major audit assignments in order to assess progress on the implementation of agreed actions. Where agreed actions have not been fully implemented by the time of the audit follow-up, the further action required is brought to the attention of the relevant Executive Director, and the Executive Director is asked to sign a client assurance statement confirming that outstanding actions will be implemented, and the timescales involved.

4 AUDIT RESOURCES

- 4.1 In order for Internal Audit to deliver on its plan commitments, and discharge its responsibilities in accordance with the CIPFA Code of Practice for Internal Audit in Local Government, it must have access to the full range of knowledge, skills, qualifications and experience to deliver a modern audit service in an environment of changing priorities and emerging risks.
- 4.2 The section has an experienced team of audit staff, with a skills mix capable of providing a full range of audit services. The skills and experience mix include specialist computer audit skills, external and internal audit experience in both private and public sectors, and financial management experience. The section supports continuous professional development of all staff. There are a number of support measures in place, including in-house computer skills training, staff development through the corporate EAGER programme, and liaison with other audit sections through a number of inter-authority audit groups.
- 4.3 There was some staff turnover during the year. A qualified auditor post became vacant following a move to another area of the Council, and this post was successfully filled by an external candidate. A part-time assistant auditor post is vacant at the present time. Illness to a member of staff also impacted on available resource. A trainee accountant secondment from Finance for six months provided some additional resource. A best value service review is in progress, and this will ensure that audit resources are sufficient to meet current and future demand on the service.
- 4.4 The audit section works closely with the Council's External Auditors to ensure complementary areas of activity, and is developing close working relations with the other Ayrshire Council audit sections and the wider internal audit community, all with a view to further strengthening the quality, efficiency and effectiveness of the internal audit service.

5 PLAN ACHIEVEMENT

5.1 2007/08 was a successful year for Internal Audit. End to end systems reviews of Council Tax and Non Domestic Rates were completed. Under the shared services agenda, three cross boundary assignments were carried out; in absence management, internet and email policy and energy management. Contributions have been made to the best value building maintenance contract, work continues around expenditure controls in Social Work, local and national reports have been delivered on procurement, and work has been completed around statutory performance indicators and East Ayrshire Council's response to the national fraud initiative. Therefore, the 2007/08 audit assignments address a range of local and national agenda areas.

5.2 The audit activity analysis is provided in the table below:

ACTIVITY ANALYSIS	ACTUAL DAYS	PLAN DAYS
SYSTEMS REVIEW	313	460
REGULARITY AUDIT	56	60
COMPUTER AUDIT	118	125
CONTRACT AUDIT	77	80
AUDIT ADVISORY SERVICES	13	40
STOCKCHECKS	50	30
SPECIAL INVESTIGATIONS CONTINGENCY	196	100
PERFORMANCE INDICATORS	40	30
PERFORMANCE STUDIES	45	25
TOTAL AVAILABLE DAYS	908	950

5.3 There was a net shortfall of 42 (4%) days available for audit work in the year, caused by staff turnover and illness, partly offset by a six month trainee secondment from Finance. Time spent on investigations was in excess of the investigation contingency. Programmed work in care homes and economic development was replaced by investigative work in these areas, and this has contributed to the systems shortfall. The Non Domestic Rates assignment was completed in April, so some of the systems time for this assignment is coded to the new audit year.

5.4 The audit service analysis is provided in the table below:

SERVICE ANALYSIS	ACTUAL DAYS	PLAN DAYS
EDUCATIONAL & SOCIAL SERVICES	178	205
NEIGHBOURHOOD SERVICES	165	170
FINANCE	356	430
CORPORATE SUPPORT	209	145
TOTAL AVAILABLE DAYS	908	950

- 5.5 The allocation of time across Educational and Social Services, and Neighbourhood Services was close to plan. Time spent on Finance was slightly under budget, and this is explained by less time spent on follow-ups and investigations, and the non domestic rates assignment being completed in April. The additional time allocated to Corporate Support resulted from work on internal email monitoring, investigative work and additional time spent on the cross boundary absence management assignment.
- 5.6 Performance statistics have been collated from the audit management systems for the 2007/08 audit year. The section has issued 55 outputs in the year. This is an average of 16 days per audit assignment. A total of 226 audit recommendations were agreed with clients covering a range of work across all services, and these, when implemented, will help to strengthen the control environment in all of the areas examined.
- 5.7 The full audit plan has been delivered against a backdrop of some staff turnover and significant illness in the section. 71% of available audit time was charged to clients against a target of 70%. 100% of post audit appraisals returned by clients rated the audit service as good.
- 5.8 The Council's External Auditor, Audit Scotland, recently carried out his 2007/08 review of arrangements for internal audit as part of their annual audit of the Council. The overall assessment is that the standard of audit work done in the last year is of high quality, and they will place reliance on the two core financial systems reviews in Council Tax and Non Domestic Rates, and on the work on Statutory Performance Indicators.
- 5.9 The national procurement report "Procurement.....are we buying in?" was designed and produced by East Ayrshire Council Internal Audit with assistance from our own in-house senior graphic designer. The assignment was nominated for the CIPFA Cliff Nicholson UK award, and in April 2008 received the highly commended prize at the CIPFA national awards presentation.

6 PLAN ASSIGNMENTS

6.1 Overview

- 6.1.1 The annual 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 themes for the year were core systems coverage, controls in Social Work, cross boundary assignments, and efficiency agenda assignments. The 2007/08 assurance programme included assignments on the full range of audit activity. A summary of the findings and outcomes for all audit assignments completed in the 2007/08 year is presented at Appendix 1(b). The following paragraphs provide a summary of the main findings and outcomes arising from a selection of significant planned assignments. The selection covers core systems, departmental systems, computer audit, contract audit and performance studies.

6.2 Council tax and Non Domestic Rates

- 6.2.1 Full systems reviews in Council Tax and Non-Domestic Rates have been completed. The Council Tax and Non Domestic Rates assignments are end to end audits on core financial systems agreed with Audit Scotland. The work of each assignment covered general and valuation, liabilities and billing, recovery and enforcement, collections and refunds, and logical access controls.

- 6.2.2 The main areas for improvement in Council Tax were in the award and review of discounts, daily checking of audit reports, performance targets for recovery of arrears, and monitoring of payment arrangements. At the start of the fieldwork there were a number of access control weaknesses. Several user access settings and menu access settings were incorrect. Revenues management has moved to address these, having conducted a review of all access settings.
- 6.2.3 In 2006/07, a total of £37m of Council Tax income was due to the Council. In-year Council Tax collection rate has shown year-on-year improvements since 1996/97. The collection rate of 92.4% in 2006/07 was the best to date. The collection rate is, however, below the Scottish local authority average collection rate of 93.8%, and is ranked 29 in Scotland. Internal Audit plan to carry out a performance study of Council Tax collection in 2008/09 to try to further improve collection performance.
- 6.2.4 The main areas for improvement in Non Domestic Rates were around approval of reliefs and write-offs, transaction reviews use of daily audit reports, checking of void and empty property reliefs, suppression of follow-up action, and reporting and monitoring of arrears performance. A total of £26.1m of NDR was due to the Council in respect of 2007/08. As at 2 April 2008, the collection rate for the year was 96.29%.
- 6.2.5 Reasonable assurance can be taken from the controls currently being operated in both Council Tax and Non Domestic Rates. Agreed action plans are in place covering control recommendations in all areas examined. Implementation of the audit recommendations will strengthen the control environment surrounding the administration of Council Tax and Non Domestic Rates and help deliver sound assurance in both core systems.

6.3 Social Work Financial Control systems

- 6.3.1 A number of follow-up assignments were conducted in E&SS in the early part of the audit year, as part of the continuing work around Social Work financial control systems. The assurance work provided coverage of selected aspects of children and families, community care and resources systems. This work involved testing implementation of Social Work charges, and accelerated follow-up of all recent assignments, including the taxi contract, homecare contract, and foster and adoption assignments. Overall, the audit recommendations arising from the previous audit work had been substantially implemented.
- 6.3.2 In August, Internal Audit was asked by E&SS to investigate allegations of financial irregularities at a children's unit. The investigation found evidence of fundamental failures in financial management, which led to unacceptable levels of inappropriate expenditure. Following the investigation, a full systems review of the children's unit was carried out, and a number of recommendations were made to strengthen the control environment. The audit recommendations arising from this assignment are applicable to all children's units, and management was asked to ensure that the audit recommendations are implemented in all units. Some issues connected with this assignment have been passed to Strathclyde Police for possible further investigative action.
- 6.3.3 A self-assessment tool for children's units was designed and launched by Internal Audit in 2006. Given the concerns raised at the children's unit at the centre of the investigation, Internal Audit agreed with management to update and re-issue the self assessment package. The package provides a comprehensive best practice checklist covering areas such as financial administration, income, purchasing, inventories, security and staffing. The results of the self-assessment will be fed back to management to assist them to assess strengths and areas for improvement.

6.3.4 A high level assessment was also carried out on the Social Work control framework. The assessment identified a number of areas where further work was necessary to strengthen the framework. These included procedural guidance, performance management information, resource support finance, existence checking and procurement. The Executive Director of Educational & Social Services committed to a programme of improvement actions in Social Work across all of these areas. As part of the on-going work to strengthen controls in Social Work, the 2008/09 Audit Plan includes assignments on expenditure controls in Outwith Placements and Adult Care.

6.4 Best Value Building Maintenance Contract

6.4.1 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. The project team reports to a steering group.

6.4.2 Internal Audit provided advice around the work and management of the project team. The work covered project arrangements, including terms of reference, methodologies, progress reporting, price range comparison tests and an analysis of the make-up of new draft composite codes. Advice was provided to the Steering Group to assist in their management of the project. The results of audit price comparison testing were passed to the Principal Quantity Surveyor to consider in his review and sign-off of the revised schedule of items.

6.4.3 In revising the schedule of items, the project team was asked to calculate weighted average prices taking account of frequency of use. In producing weighted average prices the project team identified a number of coding errors by Building & Works employees. The Council has a repairs post inspection process in place to help ensure accurate recharging. The process is designed to verify the accuracy of recharges by physically checking a selection of jobs. Internal Audit carried out two earlier assignments on repairs post inspections. The audits reported high rejection rates caused by errors in coding.

6.4.4 Internal audit has re-examined post inspection results in light of the coding errors identified by the project team. The analysis of recent results shows that the level of rejections as a percentage of jobs inspected has been consistently high over the past five years. The main reasons for rejection are pricing issues. The amount recovered by the client following post inspection remains high. In Housing the recovery is 23% of the original invoice value inspected, which is equivalent to £600k annually. The current repairs review is considering a number of different options for repairs charging, and a report is to be taken to Cabinet in July setting out best value contract arrangements.

6.4.5 Internal Audit has made four recommendations to management designed to remedy the situation. These include; use of correct codes, management monitoring of post inspection results, robust post inspection controls and performance targets including sanctions for failures. An agreed action plan is in place covering all action points.

6.5 Procurement

6.5.1 Internal Audit has completed an assessment of procurement arrangements within the Council. Better procurement is an efficient government priority area. The assignment driver was Public Sector Reform of Procurement in Scotland. 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. Several areas for improvement were identified, including further development of best practice guidance via a Procurement Manual or Procurement Policy Bulletins, client requirement briefs setting out a full needs assessment and justification for expenditure, formalisation of six monthly review of contracts by services before extension or re-tender so as to ensure rigour in this vital stage of the process, and further development of performance management arrangements. 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 and this addresses a number of the further improvements.

6.5.2 In December 2007, the Scottish Local Authorities Chief Internal Auditors Group issued a national report on the results of the cross-authority procurement evaluation assignment. The report was issued to all Councils, Public Procurement Reform Board, and Audit Scotland. The national report was designed and produced by East Ayrshire Council, using the results of local assessments carried out across twenty-eight public sector bodies. The overall assessment of national results highlighted evidence of good levels of compliance with some key control objectives, but also areas where significant work remains to be done by a number of authorities. Performance management had the lowest compliance rating (41%) and is where most scope for improvement exists across public sector authorities. In this regard the Council, through the Procurement Working Group, is currently developing revised guidance and arrangements for contract administration and monitoring and has also recently introduced a web-based Contract Management system for all contract users to log any complaints or concerns about any individual contractor's performance. Depending on individual circumstances such information will then be collated and used to challenge contractors on seriously poor performance or, at the very least taken into account when determining whether to extend existing contracts and in the packaging and specification of future contracts. It is anticipated that these measures will lead to an increased level of compliance in terms of contractual performance management.

6.5.3 EAC performance in the national context can be summarised as follows:

- for all seven key control objectives EAC scored above the national average, and in a number of places by a significant margin
- in overall terms, EAC scored 118 compliance (63%) against a national average of 91 (49%)
- 63% compliance comfortably placed EAC in the second top quartile (scores 51% to 75%)

6.5.4 There is significant reform of procurement in progress across the public sector in Scotland, and it is evident from the national analysis that EAC is well positioned to address the procurement reform challenges, and exploit the savings opportunities presented.

6.6 Absence Management

6.6.1 This assignment is a cross boundary assignment involving the three Ayrshire Councils and NHS Ayrshire and Arran. East Ayrshire Council Internal Audit acted as the lead council in the review of absence management. Managing absence is an efficient government priority area, and all public sector organisations are expected to have effective procedures in place for managing absence.

6.6.2 The Ayrshire partners all displayed elements of best practice in their absence management arrangements. A number of areas were identified where improvements could be made. Recommendations have been made around the areas of frequency of contact with sick colleagues, return to work interviews, triggers for further action, and the role that occupational health should play, in particular in terms of prevention and early intervention. The report recommended that all partners should perform an early review of absence management policies, taking on board the

findings of this report. It further recommended that policies should be kept under constant review, in order to ensure they take account of best practice.

- 6.6.3 Absence management is a priority area for all partners. The possible efficiency gains are significant. If the Ayrshire councils were each to reduce absence to 4%, this would result in annual time releasing efficiency gains of over 50,000 days. This would mean that the existing workforce would be able to deliver more or improved services within the same budget, due to significantly more people attending work. Additional cash savings could also be made in relation to overtime costs incurred as a result of absence.
- 6.6.4 Internal Audit carried out policy and procedures compliance testing across a sample of EAC employees and managers. The testing revealed some compliance issues around completion of self-certified forms, delays in holding absence review meetings and absence management training for managers. A number of recommendations were made around recording/reporting absences, use of occupational health services and training.
- 6.6.5 The Corporate Management Team at its meeting on 14 November 2007 considered absence management. CMT agreed that a working group should conduct a review of Absence Management. The working group reported to CMT on 30 April 2008 and 28 May 2008, and have made a number of changes designed to improve attendance levels, having taken on board the recommendations made in the Internal Audit Cross Boundary and Local Compliance Testing reports. Senior Management continue to emphasise the importance of applying managing absence policies and carrying out regular reviews. Effective Absence Management will contribute to the achievement of the Community Plan Theme – Improving Health by promoting well-being amongst its workforce.

6.7 2006/07 Statutory 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 was to support the External Auditors in their duty to audit the statutory performance indicators 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. 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. An agreed action plan is in place covering both control recommendations. External Audit found all indicators to be reliable, resulting in all 57 indicators being 'A' rated.

6.8 Energy Management

- 6.8.1 A cross boundary assignment on energy management was led by North Ayrshire Council internal audit section. The assignment used a best practice checklist to compare and contrast energy strategies across the three councils. Proper asset management, including arrangements to ensure efficient use of buildings and strategies to reduce maintenance costs is an efficient government priority area. Energy management is an integral element of asset management.
- 6.8.2 The overall conclusions of the assignment are that the three Ayrshire Councils have each dedicated significant staff resources and investment into energy management, and have implemented a range of good practice measures which have contributed to improved energy

efficiency. The report highlighted opportunities to further embed energy management processes in the Councils, and these included maintaining up to date policies and further engagement of management and staff in securing efficiencies. The improvement agenda also includes CMT/Elected Member reporting, energy awareness and energy audits of properties.

- 6.8.3 The assignment found that most of the best practice aspects are already covered by the existing EAC energy and carbon management strategies. In terms of compliance with best practice, East Ayrshire Council performed significantly better than the other two councils. An agreed action plan is in place covering all control recommendations applicable to EAC.

6.9 Internet & Email

- 6.9.1 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. South Ayrshire Council produced a best practice checklist, following a survey of policies from a number of Scottish authorities.

- 6.9.2 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 one significant action point is for management to continue to develop guidance and procedures for dealing with suspected policy breaches.

- 6.9.3 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. The results of review provide sound assurance that EAC Acceptable Use Policy shows significant adherence to best practice.

- 6.9.4 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.

- 6.9.5 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 report on monitoring of internal emails is being considered by CMT on 11 June 2008, with a summary of the actions being taken.

6.10 National Fraud Initiative

- 6.10.1 In 2005, Internal Audit reviewed the Council's response to the 2004/05 NFI data matching exercise, and issued a report containing recommendations on areas for improvement. Internal Audit has now conducted a review of the Council's response to the 2006/07 NFI data matching exercise. Included in this review is an assessment of extent of implementation of the recommendations from the earlier report. The review also considered any new issues which should be considered in planning the 2008/09 exercise.

- 6.10.2 Actions taken in the main risk area in 2006/07 (Benefits) is assessed as appropriate, and demonstrates a commitment to continuous improvement in the conduct of match testing. All high

priority reports allocated to Benefits staff were tested adequately. Testing in other areas was incomplete, due to commitments to other initiatives. East Ayrshire Council elected to participate in only one risk-based match (creditors), and did not make use of other matches covering social work payments, insurance claimants, parking permits, market traders or taxi driver licences.

- 6.10.3 The NFI matching exercises are an important tool in preventing and detecting fraud. There is a need to ensure regular reporting to CMT and elected members on the work on the national fraud initiative, and decisions around participation in optional matches. The assignment found that the scope of NFI is widening, and current working group and management model might no longer be appropriate. Internal Audit has recommended that management of the NFI data matching should be reviewed before the 2008/09 exercise.
- 6.10.4 The audit found that 8 of the 13 agreed actions in the November 2005 report had been fully or sufficiently implemented. The remaining 5 agreed actions have been overtaken by new recommendations in this latest report, so no retrospective action is required. The overall assessment, given that testing in the main risk area (Benefits) was well managed, and thorough, was that reasonable assurance can be taken from the Council's response to NFI 2006/07. Agreed action plan is in place covering ten control recommendations.

7 Audit Follow Up

- 7.1 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. 12 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.
- 7.2 The 13 follow-up reports included 113 audit recommendations, and the auditors found that 99 recommendations had been fully implemented by the date of the follow-up audit visit, which is a fully implemented score of 88%. There were 14 recommendations where no action had been taken by the time of the audit follow-up. 5 of the 14 recommendations (see National Fraud Initiative above) have been overtaken by new recommendations, leaving 9 agreed actions that are outstanding.
- 7.3 Where agreed actions have not been fully implemented by the time of the audit follow-up, Executive Directors have signed Client Assurance Statements giving an assurance that the outstanding actions will be implemented and the due date for implementation.
- 7.4 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(c) provides a listing of all audit follow-up assignments, and the implementation score for each assignment.

8 Investigations

- 8.1 There were nine incidents reported to Internal Audit in the 2007/08 audit year. Eight have been reported, and one remains in progress. One hundred and ninety-six days from the annual contingency of one hundred days were used to investigate these matters. A summary of the findings and outcomes for all audit assignments, including investigations, is presented at Appendix 1(b). A selection of the most significant investigations are summarised in the following paragraphs.

- 8.2 A whistleblowing letter was received expressing concerns around the management of a council project. Internal Audit carried out an investigation into the concerns raised and found no evidence to substantiate the claims. The audit investigation concluded that the weak control environment, rather than a lack of probity, had contributed to the concerns raised. The control environment within the project was found to be unsatisfactory in a number of areas, including service level agreements, payment processes and monitoring arrangements. A number of recommendations were raised to address the weaknesses identified, and an agreed action plan is in place to address all areas for improvement.
- 8.3 A suspected fraud involving an agency used by the Council was reported to Internal Audit. A preliminary investigation was carried out, and this confirmed fraud. The incident was immediately reported to the Police, and their investigations are on-going.
- 8.4 Internal Audit is conducting a fact-finding investigation into payments to an arms length organisation. The assignment was specified following a request from the Chief Executive. The scope of this assignment comprises of an examination of all large payments, grants and invoices, made directly or indirectly to the arms length organisation. Internal Audit has examined the purpose of each payment, and obtained assurance from examination of accounts and explanations from the organisation's external auditor and the liquidator, that all payments made by the Council have been recorded in the accounts. For further assurance on the validity of capital expenditure, Internal Audit requested a valuation of works by the Council's Technical Services Division. This work has been concluded, and the surveyor's valuation of improvement works is consistent with the value of property improvements shown in the organisation's accounts. The investigation has identified some potential compliance issues with our "Following the Public Pound" procedures and possible lack of transparency and conflicts of interest around some payments. Internal Audit is continuing to investigate European Social Fund grants and associated payments to the organisation. The investigation is at an advanced stage, and the final report will be completed shortly.

9 SUMMARY OF PERFORMANCE

- 9.1 End to end core systems reviews have been completed in Council Tax and Non Domestic Rates, cross boundary assignments have been completed on absence management, energy management and internet and email arrangements, and local and national assignments have been completed around procurement. A range of other work has also been completed. The agreed actions arising from all of this work will, when implemented, further strengthen the framework of controls.
- 9.2 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.
- 9.3 The Internal Audit Annual Statement on the Adequacy of Internal Control is set out in Appendix 1(a) of this report.

Colin Houston

Chief Auditor

13 June 2008

AnnualReportG&SV1

INTERNAL AUDIT ANNUAL STATEMENT ON THE ADEQUACY OF INTERNAL CONTROL

As Chief Auditor of East Ayrshire Council, I present my annual statement on the adequacy and effectiveness of the internal control systems of the Council for the year ended 31 March 2008.

Responsibilities of management and Internal Audit in relation to internal control

It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. It is the responsibility of the Chief Auditor to provide an annual assessment of the robustness of the internal control systems based on the work of the Internal Audit section.

Internal controls

The main objectives of the Council's internal control systems are to:

- ensure adherence to management policies and directives in order to achieve the organisation's objectives;
- safeguard assets;
- ensure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- ensure compliance with statutory requirements.

Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud or breach of laws or regulations. Accordingly, the Council is continually seeking to improve the effectiveness of its systems of internal control.

Internal Audit

Internal Audit is an independent appraisal function established by the Council for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of the Council's resources. 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.

Internal Audit activity during the year was based on the planned work programme contained in the Annual Audit Plan approved by the Risk and Audit Scrutiny Group on 24 April 2007. Audit plans are prepared following full consultation with the Chief Executive, Executive Head of Finance & Asset Management, and Executive Directors.

Internal audit reports are presented to the relevant Executive Director, and include appropriate recommendations and agreed actions which, when implemented, will improve the overall control environment. As part of Internal Audit monitoring procedures, copies of all audit 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.

Internal Audit routinely undertake follow-up work on all major audit assignments in order to assess progress on the implementation of audit recommendations. Where agreed audit recommendations have not been fully implemented by the time of the audit follow-up, the Executive Director is asked to sign a client assurance statement confirming that any outstanding actions will be implemented, and the timescales involved.

Basis of Opinion

My evaluation of the control environment is informed by a number of sources:

- the audit work undertaken by Internal Audit during the year to 31 March 2008;
- the audit work undertaken by Internal Audit in previous audit years;
- audit follow-up work to test progress on implementation of agreed actions;
- findings/conclusions arising from work carried out by the Council's External Auditors; and
- knowledge of the Council's governance, risk management and performance framework.

Opinion

We have carried out a wide range of audit assignments in 2007/08. End to end core systems reviews have been completed in Council Tax and Non Domestic Rates, cross boundary assignments have been completed on absence management, energy management and internet and email arrangements, and local and national assignments have been completed around procurement. A range of other work has also been completed. The agreed actions arising from all of this work will, when implemented, further strengthen the control framework.

My overall opinion, based on the work carried out, is that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2008. The objectives of internal controls have been substantially met.

The level of repairs post inspection rejections caused by coding errors is high, and the amount recovered year on year by the client is significant. Actions have been agreed with management which, when implemented, will ensure accurate and reliable coding.

The audit investigation into payments to an arm's length organisation has identified some compliance issues with our following the public pound procedures. The audit work is at an advanced stage, and the final report will be completed shortly for management consideration.

A programme of work has been agreed with the Executive Director of Educational and Social Services to strengthen the control environment in Social Work.

Internal Audit has put forward recommendations to address areas for improvement. Action plans have been developed in consultation with management to address all areas for improvement identified, which should result in continued improvement in the control environment.

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.

Internal Audit is satisfied that there is management commitment to act where control improvement opportunities are identified, and that staff understand and accept the need for systems to be robust and reliable.

Colin Houston
Chief Auditor
13 June 2008

RESPONSIBILITY OF EXECUTIVE HEAD OF FINANCE AND ASSET MANAGEMENT

Appendix 1(b)

ASSIGNMENT	SUMMARY AUDIT FINDINGS	ASSESSMENT/OUTCOMES
Grant Claim (11 April 2007)	The assignment examined the accuracy and validity of the 2006/07 grant claim for the Warm Deal Programme administered by Communities Scotland.	The grant claim was verified.
Corporate Anti-Fraud and Anti-Corruption Strategy (16 May 2007)	Internal Audit contributed to the consolidated anti-fraud and anti-corruption policy produced by Finance. 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.	Policy was approved by Cabinet on 24 October 2007.
Local Offices (21 May 2007)	Internal Audit conducted location audits at local cash collection offices. The audits were unannounced, and involved cash counts, analysis of under/over payments and reviews of security arrangements. No major issues were found.	Objectives of internal control have been met.
Cash Imprests (31 May 2007)	Imprest certification arrangements were examined, and no major issues were found.	Objectives of internal control have been met.
2006/07 Statutory Performance Indicators (31 July 2007)	The overall purpose of the audit assignment is to support the External Auditors in their duty to audit the statutory performance indicators for the financial year ended 31 March 2007. There are 57 performance indicators for 2006/07, spread over all services, and East Ayrshire Council is reporting on all indicators. Internal Audit tested the accuracy/reliability of 11 indicators. 3 indicators required minor adjustments.	All EAC Statutory Indicators are reported and found to be reliable. Agreed action plan is in place covering two control recommendations.
Council Tax Billing & Liability (17 December 2007)	One of the main areas for improvement was in the award/review of discounts. We identified a number of accounts where the discount or exemption had not been reviewed for a number of years, at times resulting in undercharging of Council Tax. Revenues have recently introduced an annual review timetable that should ensure all discounts and exemptions are reviewed regularly. There was only limited checking of daily audit reports and in order to provide greater assurance over the accuracy and validity of transactions we have recommended that the number of checks performed should be increased.	Reasonable assurance can be taken from the controls currently being operated. Agreed action plan is in place covering eight control recommendations.
Council Tax General & Valuation (18 December 2007)	One area for improvement was identified during this assignment, and this was in relation to version control of the procedures and training documents. We would recommend that formal change control procedures are introduced for all of these documents.	The conclusion is sound assurance in this area. Agreed action plan is in place covering the one recommendation made.

ASSIGNMENT	SUMMARY AUDIT FINDINGS	ASSESSMENT/OUTCOMES
Inventory Procedures (20 December 2007)	Internal Audit verified the timeliness of the submissions of Inventory Certificates by the Departments and noted that, although there had been a significant improvement from previous years, the certificates were still submitted after the deadline by some Departments. Four Social Work establishments were visited to evaluate the inventory controls implemented at the locations. We noted that at most locations inventories had not been kept on a continuous basis as per council policies and procedures.	Reasonable assurance can be taken from the controls currently being operated. Agreed action plan is in place covering nine control recommendations.
Council Tax Recovery & Enforcement (25 January 2008)	The collection rate of 92.4% in 2006/07 was the best to date by EAC. The Scottish local authority average collection rate in 2006/07 was 93.8%. There are no formalised performance targets for recovery and reduction of council tax arrears arising from previous year. Our testing identified a number of accounts where payers had defaulted on payment arrangements and where no follow-up action had yet been taken by the Arrears Section. Audit testing identified five accounts that were written off without the supporting documentation required by the Scheme of Delegation, and four debts written off outwith delegated authority.	Reasonable assurance can be taken from the controls in place. Agreed action plan is in place covering fifteen control recommendations.
Energy Management (21 February 2008)	A cross boundary assignment on energy management was led by North Ayrshire Council internal audit section. The assignment used a best practice checklist to compare and contrast energy strategies across the three councils. Most of the best practice aspects are already covered by the existing EAC energy management strategy, and the revised strategy, which is due to be finalised shortly, will provide full compliance. The improvement agenda covers areas such as CMT/Member reporting, energy awareness and energy audits of properties.	The updated energy management policy will, when approved, ensure full compliance with best practice. In terms of compliance with best practice, East Ayrshire Council performed significantly better than the other two councils. Agreed action plan in place covering all control recommendations applicable to EAC.
Investigation (Leasing) (27 February 2008)	A suspected fraud involving an agency used by the Council was reported to Internal Audit in February. Internal Audit carried out a preliminary investigation, and this confirmed fraud. The incident was immediately reported to the Strathclyde Fraud Squad.	Case is with the Police.

ASSIGNMENT	SUMMARY AUDIT FINDINGS	ASSESSMENT/OUTCOMES
<p>Council Tax Collection & Refunds (28 March 2008)</p>	<p>We noted that there was not always adequate supporting evidence to confirm that transfers from the suspense account were being posted to the correct account. In addition, transfers from the suspense account were not authorised. The Revenues team advises that an exercise to address a backlog of council tax overpayments/credit balances was started in June 2006. This exercise focuses on older balances, regardless of size. We would recommend that efforts should initially be concentrated on larger credit balances. The audit identified improvement opportunities around authorisation of refunds, transfers between accounts and transfers from suspense.</p>	<p>Reasonable assurance can be taken from the controls in place. Agreed action plan is in place covering ten control recommendations.</p>
<p>Council Tax Logical Access (31 March 2008)</p>	<p>At the start of the fieldwork in this area, there were a number of access control weaknesses. Several user access settings and menu access settings were incorrect. Revenues management has moved to address these, having conducted a review of all access settings. The number of users with access to user administration function was too high – this has been addressed by the client. Most logical security settings are set at appropriate levels. Some improvements can be made to the use of daily audit reports to ensure that any misuse of access rights is detected and addressed timeously.</p>	<p>The client moved to address many of the issues as soon as they were identified. The actions taken and the willingness to act allow reasonable assurance to be taken in the current settings of user access controls. Agreed action plan is in place covering nine recommendations.</p>
<p>National Fraud Initiative (15 April 2008)</p>	<p>In 2005, Internal Audit reviewed the Council's response to the 2004/05 NFI data matching exercise, and issued a report containing 13 recommendations on areas for improvement. Internal Audit has now conducted a review of the Council's response to the 2006/07 NFI data matching exercise. Included in this review is an assessment of extent of implementation of the recommendations from the earlier report. The review also considered any new issues which should be considered in planning the 2008/09 exercise. Improvements are possible to ensure that the Council maximises the benefit it derives from future exercises, including appropriate participation in risk-based match modules. Changes to management and resourcing are required for NFI 2008/09.</p>	<p>Given that testing in the main risk area (Benefits) was well managed, reasonable assurance can be taken in the Council's response to NFI 2006/07. Agreed action plan is in place covering ten control recommendations.</p>
<p>Non Domestic Rates (9 May 2008)</p>	<p>The main findings related to the approval of reliefs and write-offs, transaction reviews using the daily audit reports, checking of void and empty property reliefs, suppression of follow-up action, and reporting and monitoring of arrears performance.</p>	<p>Reasonable assurance can be taken from the procedures and processes which are currently in place to cover the administration of NDR. Agreed action plan is in place covering twenty-eight control recommendations.</p>

RESPONSIBILITY OF EXECUTIVE DIRECTOR OF CORPORATE SUPPORT

Assignment	Findings	ASSESSMENT/OUTCOMES
Investigation (Project) (22 June 2007)	The audit investigation concluded that the weak control environment in a project managed by the Council, rather than a lack of probity, had contributed to the finance and personnel concerns expressed in the whistleblowing letter.	Recommendations have been raised to address the weaknesses identified. Agreed action plan is in place covering twelve control recommendations.
Procurement (20 July 2007)	Internal Audit has completed an assessment of procurement arrangements within the Council. The assignment driver is Public Sector Reform of Procurement in Scotland. The audit was completed using a work programme developed by the Scottish Local Authorities Chief Internal Auditors' Group. Several areas for improvement were identified, including further development of best practice guidance, client requirement briefs, review of contracts by services before extension or re-tender, and further development of performance management arrangements.	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. Agreed action plan is in place covering five control recommendations.
Cross Boundary Absence (17 August 2007)	This assignment is a cross boundary assignment involving the three Ayrshire Councils and NHS Ayrshire and Arran. East Ayrshire Council Internal Audit acted as the lead council in the review of absence management. The Ayrshire partners display elements of best practice in their absence management arrangements. Some areas were identified where improvements could be made. Best practice recommendations have been made around the areas of frequency of contact with sick colleagues, return to work interviews, triggers for further action, and the role that occupational health should play.	The Corporate Management Team at its meeting on 14 November 2007 considered absence management. CMT agreed that a working group should conduct a review of Absence Management. The working group reported to CMT on 30 April 2008 and 28 May 2008, and have made a number of changes designed to improve attendance levels, having taken on board the recommendations made in the Internal Audit Cross Boundary and Local Compliance Testing reports. Senior Management continue to emphasise the importance of applying managing absence policies and carrying out regular reviews.
EAC Absence Management (17 August 2007)	This assignment tested compliance with policy and procedures across a sample of employees and managers. The testing revealed some compliance issues. A number of recommendations were made around recording/reporting absences, use of occupational health services and training.	Based on our analysis, which covered a relatively small sample of employees, the system for managing and recording absence in place is not always followed consistently. Agreed action plan is in place covering nine control recommendations.

Assignment	Findings	ASSESSMENT/OUTCOMES
Investigation (Overtime) (23 August 2007)	The investigation found some discrepancies around overtime claimed, however, satisfactory explanation was 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.
Overtime Controls (16 October 2007)	Recommendations were made to strengthen overtime controls following the investigation.	Agreed action plan is in place covering five control recommendations.
Cross Boundary Internet & Email (31 October 2007)	EAC acceptable use policies show 83% compliance with the best practice checklist developed by South Ayrshire Council, with a score of 40 out of 48. Most of the eight points short of full compliance are covered either by other documentation or by acceptable EAC policy decisions. The only action point arising is for management to continue to develop guidance and procedures for dealing with investigation of suspected policy breaches.	The results of review provide sound assurance that EAC Acceptable Use Policy shows significant adherence to best practice.
EAC Internet (31 October 2007)	Within the shared services assignment on internet/email arrangements, Internal Audit conducted a local review of policy compliance. The work performed during the 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.
National Procurement (14 December 2007)	In December 2007, the Scottish Local Authorities Chief Internal Auditors Group issued a Scotland-wide summary of the results of the cross-authority procurement evaluation assignment. The report was issued to all Councils, Public Procurement Reform Board, and Audit Scotland. The national report was designed and produced by East Ayrshire Council, using the results of local assessments carried out across twenty-eight public sector bodies.	In all key control objectives EAC scored above the national average, and in a number of places by a significant margin. In overall terms, EAC scored 118 (63% compliance) against a national average of 91 (49% compliance). 63% compliance comfortably placed EAC in quartile 3 (scores 51% to 75%)
Internal Email Monitoring (18 January 2008)	Internal Audit completed an assignment on internal email monitoring arrangements, and made a number of recommendations to assist management control in this area. These included sampling strategies and technical arrangements.	CMT will consider a report on this matter on 11 th June, and following CMT consideration an agreed action plan will be submitted.

RESPONSIBILITY OF EXECUTIVE DIRECTOR OF EDUCATIONAL & SOCIAL SERVICES

Assignment	Findings	ASSESSMENT/OUTCOMES
Social Work Charges (24 May 2007)	Internal Audit has examined the accuracy and timeliness of the implementation of all rates specified in the 2006-07 charges revision. The examination showed that three of the six rate changes were implemented on time, and three were late. The monetary impact of the delays is not significant,	Action should be taken to prevent delays in future years. Some improvements could be made in the presentation of the paper, particularly inclusion of caseloads and total monetary amounts to inform members of the financial implications of the rate changes.
Social Work Financial Control Systems (24 May 2007)	We carried out an assessment of Social Work financial control systems based on further assurance work, and the assessment of progress on implementation of agreed recommendations. Overall, the audit recommendations arising from the previous audit work had been substantially implemented.	Assurance can be given that the control environment in the areas examined is controlled. The further actions required have been accepted by client management.
Payroll (29 June 2007)	A sample of high value overtime inputs were tested in Social Work, Onsite and Community Learning. Some errors were identified, but the monetary value was low compared to the value tested.	Departmental management were asked to examine the payment errors, and take recovery action.
Investigation (Children's Unit) (10 December 2007)	In August, Internal Audit was asked by E&SS to investigate allegations of financial irregularities at a children's unit. The investigation found evidence of fundamental failures in financial management, which led to unacceptable levels of inappropriate expenditure. See Children's Unit Controls assignment below.	The unit manager resigned from her post. The incident was reported to the Police.
Investigation (School) (11 December 2007)	On Friday 9 th November the janitor was asked to deposit school fund and school meals monies, totalling £210, in the bank. The school discovered that the lodgements did not take place.	The janitor was dismissed and the case was passed to the Police.
Childrens Unit Controls (14 March 2008)	The Internal Audit investigation found evidence of fundamental failures in financial management, leading to unacceptable levels of inappropriate expenditure.	Key controls were not applied consistently and effectively. An agreed action plan is in place covering nine control recommendations.
Social Work Self Assessment (23 April 2008)	A self-assessment tool for children's units was first launched in 2006. The package has been updated and re-issued, and provides a comprehensive best practice checklist covering areas such as financial administration, income, purchasing, inventories, security and staffing.	The package was issued to all children's units in April 2008, and the results will be fed back to Social Work management to consider.

RESPONSIBILITY OF EXECUTIVE DIRECTOR OF NEIGHBOURHOOD SERVICES

Assignment	Findings	ASSESSMENT/OUTCOMES
2006/07 B&Ws Stocktaking (7 June 2007)	Internal Audit attended a continuous stocktake count at Kilmarnock stores, and was satisfied that arrangements conformed to the guidance issued by the Executive Head of Finance in Accounting Policy Bulletin 11A. The physical stock across all Building & Works stores was valued at £9,074 under net book value. This represents 2.6% of the overall stock value.	Reasonable assurance can be taken from the controls currently being operated. An agreed action plan is in place covering eight control recommendations.
2006/07 Roads Stocktaking (7 June 2007)	The results of the year end stocktaking exercise were analysed and three continuous stockcounts were attended. Internal Audit was satisfied that the arrangements conformed to the guidance issued by the Executive Head of Finance and Asset Management in Accounting Policy Bulletin 11A.	Reasonable assurance can be taken from the controls currently being operated. An agreed action plan is in place covering five control recommendations.
Best Value Building Maintenance (12 June 2007)	The Council is preparing a new Best Value Building Maintenance Contract for Housing and Property Maintenance. A project team has been set up to complete the preparatory work around revisions to the schedule of items and rates. Internal Audit has contributed to the work of the project. The contribution included advice on specific aspects of the work of the project.	Advice around project management arrangements, including terms of reference, methodologies and progress reporting was provided to the Steering Group to consider.
Grant Claims (14 June 2007)	Internal Audit examined the grant claim for 2006/07 for the 20mph speed limit, etc. The result of the examination was identification of two errors in calculation of payroll costs, both of which understated the grant claim.	The 20mph Speed Limit grant claim was increased by £8,106 from £251,164 to £259,270.
Payroll (29 June 2007)	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. Some areas for improvement have been identified around keying of payroll data, authorisation of timesheets and accuracy of business object reports.	The areas for improvement have been brought to management attention.
Best Value Building Maintenance (19 July 2007)	The contribution included advice on specific aspects of the work of the project.	Audit findings around project management reported to Steering Group to consider.

Assignment	Findings	ASSESSMENT/OUTCOMES
Best Value Building Maintenance (24 August 2007)	The contribution included advice on specific aspects of the work of the project, including results of an analysis of the make-up of new draft composite codes and work around price range comparison tests.	The results of audit price comparison testing were passed to the Principal Quantity Surveyor to consider in his review and sign-off of the revised schedule of items.
Investigation (Equipment) (5 October 2007)	Internal Audit received a report from the Cleansing Services Manager reporting the disappearance of an electric motor from the Western Road Depot, Kilmarnock. The part was subsequently tracked down to a haulage depot in England. 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.
Investigation (Fuel) (20 December 2007)	Internal Audit investigations, including examination of all available CCTV footage, did not provide any explanation for the theft.	The incident was reported to the Police. Security enhancements were recommended. An agreed action plan is in place covering five recommendations.
Investigation (Fuel) (18 February 2008)	Internal Audit investigated a fuel discrepancy reported by Transport Services staff. The cause of the fuel variance was identified and remedied. The investigation revealed evidence of delivery procedures not being followed. Recommendations have made to address areas for improvement.	An agreed action plan is in place covering seven control recommendations.
Best Value Building Maintenance (11 April 2008)	Internal audit has examined post inspection results in light of the coding errors identified by the project team. The analysis of results shows that the level of rejections as a percentage of jobs inspected has been consistently high over the past five years. The main reasons for rejection are pricing issues. The amount recovered by the client following post inspection remains high. In Housing the recovery is 23% of the original invoice value inspected, which is equivalent to £600k annually. The current repairs review is considering a number of different options for repairs charging, and a report is to be taken to Cabinet in July setting out best value contract arrangements.	Assurance on the accuracy of accounting for recharges remains weak. This impacts on the ability of repairs clients to demonstrate best value. The audit action plan arising from the assignment includes four control recommendations. The recommendations are designed to eradicate coding errors. An agreed action plan is in place covering four control recommendations.

FOLLOW-UP ASSIGNMENTS 2007/08

APPENDIX 1(c)

Assignment	Findings	Report Issued
Follow-up of Foster & Adoption (Educational & Social Services)	7 of 8 actions fully implemented = 88% implementation. Client Assurance Statement signed.	23 May 2007
Follow-up of Care at Home (Educational & Social Services)	7 of 9 agreed actions fully implemented = 78% overall implementation. Client Assurance Statement signed.	24 May 2007
Follow-up of Bank reconciliations (Finance)	2 of 2 agreed actions fully implemented = 100% implementation.	30 May 2007
Follow-up of E-payments (Finance)	14 of 14 agreed actions fully implemented = 100% implementation.	31 May 2007
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. Management assurance received that one outstanding action now implemented, and matters in hand for full implementation of the other action.	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 signed.	19 November 2007
Follow-up James Hamilton Academy (Educational & Social Services)	7 of 9 recommendations were fully implemented = 78% implementation. Management assurance received that outstanding actions are now implemented.	18 January 2008
Follow-up Antisocial Behaviour Noise Grant (Corporate Support)	3 of 4 recommendations were fully implemented = 75% implementation. Management assurance received that outstanding action is now implemented.	30 January 2008
Follow-up of National Fraud Initiative (Finance)	8 of 13 recommendations were fully implemented = 62% implementation. The 5 unimplemented actions were replaced by new recommendations.	15 April 2008

Client Performance By Department	Assignments	Recommendations			
	Conducted	Raised	Implemented	Not implemented	Percentage implemented
Corporate Support	3	29	26	3	90%
Finance Service	4	36	30	6*	83%
E&SS	3	26	21	5	81%
Neighbourhood Services	3	22	22	0	100%
All Services	13	113	99	14*	88%

* Five of the fourteen not implemented actions were superseded by new recommendations.