

EAST AYRSHIRE COUNCIL

CORPORATE GOVERNANCE COMMITTEE – 16 NOVEMBER 2004

PROGRESS REPORT - INTERNAL AUDIT PLAN 2004/05

Report by the Chief Auditor

1. PURPOSE OF REPORT

- 1.1** To submit to Members a mid year progress report on performance against the Internal Audit Plan for financial year 2004/05. This report represents the third mid year progress report presented to members.

2. BACKGROUND

- 2.1** In East Ayrshire Council, the Internal Audit Service independently reports to the Chief Executive, and to the corporate Governance 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.

3. PLAN ACHIEVEMENT

- 3.1** The attached report (Appendix 1) summarises the activities of Internal Audit in the six months to 30 September 2004. All priority audit assignments, in particular plan work on core systems, should be completed within the audit year, subject to no further significant unplanned work emerging.
- 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 and arrangements for governance.
- 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. This work revealed that agreed actions had been substantially implemented by the time of the audit visit.

4. RECOMMENDATIONS

- 4.1** Members are asked to note the contents of the 2004/05 mid year progress report on Internal Audit plan achievement.

Colin Houston

Chief Auditor

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November 2004

LIST OF BACKGROUND PAPERS

CIPFA Code of Practice for Internal Audit in Local Government.

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

EAST AYRSHIRE COUNCIL

MID YEAR PROGRESS REPORT OF INTERNAL AUDIT 2004/05

Report by the Chief Auditor

1 PURPOSE OF REPORT

1.1 To summarise the activities of internal audit in six months ending 30 September 2004.

1.2 The annual assurance programme of work was set out in the 2004/05 Internal Audit Plan. The plan was presented to the Corporate Governance Committee on 31 March, 2004.

2 INTERNAL CONTROL ENVIRONMENT

2.1 The role of Internal Audit is key to providing comfort that the core elements of the internal control framework, within the Council's overall corporate governance arrangements, are adhered to.

2.2 In East Ayrshire Council, the Internal Audit Service independently reports to the Chief Executive, and to the corporate Governance Committee. The Internal Audit Service operates to the standards set out by the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

3 AUDIT APPROACH

3.1 Internal Audit consults widely with management during the audit planning process to identify critical systems, and will draw on the Council's risk management framework, as this develops, to help identify operational and financial risk areas for audit attention.

3.2 Internal Audit carries out a range of activities, across its client group, designed to meet the above objectives and provide best value services. The audit assurance programme includes: control environment work on financial systems, information and communications technology, contracts and locations; performance work on value for money and performance indicators; and contingencies to cover investigations, advisory and consultancy work.

3.3 All internal audit reports are brought to the attention of management and include appropriate recommendations. Following issue of each report, action plans are agreed to address areas for improvement and non-compliance with expected controls.

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, including specialist computer audit work. There has been some staff turnover in the first six months of this audit year, and this is being managed with a view to ensuring full audit plan achievement.

5 PLAN ACHIEVEMENT

5.1 Performance statistics have been collated from the audit management systems for the six months ending 30 September 2003, and these reveal that twenty-three audit assignment reports were issued in the period, and seven assignments are in progress at the time of reporting.

5.2 In overall performance terms, the section is operating close to plan levels. All priority audit assignments, in particular plan work on core systems, should be completed within the audit year, subject to no further significant unplanned work emerging.

6 PLAN COVERAGE

6.1 The mid year report is primarily designed to direct attention to audit activity in the six months ending 30 September 2004.

6.2 The findings arising from all audit assignments completed in the six months ending 30 September 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.

6.3 Internal Audit routinely undertake follow-up work on all major audit assignments in order to assess progress on the implementation of audit recommendations.

6.4 The mid year report considers aspects of the internal control environment in the following areas:

- ◆ systems
- ◆ information and communications technology
- ◆ contract
- ◆ value for money.
- ◆ performance indicators
- ◆ investigations
- ◆ follow-up

SYSTEMS AUDIT

6.5 The section completed nine systems audit assignments in the six months to 30 September 2004, and six follow-up audits of recent systems assignments.

6.6 In the period, audit assignments were carried out on core financial systems, including aspects of payroll and benefits systems. The benefits audit identified the potential to strengthen performance and quality assurance measures in a range of areas, including procedural documentation and staff training, supervisor scrutiny, general processing, write-offs, and monitoring of recovery. The payroll review identified a number of areas for improvement including payroll processing and segregation of duties. Agreed action plans are in place to address the control issues identified.

6.7 In Educational and Social Services assignments were carried out across a range of activities including homecare and personnel practices. A review of security and reference checking for staff working with children and vulnerable adults in Education and Social work services, and fall within the scope of the Rehabilitation of Offenders Act 1974 (Exceptions) Order 1975, was undertaken. The audit found that arrangements are in place to obtain Disclosure Scotland checks for new staff appointed to excepted posts, but no arrangements in place to disclosure check employees already in post. Internal Audit has also completed a system review of homecare and direct payments, and identified issues in regard to monitoring arrangements and payment performance. Agreed action plans are in place to address all areas for improvement.

6.8 The Ayrshire Joint Valuation Board (AJVB) operates out of South Ayrshire Council, but also serves North and East Ayrshire Councils. The AJVB maintains the valuation roll for domestic and non-domestic properties within the all Ayrshire boundary. The valuation roll interfaces with council tax and non-domestic rates systems in each council area. South Ayrshire Council carried out an audit assignment on the AJVB in the early part of this audit year, and has provided East and North Ayrshire Councils with an audit report containing the findings of the audit. The audit review covered non-domestic properties. The audit conclusions, drawn from the tests conducted, are that all three Ayrshire Councils can place reliance on the accuracy of data received from the AJVB. East Ayrshire Internal Audit is happy to place reliance on the work of the South Ayrshire auditors, and has passed the report to our Executive Head of Finance for his information.

6.9 Audit work was carried out in games and community halls, legal services and local offices. The games/community hall assignment looked at billing, collection, receipting and banking of fees and charges. Also in Neighbourhood Services, Internal Audit has provided local offices with a self-assessment tool and has completed the review of the self-assessments returned by local offices. The purpose of the assignment was to provide the

local offices with a tool that will help staff to review and improve internal controls. In Corporate Support audit staff carried out a review of the control systems covering collection and remittance of income received by Legal Services. Agreed action plans are in place to address all areas for improvement.

6.10 In addition to systems assignments Internal Audit also completed grant claim work on the Strathclyde Safety Camera Partnership. Internal Audit has verified the financial information in relation to the 2003/2004 financial return for the Safety Camera Programme and no significant issues were found.

INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT)

6.11 Internal Audit has completed an assignment to review logical access controls in information systems used by the Benefits Section covering Civica benefits system servers and email. An agreed action plan is in place to address the control issues identified.

6.12 Internal Audit has undertaken a follow-up audit of the "Social Work Information Systems – Logical Access" assignment report issued in March 2003.

CONTRACT AUDIT

6.13 Internal Audit has completed an audit of the internal control systems used to monitor, certify and make contract payments within the Roads and Transport Division of the Department of Development and Property Services. The audit identified a number of areas for improvement in relation to adherence to standing orders, contract files and certification of payments. An agreed action plan is in place to address all areas for improvement.

VALUE FOR MONEY AUDIT

6.14 Internal Audit has conducted a value for money study of mobile phone arrangements within the Council. The audit found that 93% of the mobile phone services purchased by the Council are provided by Vodafone. Most of the individual contracts with Vodafone are included in a Framework Agreement. The tariff charged by the service provider under this agreement (Government Saver Tariff) is the most competitive available to the Council. A number of recommendations have been made in the areas of procedural guidance, coding of expenditure and disposal of old handsets. This report has been considered by the Corporate Management Team and action is now being taken in respect of the recommendations made.

PERFORMANCE INDICATORS AUDIT

6.15 There are sixty four performance indicators for 2003/2004 spread across all services and East Ayrshire Council is reporting on all indicators. Nineteen performance indicators were audited, nine by Internal Audit and ten by External Audit. All nine performance indicators tested by Internal Audit

were found to be reliable. Staff from External Audit completed their review of the indicators and no significant issues have been identified to date.

INVESTIGATIONS

6.16 There are two investigations in progress at the time of reporting, and the results of these will be included in the annual report for the year.

AUDIT FOLLOW UP

6.17 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. Seven audits were followed up in the year to date, and these revealed that agreed audit recommendations had been substantially implemented by the time of follow-up review. The seven reports in question included 53 audit recommendations, and the auditors found that 44 recommendations had been fully implemented by the date of the follow-up audit visit, which is an implementation rating of 83%.

6.18 Where audit recommendations have not been fully implemented the further action required has been brought to the attention of the service for early implementation.

7 SUMMARY OF PERFORMANCE

7.1 This mid year report provides a summary of the activity of the Internal Audit Section in the six months to 30 September 2004.

7.2 Internal Audit carried out a review of several of the Council's main financial systems, including benefits and payroll, and a wide range of departmental systems during the first half of the audit year, including social work homecare services, personnel procedures for protecting children and vulnerable adults, games halls, legal income and local offices.

7.3 Internal Audit has also carried out work on a range of other activities, including computer audit, performance indicators, value for money and contract audit and made a number of audit recommendations designed to improve the robustness of these processes.

7.4 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.

7.5 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 brought to the attention of the service.

7.6 All priority audit assignments, in particular plan work on core systems, should be completed within the audit year, subject to no further significant unplanned work emerging.

Colin Houston
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