

ANGUS COUNCIL

AUDIT SUB-COMMITTEE – 20 October 2005

INTERNAL AUDIT REPORTS

REPORT BY ACTING DIRECTOR OF FINANCE

ABSTRACT

This report summarises the main findings of internal audit reports issued since the date of the last audit sub-committee.

1. RECOMMENDATIONS

It is recommended that the audit sub-committee:-

- a) Note the summaries of the audit reports and follow-ups
- b) Provide any commentary considered appropriate at this time
- c) Note the Chief Internal Auditor will bring back to future sub-committees update reports in relation to follow up audits including any outstanding actions

2. INTRODUCTION

Internal Audit issue a formal report for each audit undertaken as part of the annual audit plan. Each audit report contains an action plan which incorporates all the recommendations made. This action plan, prepared under SMART criteria is agreed with management who nominate persons responsible for taking forward the actions and who set their own completion date for each action. This agreed action plan forms an integral part of the final audit report.

3. AUDIT FOLLOW UP

As part of the ongoing audit process, internal audit review the implementation of the recommendations utilising the agreed action plan as the base for the follow up audit. A follow up audit report/memorandum is then issued to the client.

4. ROLE OF THE AUDIT SUB-COMMITTEE

Presented as part of this paper are summaries of the audit report findings which highlight the main areas arising. Full copies of the report are available from the Chief Internal Auditor, on request, to any member of this sub-committee.

The terms of reference of the sub-committee involve consideration of the summary reports. It is therefore recommended that, at this meeting, members note the content of the summaries, provide any commentary and note that the Chief Internal Auditor will provide update reports on follow up audits including any outstanding actions.

5. RANKING OF AUDIT RECOMMENDATIONS

Internal Audit recently introduced a system of ranking of audit report recommendations to indicate to the auditee the level of materiality of each of the recommendations. The following rankings were agreed with the Chief Officers Management Team:-

Level 1	Recommendations considered by Internal Audit to be of a fundamental nature which require to be considered by the Department Head and taken forward as a matter of urgency
Level 2	Significant recommendations requiring consideration by the Head of Service and taken forward as a matter of importance
Level 3	Less significant matters which do not require urgent attention but which should be followed up within a reasonable timescale

Where available, the recommendation ranking level has been indicated on the proforma.

6. FINANCIAL IMPLICATIONS

There are no financial implications arising directly from this report.

7. HUMAN RIGHTS IMPLICATIONS

There are no Human Rights implications arising directly from this report.

8. CONSULTATION

The Chief Executive, Director of Law and Administration and, where applicable, Directors of the relevant departments with audit summaries within this report have been consulted in the preparation of this report.

Colin McMahon
Acting Director of Finance

NOTE: No background papers, as defined by Sections 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information), were relied on to any material extent in preparing this report.

JW
26/9/05



Audit & Risk Section

Internal Audit Report Summaries

Audit Sub-Committee

20 October 2005

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Audit & Risk Section Summary Results of Audit Reports Issued Audit Sub-Committee 20 October 2005

The following audit reports have been finalised since the last Audit Sub-Committee. The main findings and recommendations are summarised, with copies of the full reports available on request from the Chief Internal Auditor.

Unless specifically stated, the SMART action plans have been agreed with management

Systems Audits			
Audit Report	Department	Audit Title	Conclusions
04/37	Finance Revenues	Scottish Water Collections	The results of the audit led to the conclusion that the audit objectives have been met, with no material weaknesses in the control environment identified.
04/29	Finance	Debtors & Debt Management	<p>The audit identified a number of areas where good practice existed including weekly sales ledger reconciliations and a defined follow up policy.</p> <p>Three more material areas of improvement were identified:-</p> <ul style="list-style-type: none"> • The reconciliation of sales ledger to general ledger contains a figure of £107,083.62 identified in the control report cross check as a difference. This figure had been carried forward for a number of years and the documentation in explanation had been misplaced at the time of the audit. However an upgrade to the software has now resolved the issue. • The raising of credit notes by the same member of staff who had raised the original invoice weakens internal control. Departments should undertake to scrutinise and sign off the report of credit notes raised as issued by Financial Services to minimise the risk of the raising of inappropriate credit notes where it is not possible to apply a clear segregation of duties. • Financial Regulations require that invoices be issued timeously after supply of service. A number of substantial time delays between date of supply and issue of invoices were noted.



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04/08	Leisure Services	Grounds Maintenance	<p>The audit identified areas of good practice exist in relation to the financial monitoring of the ground maintenance operations function within Leisure Services including regular meetings held between ground operations officers to discuss issues arising and consider budget monitoring information.</p> <p>The audit found that, in general, the framework and procedures for budget monitoring within the Ground Operations section are adequate, however they require to be drawn together as an effective management tool to improve and enhance the existing internal control environment. Within the budget monitoring framework there are a few areas which require to be addressed specifically :</p> <ul style="list-style-type: none"> • a formal system of highlighting variances to managers with a subsequent review of action to ensure that variances are monitored effectively should be introduced. • the various systems in operation should be reviewed with a view to drawing all the information together into one financial statement for management. • Regular reconciliations require to be completed between the spreadsheets maintained in the Ground Operations section and Integra. <p>Additionally it is recommended that the necessity for completing the valuation be reviewed and other measures of efficiency considered. This could be considered within the context of the further phases of the Best Value review.</p>
04/56	Finance	Statutory Returns	<p>The procedures in relation to managing and completing statutory returns are generally satisfactory although a few areas require to be addressed to improve the control environment:-</p> <ul style="list-style-type: none"> • the introduction of a log for each return to monitor the progress of the return and ensure compliance with pre-determined deadlines. • evidence to be held in the working file verifying that the information on the return has been checked and agreed. • A signed copy of the return to be held in the working files and the relevant central file. • Management to review the need for a master database that would record all returns to be completed and their responsible officer.



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Regularity Audits			
Audit Report	Department	Audit Title	Conclusions
04/52	Property Services	Creditors	<p>While a number of areas of good practice were identified, recommendations were made in relation to:-</p> <ul style="list-style-type: none"> • the updating of the authorised signatory lists • use of the standard Angus Council Integra stamp • ensuring adequate segregation of duties is applied at all stages of the process. • Ensuring invoices processed through Archimedes are paid within the normal 30 day credit period, as specified in the Late Payments of Commercial Debts (Interests) Act 1998.
04/49	Education	Montrose Academy	<p>Areas of good practice were found in relation to the financial arrangements although a number of improvement areas were recommended including:-</p> <ul style="list-style-type: none"> • Review of petty cash procedures. • School Trip records to be updated timeously on receipt of cash. • If separate bank accounts continue to be held for school trips they will require to have formal year end accounts produced, and these should be subject to audit. • Adherence to controls in relation to the ordering of goods and services requires to be improved. • Inventory records to be reviewed and modified to contain full and complete information on each asset. • The original copy of the audited School Fund accounts for 2002-2003 should be retrieved from the archive and passed to Internal Audit, and arrangements made for the audit of the 2003-2004 accounts.



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04/57	Social Work & Health	Rosehill Resource Centre	<p>A number of areas of good practice were identified during the audit including sound cash security arrangements and a management committee and constitution supporting the comfort fund. Improvement areas were also identified including:-</p> <ul style="list-style-type: none"> • A need to adhere to segregation of duties in respect of the ordering of goods and services. • A copy of the Financial Regulations be made available to the centre • Annual accounts to be prepared for the Comfort Fund following the format contained in the Social Work Administration manual.
04/44	Finance	Payroll	<p>The procedures in relation to completion and processing of core payroll records for the three departments checked were found to be satisfactory. Improvement recommendations were made in relation to:-</p> <ul style="list-style-type: none"> • Application and backdating to October 2003 of the increase to first aiders allowance • Education department to ensure that timesheets are attached to memos when they are requesting enhancements. • Receipt of written confirmation from Personnel of the bonus rates to be paid to building cleaning supervisors and engineering craftsmen. • Management to review the design of payroll request forms including timesheets.
05/03	Housing	Cash Collections	<p>This audit concentrated on the daily cash collections within the Housing/Access offices and the objectives of the audit were met. However, it was noted that two of the recommendations that were highlighted in previous audit reports 04/18 and 03/34 have not been implemented. One related to a shortage at an ACCESS office and one in relation to a review of petty cash imprest.</p>



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05/13	Leisure Services	Lochside Leisure Centre	The audit recommended that payroll processes be reviewed with all forms cross-checked prior to being sent to the Payroll Section for processing to ensure there are no over or underpayments made. Additionally, despite being recommended in report 04/42, an up to date authorised signatory list has not been provided by Leisure Services to Finance.
05/14	Leisure Services	Saltire Leisure Centre	Three more material areas of improvement were highlighted within the audit:- <ul style="list-style-type: none"> ▪ To ensure there is no further recurrence of invoices being missed during payment processing, headquarters staff should discontinue the practice of stapling more than one invoice together in respect of the same order. ▪ Invoices received for part orders should be passed for payment timeously, and on no account should invoices be 'held' if goods have been received. This point was raised in a previous Leisure Centre Audit (04/35) where it was recommended this practice cease. ▪ Current authorised signatory lists to be made available to both Financial Services and Internal Audit as a matter of urgency.
05/02	Education	Carlogie PS	Areas of good practice were identified during the audit. There were, however, a number of improvement areas which require to be addressed including:- <ul style="list-style-type: none"> ▪ A formal committee to be elected to manage the School Fund, with a written constitution prepared to suit the operational needs of the Fund. ▪ The production of audited year-end accounts in respect of both the main School Fund, School Trip accounts and the Nursery Unit. ▪ Bank reconciliations in respect of all Funds to be prepared, checked, and signed by an independent member of staff. ▪ As previously recommended in report 98/43, appropriate records be implemented and maintained to record all Angus Council equipment.



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05/05	Education	Inverbrothock PS	<p>A number of areas of good practice were identified and the following more material improvement areas recommended:-</p> <ul style="list-style-type: none"> • A formal committee to be elected and regular meetings held to manage the School Fund. A written constitution in support of the committee should be prepared to suit the operational needs of the Fund. ▪ Monthly bank reconciliations currently prepared for the School Fund should be signed as checked by an appropriately authorised member of staff. ▪ Internal controls for ordering and certification should be fully complied with. ▪ Cash security issues within the nursery require to be addressed
Contract Audit			
Audit Report	Department	Audit Title	Conclusions
04/33	Corporate	Tendering & Contracts	<p>Audit results indicate that the control environment within which the system operates, if followed, is fit for purpose. However, it was found that there was a need for more priority to be given to the preparation of Final Accounts in a timeous manner. The results highlighted a number of areas of late issue of Final Certificates. eg Southmuir/Websters High School as well as late issue of the Maintenance Certificate for the Monifieth Seafront. Additionally the Final Account for the Reid Hall, Forfar project remains to be finalised and as such is out with the terms of the contract for final settlement.</p> <p>Recommendations were also made in relation to cost plus record sheets as well as Daywork rates and percentages being applied consistently.</p> <p>A few outstanding Level 1 recommendation from the original Tendering –Final Accounts audit report still required to be addressed at the date of the audit</p>



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Computer Audit			
Audit Report	Department	Audit Title	Conclusions
05/09	Environment & Consumer Protection	Flare Application	<p>Areas of good practice were identified in relation to the computer system including the existence of an audit log and the Flare system included in the departmental business continuity plan. There were a few more material areas of improvement recommended:-</p> <ul style="list-style-type: none"> • The password control function in the system should be amended to force the user to change their password on a regular basis, e.g. 90 days and to prevent users re-using passwords within a set period. • Amendments to users and security levels should be formally requested by managers in writing. • Back up tapes should be held at a different location than the server. • An archiving policy must be developed and data should be archived regularly to maintain the integrity of system.

Follow Up Audits			
Audit Report	Department	Audit Title	Conclusions
04/47	Law & Admin	Hospitality Register	The results of the follow up audit indicate that the action points in the original report have been discharged, with only two further recommendations made on an updating basis.
04/48	Planning & Tsprt	Improvement and Repairs Grants	The results of the follow up audit indicate that the vast majority of the action points have been addressed with only two level 2 and two level 3 recommendations not discharged at the date of the audit.



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04/55	Roads	Budgetary Control	<p>The results of the follow up audit indicate that six of the ten action points had been completed in full. Of the recommendations that were not completed, some preliminary work had been carried out for each.</p> <p>One of the more material recommendations in the original report was that a formal reconciliation be carried out on a monthly basis between the Integra and RPM systems. It is noted that the Roads department have contacted Financial Services but not yet formally agreed what is required for the reconciliation. It was recommended this be given priority.</p>
04/53	Planning & Tsprt	Transport & HQ Creditors	<p>The results of the follow up audit indicate that the majority of the agreed action points have been completed and that staff were given guidance on the issues that were required to be addressed to enhance the internal controls in place. However, it was noted during audit testing that one of the recommendations relating to the completion of the bottom grid on order forms by the Transport Team has not been implemented.</p> <p>New areas were identified during the follow up that require to be addressed in order to strengthen the controls already in place. These areas relate to segregation of duties in the ordering, checking and authorisation of invoices at Planning HQ and the requirement for the Transport Team to attach the second copy of the order form to the payment document where applicable and review old orders that are not fulfilled.</p>
05/15	Education	Technician 2 nd Follow Up	<p>Significant progress had been made since the completion of the initial follow up audit, with all nine of the recommendations implemented in a satisfactory manner. As a result there were no outstanding issues that require to be taken forward for inclusion in a formal action plan.</p>