

**ANGUS COUNCIL**

**AUDIT SUB-COMMITTEE – 16 June 2005**

**INTERNAL AUDIT REPORTS**

**REPORT BY 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.

David S Sawers  
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  
30/05/05



## **Audit & Risk Section**

### **Internal Audit Report Summaries**

#### **Audit Sub-Committee**

**16 June 2005**

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## Audit & Risk Section Summary Results of Audit Reports Issued Audit Sub-Committee 16 June 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

<b>Systems Audits</b>			
<b>Audit Report</b>	<b>Department</b>	<b>Audit Title</b>	<b>Conclusions</b>
04/14	Corporate/Property Services	Asset Management	<p>The results of the audit indicated there is no strategic policy in relation to Asset Management and an Asset Management Plan has not yet been developed although there has been substantial progress in relation to condition surveys and Education have developed a "Schools Estates Strategy". It was recommended that:-</p> <ul style="list-style-type: none"><li>a) The Director of Property Services prepare the Corporate Asset Management Plan in the style of the model recommended by the Consortium of Local Authorities in Wales. A SMART action plan should be developed to facilitate this which takes account of the actions still to be progressed in relation to committee report 1365/01 and the results of this audit. Although asset management planning is at different stages in relation to Property, IT and Roads issues it is important that this is taken forward in a cohesive manner in terms of the discussions held at the Capital Budget Sub-Group and the overarching plan developed in conjunction with the Directors of Information Technology and Roads.</li><li>b) Clear linkages be developed between Council strategy, the Corporate Asset Management Plan, Departmental Service Plans and decisions made under the Prudential Code.</li></ul>



**Audit & Risk Section**  
**Summary Results of Audit Reports Issued**  
**Audit Sub-Committee 16 June 2005**

04/26	Housing	Budgeting	<p>The results of the audit indicate that while a framework for budget preparation and monitoring is in place in the department, the lack of formal reconciliation between the Council's financial system and the approved Final Budget for 2004/2005 significantly weakens the internal control environment within which Housing operates its budget monitoring. This is highlighted by the unidentified variance in the current year of £87,000 between the ledger and the final agreed budget for the Housing Revenue Account (HRA), effectively leaving Housing monitoring against a budget at variance with the Final Budget Volume. This leaves a residual risk of an adverse impact on the detail of the budget build-up for 2005/2006, although it is understood that Financial Services will ensure the bottom-line HRA budget for 2005/2006 will be correctly reported to Committee.</p> <p>A number of other areas of improvement were identified that require to be addressed to improve and enhance the existing internal control environment. In particular:</p> <ul style="list-style-type: none"><li>a) Formal reconciliations should be carried out at each stage of the budget process to ensure budget working papers are accurate. The standard of working papers within the department relating to the build up of the draft budget require substantial improvement.</li><li>b) The budget adjustments required in Integra to reconcile the HRA (£87K) and Housing Management Account (£5.5K) to the 2004/2005 Final Budget Volume should be identified and actioned immediately.</li><li>c) The format specified within the budget guidance for the preparation of the staff costs budget should be adopted by the Housing Department to provide a clear system and audit trail to assist the budget preparation process.</li><li>d) A formal review process should be adopted with budget holders to ensure that any variances identified are addressed and action taken where appropriate.</li><li>e) Formal budget monitoring reports should be submitted to the Housing Management team, rather than the current verbal update.</li></ul>
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## Audit & Risk Section Summary Results of Audit Reports Issued Audit Sub-Committee 16 June 2005

04/30	Environment	Fleet Services	<p>An audit of both the financial systems and an application audit of the Roadbase computer system was conducted in fleet services.</p> <p>The results of the audit indicate that steps have been taken to address a number of the control weaknesses identified in report 03/56 and a number of areas of good practice exist in relation to the operation of Fleet Services including development of Roadbase, the existence of servicing schedules exist for all Council vehicles and development of weekly operational meetings between the Fleet Manager and his staff. It is also noted that significant financial resources have been directed towards Fleet Services to alter and refurbish the premises.</p> <p>It is recognised that the Fleet Services Manager has been proactive in addressing issues brought to his attention during the course of this current audit and previous audits and while progress has been made in strengthening the internal control environment a number of weakness have been identified which require to be addressed. The more significant of these are: -</p> <ul style="list-style-type: none"><li>a) Access controls to the Roadbase system fall short of required standard and discussions will require to be held with the supplier to address a number of areas. On receipt of a response from the suppliers, the department should conduct a risk assessment of any outstanding areas which cannot be amended and consider compensatory controls.</li><li>b) Timesheet information entered into Roadbase cannot be verified to timesheets as amendments are made to time allocated to jobs and no audit trail is maintained.</li><li>c) There is a lack of knowledge and expertise on the part of users of the Roadbase system which is the result of a lack of training and procedural guidance notes for key processes involving the Roadbase system.</li><li>d) No authorised signatory list exists for the payment of invoices and orders have been authorised by a signatory where the value exceeds their authorisation limit.</li></ul>
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## Audit & Risk Section Summary Results of Audit Reports Issued Audit Sub-Committee 16 June 2005

			<p>e) The tendering process has been reviewed since the completion of report 03/56, however the procedures still fail to fully comply with the Council's Financial Regulations, for example:</p> <ul style="list-style-type: none"><li>• Two of the three tenders in excess of £30K checked were accepted by the Director of Environment and Consumer Protection, not the Director of Law and Administration</li><li>• Orders were raised against two of the above tenders prior to committee approval</li><li>• The label on one of the envelopes identified the contractor</li></ul> <p>f) Monthly recharges to client departments are not performed timeously and supporting documentation is not retained on file for future reference.</p> <p>g) Formal reconciliation's are not completed between the source documents and the actual recharges raised by either the VHC or the VW.</p> <p>h) The information in relation to the vehicles held per the Roadbase system and the information detailed on the annual recharge spreadsheets prepared by the departmental accountant within Financial Services do not agree.</p> <p>i) The Fleet Services Manager has no formal financial training and additional budget monitoring information prepared by the Fleet Services Manager is not reconciled to the Council's corporate financial system, Integra.</p> <p>j) The information on one job card within the sample had been deleted, with no reason available for the deletion. This is potentially a significant control weakness which would have at least been partially explained had the audit log function been fully implemented and reviewed.</p> <p>A number of areas identified in the post investigation report 03/56 have not been fully addressed and that Management have failed to provide staff with the training necessary to ensure that they are fully equipped to discharge their duties. Notwithstanding the Fleet Services Manager's commitment to addressing issues, it is essential that a structured approach is adopted to ensure that all control weaknesses are dealt with appropriately and adequately.</p>
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## Audit & Risk Section Summary Results of Audit Reports Issued Audit Sub-Committee 16 June 2005

04/34	Finance Revenues	Community Charge	Angus continues to recover outstanding Community Charge debt, with all such debt now under summary warrant. An overview systems audit was conducted covering amendments, write-offs and arrears. The audit concluded the control environment was sound.
04/43	Leisure Services	Hall Lets	<p>In general, the framework and procedures for administering the hall lets is adequate, however a number of areas require to be addressed to enhance the existing control framework. In particular:</p> <ul style="list-style-type: none"><li>• Delays in raising invoices to the customers following completion of the let resulted in more than 40% of the invoices sampled taking more than 60 days to be raised following completion of the let. Invoices should be raised within 30 days of the end of the month in which the let was held, in line with Cultural Services informal policy. These delays were discussed with Cultural Services who have subsequently reallocated resources and duties within the section to address the issues.</li><li>• Segregation of duties should apply at all stages of the letting process to ensure the integrity of the process.</li><li>• To minimise processing times, the input of individual lines into Integra should be summarised, especially where the individual elements of the let are identical.</li></ul> <p>In addition, it was noted that a number of lets held at the Arbroath Community Centre have not been charged to the customer. This was due to administrative errors caused by the difficulties in segregating duties within a small, largely part-time staff and the need to change from a manual letting system to the online Artifax system when the management of the Arbroath Community Centre was passed to Cultural Services in April 2004.</p>





**Audit & Risk Section**  
**Summary Results of Audit Reports Issued**  
**Audit Sub-Committee 16 June 2005**

Regularity Audits			
Audit Report	Department	Audit Title	Conclusions
04/31	Finance	Expense Claim Forms	<p>The test results lead me to conclude that, in the main, the procedures for the payment of travel and subsistence claims are satisfactory. However, ongoing compliance issues remain in relation to:-</p> <ul style="list-style-type: none"> <li>a) the requirement of staff to detail journeys in full, include journey times, journey purpose, deduct home to base mileage if the journey starts or finishes at home and ensure there is a start / finish point entered.</li> <li>b) officers responsible for signing the form as 'checked by' need to ensure that full details are entered for each journey claimed, all totals are arithmetically correct, and each part / section of the form has been completed in full. In addition, 'authorised signatories' passing expense claims for payment, should satisfy themselves that expenses incurred are legitimate, necessary, and that the total mileage claimed is considered 'reasonable' for journeys detailed.</li> </ul> <p>Although a number of reminders have been issued to ensure full and proper completion of claim forms, and appropriate guidance is available, there still appears to be either a lack of understanding on the part of the employee completing the claim, or insufficient care taken to ensure completeness of claims submitted. The Payroll Section conducted a full check on one month's forms which resulted in a sizeable amount of forms being returned to the claimant for correction. This exercise is commended and it is recommended that it is continued periodically on a sample basis. This should assist in reducing the compliance errors evidenced in this, and previous audits.</p>



**Audit & Risk Section**  
**Summary Results of Audit Reports Issued**  
**Audit Sub-Committee 16 June 2005**

04/41	Social Work	The Firs – Residential Unit	<p>Although The Firs is a small residential unit, areas of good practice were identified during the course of the audit, including a high standard of security for holding cash and appropriate management of the petty cash fund. The more material areas recommended included:-</p> <ul style="list-style-type: none"> <li>a) Maintenance of more detailed documentation to substantiate employee hours worked and paid,</li> <li>b) Actual shift hours to be added to the staff rota sheets to ensure that hours worked can be ascertained.</li> </ul>
04/42	Leisure Services	Montrose Swimming Pool	<p>A number of areas of control weakness were identified in relation to this facility. This was the last of a suite of audits conducted in the leisure facilities and the common areas arising from this and the other facility audits were considered at the previous Audit Sub-Committee.</p>
04/45	Education	Carnoustie High School	<p>A number of areas were found during the course of the audit which require to be addressed to enhance the control environment. The more material of these include:-</p> <ul style="list-style-type: none"> <li>a) Adherence to controls in relation to ordering of goods and services requires to be improved.</li> <li>b) Staff need to obtain identification prior to granting admission to unknown visitors to the school.</li> <li>c) Monthly bank reconciliations require to be prepared and checked by an appropriate member of staff for both the Petty Cash and School Fund accounts.</li> <li>d) Formal year end accounts require to be produced for the School Fund, and these need to be subject to audit.</li> <li>e) Records relating to private photocopying require to be introduced.</li> </ul> <p>The requirement for audited year end accounts and private photocopying records were brought to the attention of management in a previous audit of the school conducted in 1998. These recommendations still remain outstanding.</p>



**Audit & Risk Section**  
**Summary Results of Audit Reports Issued**  
**Audit Sub-Committee 16 June 2005**

<b>Contract Audit</b>			
<b>Audit Report</b>	<b>Department</b>	<b>Audit Title</b>	<b>Conclusions</b>
04/03	Housing	Capital Programme	The main recommendations of the audit related to the need to conduct elemental cost comparisons between projects to ensure value for money and the need for greater transparency in cost monitoring as projects are being developed. The audit also followed up the recommendations of a previous audit in 2001 and found that of the 6 level one recommendations 4 had been completed, 1 partly completed and one remained to be addressed.
04/17	Property/Corporate	Project Management	Only two recommendations of a more material nature were made, relating to the need for each capital project to have a designated accountable manager appointed at the earliest possible point in the life cycle of the project and a requirement for project briefs to be signed off by the client department.

<b>Follow Up Audits</b>			
<b>Audit Report</b>	<b>Department</b>	<b>Audit Title</b>	<b>Conclusions</b>
04/16	Property Services	Estates Management	The results of the follow up audit indicate that the vast majority of the action points have been addressed with only two level 3 recommendations not fully addressed but in the process of completion.



## Audit & Risk Section

### Summary Results of Audit Reports Issued

#### Audit Sub-Committee 16 June 2005

04/38	Education	Phoenix Software Application	<p>The results of the audit indicated that limited progress had been made in relation to implementing the recommendations in the agreed Action Plan. Of the 14 recommendations contained in the original Action Plan, 5 have been fully completed and 4 have been completed in part by some of the schools, but not others. A further 3 recommendations have not been actioned by the schools, although guidance regarding these recommendations was issued by Education Department HQ staff following the finalisation of the original audit report. The issues not yet addressed are outlined below:</p> <ul style="list-style-type: none"> <li>a) A standard pro-forma for the entry of data and information to the system has not been developed and implemented across the schools. However, it was noted that a number of the pro-forma in existence had been amended to reflect the need to record additional information.</li> <li>b) The user names have not been changed to at least 6 characters in length to reflect best practice.</li> <li>c) The 'Admin' user log is still being shared between staff with most schools having 2 users who have access to the 'Admin' user login and password.</li> </ul> <p>Of the remaining 2 recommendations, one recommendation, relating to the completion of a formal record of the number of records which became corrupted during the conversion process, has not been implemented. Audit was informed this is due mainly to the time and resources involved in having to amend the corrupted data and record details of the corrupted record separately. This area is not considered to represent a material risk.</p> <p>The other recommendation, relating to the re-configuring of the Phoenix Gold system in relation to the ability of the Systems Administrators to know other user's passwords was not able to be actioned by the supplier, although the supplier has intimated that this will be considered for the upgraded web version.</p>
04/54	Corporate	Public Pound	The results of the audit indicated that the action plan had been fully discharged.