Internal Audit Update Report

Scrutiny & Audit Committee – 11 March 2014

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Introduction

This report presents the progress of internal audit activity within the Council up to 7 February 2014. This report provides:

- an update on progress with the 2013/14 Internal Audit Plan;
- summary findings and recommendations of those reports issued since the last Scrutiny and Audit Committee meeting (full copies of the Internal Audit reports are available to members on request); and
- an update on investigation work conducted by Internal Audit since 1 November 2013.

Audit Plan Progress Report

2013/14 Internal Audit Plan

Eleven audits have been completed. The dates when reported to Committee are in brackets.

- 2012/13 Corporate Governance (June 2013).
- Year-end stock counts (August 2013)
- Self Directed Support (January 2014)
- LEADER (January 2014)
- European Fisheries Fund (January 2014)
- Collaborative and Joint Arrangements – Angus Care and Repair (January 2014)
- Budget Monitoring
- Income Management
- School Catering
- Carbon Reduction
- Corporate Governance – Interim

Summaries of the more material audit findings are provided in the Summary Findings of Internal Reports section of this report, starting on page 3.

Three audits are in course:

- Welfare Reform
- High Value Placements
- Protection of Vulnerable Groups (PVG)

Three audits are currently undergoing internal review:

- Email Accounts
- Data Protection
- Landfill Tax

Two audits are at draft report stage

- Creditors (non-PECOS ordering)
- Equalities

Briefs have been agreed for three further audits, General Fund Capital Programme, Contract Register Compliance and HUBCO.

Summary Findings of Internal Audit Reports

This section provides a summary of the more material findings of audit reports issued since the last meeting. It also provides information on the number of recommendations made within each report. Recommendations are ranked in relation to importance, with level 1 being the most material. Discharge of recommendations is followed up by Internal Audit and reported to this committee.

Members are asked to consider the following summaries and provide any commentary thereon.

Budget Monitoring

Level 1	**0**	Level 2	**2**	Level 3	**2**

The Council's total revenue expenditure, excluding that expenditure relating to the Housing Revenue Account (HRA), is charged to the General Fund. The net expenditure on the General Fund after allowing for recharge income, government grants and revenue balances has to be met by the Council Tax. Council housing expenditure is recovered by way of rents from Council House tenants through the HRA.

The Angus Council Financial Regulations state that the primary responsibility for detailed monitoring and control of cash limited revenue budgets lies with each Chief Officer. Services must contain their expenditure within the budget set for a particular financial year.

The overall objective of our audit was to ensure that robust budget monitoring procedures have been in place across all Services during the first six months of 2013/14.

The results of the audit have identified areas of good practice including:

- Budget holders were happy with the service they received from Finance.
- Social Work and Health produced comprehensive Budget Management Guidelines for 2013/14. These defined a significant variance as an under or overspend of greater than £10,000 or in excess of 20% of the budget, whichever is the lower.

Four less material weaknesses were identified during the course of our audit work. These included the production of comprehensive budget management guidelines for budget holders, using the Social Work and Health one as a basis. A definition of significant budget variances should also be defined within each Service.

Income Management

Level 1	**0**	Level 2	**3**	Level 3	**0**

The main Council system for managing income collected across the range of Council outlets had remained largely unchanged for many years and was centred around a database system developed in-house. The system was heavily dependent on manual input, was viewed as inefficient and was not capable of providing good quality management information. The

Corporate Services Committee authorised the procurement of an Income Management system in September 2011 (Report 595/11 refers).

The Axis Income Management (AIM) System was implemented, initially within a test environment, in October 2012 before going live in February 2013. The system is being rolled out in phases. The first phase was to replace the in-house database system with the AIM.

The second phase, which is now in progress, includes a replacement programme intended to replace the stand-alone credit/debit card processing systems utilising the integrated approach available via AIM. At this point, the aim is to replace the systems on a like for like basis so that the same level of service is being offered.

The main focus of the audit was to identify and assess the controls around the submission of income returns.

There are a number of areas which have already been identified, where the new AIM is not meeting the required system specification. Staff are working with the supplier to resolve these. Three less material recommendations resulted from our audit work, two of which were primarily related to the resolution of system issues.

Carbon Reduction

Level 1	**0**	Level 2	**0**	Level 3	**1**

The Carbon Reduction Commitment (CRC) Energy Efficiency Scheme is a mandatory carbon emissions reduction scheme for the UK. It was introduced by the UK Government to help meet legally binding greenhouse gas reduction targets established by the Climate Change Act 2008.

The scheme is currently within Phase 1 which started on 1 April 2010 and runs until 31st March 2014. Phase 2, which starts on 1 April 2014 runs until 31 March 2019.

The CRC scheme requires that a periodic (Internal Audit) review of the internal procedures and quality check of the data is carried out. The overall objective of this audit was to ensure that the Council's Energy Management Unit are complying with the requirements of the CRC scheme.

The results of the audit have identified areas of good practice including:

- The establishment of the CRC Site Check Spreadsheet to confirm the accuracy of information produced by the dedicated software Carbon Counter.
- The review of estimated supplies so that, in future, actual meter readings are taken within the 183 days. This will result in the Council not having to uplift the estimated readings by an additional 10% which currently results in an increase purchase of allowances.

One low risk recommendation was identified from our audit work relating to the development of Council specific procedures.

School Catering

Level 1	5	Level 2	3	Level 3	0

School meals are provided in each Angus school. Pupils in primary schools will pre-order their meal from a set menu, having paid for the meal in advance unless they are entitled to a free school meal. The administration staff at primary schools are responsible for the administration of the school meal process which includes ordering the meals, recording free school meals and banking income.

Secondary schools operate a mixture of cashless payments where pupils have individual accounts to which they add credit through machines located in the dining area. At break and lunch periods the pupils then make their choices and at the point of sale either use a pin code, swipe card, or finger scan to pay for items from their account. Most secondary schools also have cash facilities where they offer a limited choice of items from cash trolleys, snack bars, and vending machines.

The Tayside Contracts Catering Staff in secondary schools are responsible for reconciling the cash collected, completing the sales and income returns and passing the sealed banking bags to the school administration office. Angus Council office staff will then complete the Councils E-Banking Return and pass the bank bags to janitorial staff to bank.

From the returns submitted Tayside Contracts will calculate the number of meals provided at primary schools, the meal equivalents from the sales made at secondary schools and invoice Angus Council accordingly. Invoices are sent on a monthly basis. Cash is banked in an Angus Council bank account but income is ultimately belongs to Tayside Contracts.

Our audit sought to gain assurance that there were effective controls in place for the provision of School Catering.

Five level 1 recommendations resulted from our audit work, many of which relate to the re-introduction of cash catering sales, without consideration of the controls required for accounting and recording income correctly within secondary schools. These main issues are:

- Where cash is collected, an appropriate point of sale system should be used which records the transaction being made and provides an audit trail as well as a suitable VAT record. Education/Tayside Contracts should ensure that pupil and adult sales which attract different VAT and price rates are correctly accounted for.

- Adequate supporting source documentation should be maintained for each cash outlet. Returns should be reviewed to ensure they are fit for purpose and identify the expected sales and actual sales thereby highlighting any discrepancies which may occur.

- The Education Department, in conjunction with Tayside Contracts, should investigate whether the current catering system can incorporate actual cash collected and declared cash collected sections for the manually input sales figures. The information presented on the Daily Report from the Cashless Catering System should also be reviewed to ensure it reflects all sources of income collected and recorded.

- Where differences are identified between expected and actual income these should be investigated and explained. If the difference is £20 or more, either over or short, then this should be reported to Audit in line with guidance previously issued to departments.

- Education should consider the impact of the current method of recharging for free school meals in secondary schools and discuss this with Tayside Contracts. The opportunity to account and invoice for free meals for secondary schools in the same manner as actual paid meals should be explored.

Corporate Governance – Interim

Level 1	**5**	Level 2	**0**	Level 3	**0**

A review of the governance arrangements of the Council has been carried out for a number of years as part of the annual audit plans. For the last few years this has been carried out in two parts; an interim review midway through the year and a year-end review in March / April. Both reviews assist in allowing Internal Audit to assess the arrangements in place for providing their independent opinion on the governance framework of the Council.

With the implementation of the Council's Management restructure taking place throughout 2013/14, the Corporate Governance Officers Group (CGOG) identified a number of potential risks directly associated with the restructure which could have a direct impact on the existing governance arrangements. An action plan was developed initially in February 2013 and was subsequently updated in July 2013.

The overall objective of the audit was to review compliance with expected good governance processes throughout the implementation of the Council's Management restructure during 2013/14. The audit focused on the following areas:-

- Directorate/Divisional Schemes of Delegation (Schemes of Delegation)
- Associated Authorised Signatory Lists
- Risk Registers
- Corporate Governance Action Plans for 2013/14

The first three areas were specifically selected in response to the Corporate Governance Officers Group (CGOG) identification of these as key risks arising from the planned management restructure which became effective from 1 April 2013. These areas are also important elements through which an organisation can demonstrate the effectiveness of its corporate governance arrangements. The corporate governance action plans are reviewed as a matter of course as part of our interim review.

Throughout the management restructure, the core corporate governance framework has remained in place with senior management and Committee meetings taking place as well as the Local Code of Corporate Governance continuing to apply. It is acknowledged that in February 2013, approval was given to an interim interpretation of the Standing Orders to ensure they reflected the new management structure from 1 April 2013.

It is recognised that the past 10 months has seen an unprecedented level of change in the Council's management structure and there has been significant change in senior management. Our review of those areas within the scope of this audit has identified that more could have been done since 1 April 2013 within some areas of the council to ensure compliance with the requirements for maintaining schemes of delegation and authorised signatory lists.

Our audit testing identified that there has been inconsistency across the Council in how these have been maintained. We noted that, in some areas, pre-1 April 2013 schemes of delegation and authorised signatory lists were, in essence, still in effect rather than them being updated to reflect the transitional arrangements. Whilst recognising that the adoption of these schemes of delegation and authorised signatory lists has, to a large extent, limited the risk exposure to the Council, ongoing maintenance of these would have provided improved clarity and transparency to inform decision making authority.

Our audit testing did not assess the impact of the inconsistencies on maintaining schemes of delegation other than in relation to authorisation of payments. Management has stated that staff across the Council have worked hard to ensure continuity of services, continued governance of the Council's finances and that elected members have been able to discharge their duties effectively. This was said to include significant work undertaken to recast the Council's entire budget (and associated actuals) midway through the year. This is felt to have mitigated a significant, broader governance risk. Our audit of budget management (report ref 13-15) has also provided assurance that there was adequate budget monitoring arrangements in place during the first six months of the financial year (the period covered by our audit testing).

Overall, Divisions within the Resources Directorate are further advanced in implementing arrangements with existing schemes of delegation in Legal and Democratic Services and IT both reflecting the current position. In addition, work is on-going in Corporate Improvement and Finance to have the scheme of delegation reflect the new Divisional structure.

Overall, there has been limited progress in implementing the identified actions from the Corporate Governance Action Plans which were developed as part of the self-assessment work carried out in March / April 2013. The actions for Resources as a whole are being managed through Covalent and progress has been made in taking these forward. However there has been limited progress for the People Directorate (Education and Social Work and Health). We were unable to assess progress within the Communities Directorate as action plans were not provided.

There has also been limited review and update of Divisional and Directorate risk registers across Directorates, with inconsistent arrangements for the review, update and reporting of risks. No information on Directorate risk registers were received from the Communities Directorate.

To ensure that the Directorates and Divisions are complying with the existing Corporate Governance Framework and to ensure that records are up to date and reflect existing structures, a number of recommendations have been made in the report. In particular:-

- Directorate / Divisional Schemes of Delegation are updated as soon as possible to reflect to reflect revised management structures and responsibilities associated with new posts.
- Directorate / Divisional authorised signatory lists are updated at the same time as Scheme of Delegations to reflect revised management structures and responsibilities associated with new posts.
- While Directorates and Divisions are in the course of updating and revising Schemes of Delegation and Authorised Signatory Lists, invoices which are received should be authorised in accordance with prevailing Schemes of Delegation.
- Directorates and Divisions with Corporate Governance Action Plans should fully complete the actions arising within them by 31 March 2014 to assist them in achieving their Corporate Governance requirements for the year and ensuring full compliance with the Local Code of Corporate Governance.
- Directorate and Divisional risk registers should be reviewed and revised prior to the end of the financial year to feed into the planned review of the risk management policy and strategy. Directorates and Divisions should ensure that any risks which are still “active” in relation to their service delivery are managed effectively. Similarly, any new risks identified should be recorded, evaluated and mitigating action implemented.

Investigations Activity – Update

At the November 2013 Scrutiny & Audit Committee, it was agreed that we would continue to provide updates to Members on a quarterly basis on our involvement in undertaking investigations.

Table 1, below, provides details of the number of investigations undertaken both last year and throughout 2013/14. It also provides details of the volume of resource spent by the Internal Audit team in undertaking investigations and the outcome of each of the investigations.

Table 1: Summary of Internal Audit involvement in investigations

Period	**Number of investigations initiated**	**Auditor Days supporting investigations**	**Outcome**				
			Insufficient information/ evidence to proceed	**Referred to Personnel for disciplinary purposes**	**Referred to Police**	**Internal report to management containing actions**	**Pending outcome**
2012/13	10	53	3	2	2	1	2
2013/14							
to Nov 13	6	29	1	1	1	-	3
to Jan 14	11	70	2	1	1	2	5

As stated in our update in November 2013, where an investigation does warrant a formal output and the issues are of a material nature, we will report the results of these to the Committee.