

THE HIGHLAND COUNCIL

Audit and Scrutiny Committee

Date: 1st October 2009

Agenda Item	2
Report No	AS/22/09

Internal Audit Reviews and Progress Report

Period: 7th August 2009 to 21st September 2009

Report by Head of Internal Audit & Risk Management

Summary

This report provides details of work in progress and other information relevant to the operation of the Internal Audit Section.

1. Final Reports

- 1.1 There have been two final reports issued in this period. Whilst only the Report Summaries and relevant Action Plans are attached for consideration by Members, it should be noted that full copies of reports are available if requested.

SERVICE	SUBJECT
Central Systems	General Ledger
Chief Executive's	Compliance with RIP(S)A – (Follow up)

2. Work in Progress

- 2.1 Planned work that is currently in progress and which will be the subject of a future report to this Committee is shown in the attached table.

As shown in the attached table, there are eleven draft reports which are currently in progress and one draft report has been issued.

- 2.2 During the period covered by this report the Section has also been involved in a variety of other work which is summarised below:

(i) Caithness Heat and Power (CHaP)

The Head of Internal Audit & Risk Management has predominantly been working on a review of the CHaP governance arrangements, as requested by the Highland Council at its meeting on 12th February 2009. The final report will be presented to a future Council meeting.

(ii) Irregularity/ Fraud Investigations

Four irregularity/ fraud investigations were carried over from last year and are being concluded. Once the relevant Police investigations and/ or internal disciplinary hearings have been completed, the appropriate system weaknesses

reports will be provided to Committee.

With regard to current year irregularity/ fraud investigations, these are summarised as follows:

- Financial mismanagement and/ or misappropriation of funds and equipment at a community centre.
- Misappropriation of income at a sports facility.
- Failure to disclose a partner living in household and declare their income.
- Irregular/ improper working practices in the receipting and accounting of income.

All irregularities/ frauds investigated will in due course be subject to written reports to this Committee highlighting and addressing the system weaknesses.

(iii) Review of Financial Regulations

The Head of Internal Audit & Risk Management and the Head of Accounting are responsible for ensuring that the Financial Regulations are updated on a regular basis. These are currently being reviewed and will be submitted to a future meeting of this Committee for consideration.

(iv) Computer Audit

In addition to the planned internal audit work for the Highland Council, the Computer Audit Team has been significantly involved in the ICT Re-procurement Project. The Computer Auditor is a member of the Project's Internal Quality Team (IQT) and has been active in organising and undertaking the IQT's activities such as reviews of project products and reporting to the Project Board. He has also been involved in setting up an Investment Decision Review for the Project.

The Team has also been called upon to provide advice on a variety of information security related controls. This has included the attendance at meetings held by the Information Management Corporate Improvement Project and the Encryption Pilot Project.

(v) Scrutiny

Now that the work on Caithness Heat & Power is substantially completed, work has recently commenced on scoping and planning the Scrutiny Review of the Efficiency Agenda within the Council.

(vi) Other

The Internal Audit Section provides a service to the three Joint Boards and time has been spent undertaking audits for the Assessors, Highlands and Islands Fire Service and Northern Constabulary. In addition, the Principal Auditor is part of an Education, Culture & Sport project team which meets on a monthly basis. The purpose of the project was reported to the Education, Culture & Sport Committee on 6th August 2009. A School Manual, which will replace the existing DSM manual, will be prepared which will outline all relevant governance issues relating to school-based activities. The results from the project will be reported back to this Committee in due course.

3. Staffing Issues

- 3.1 It was reported at the last meeting that following two attempts to fill the three vacancies within the Section; only one appointment had been made. In view of this, it was decided to seek the services of Recruitment Agencies, whilst still utilising the Council's advertising process through its internet site and establishing a closing date for applications. This resulted in the receipt of eleven applications from which a shortlist of six was established who all met the minimum criteria required for the posts in terms of qualification and experience. Interviews took place on 1st and 2nd September 2009 and two appointments were made.

Once the staff take up their posts, the Section will have a full complement of 10 staff (excluding the Head of Internal Audit & Risk Management) for the first time since March 2008.

Recommendation

Members are invited to consider the Final Reports referred to in Section 1.1 above and note the current work of the Internal Audit Section.

Signature:

Designation: Head of Internal Audit & Risk Management

Date: 22nd September 2009

Ref:

Background Papers

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Internal Audit – Planned Work in Progress

SERVICE	SUBJECT	PROGRESS
Chief Executive's	IT Networks *	Fieldwork in progress
Chief Executive's	Service Points – Income Systems	Draft report in progress
Chief Executive's	Corporate Governance *	Draft report issued
Chief Executive's	Energy Management (Follow Up)	Draft report in progress
Corporate	Inventory *	Draft report in progress
Corporate	Use of Consultants *	Draft report in progress
Corporate	Grant Income – (Follow Up) *	Draft report in progress
Corporate	Verification of Statutory Performance Indicators	Fieldwork completed
Education, Culture & Sport	Sports Facilities – Income Systems	Draft report in progress
Finance	Debtors	Draft report in progress
Finance	ECDM *	Draft report in progress
Finance	Revenue Budgetary Control *	Draft report in progress
Finance	Payroll – New Starts *	Draft report in progress
Finance	Procurement – Use of Pecos and Purchase Cards *	Draft report in progress
Social Work	CareFirst system *	Fieldwork in progress
Social Work	Catering (value for money) *	Fieldwork in progress
Social Work	Resource Transfer *	Fieldwork completed
Social Work	Visual Impairment Services Highland *	Fieldwork in progress
TEC Services	VFM Review of Grounds Maintenance Arrangements	Fieldwork in progress

Note: *: brought forward from 2008/09 tactical plan

AUDIT REPORT SUMMARY

Report Title

Central Systems - General Ledger, Feeder System Reconciliations

Report No.	Type of Audit	Issue Date	
HK11/009	Systems	Draft Report	11/09/09
		Final Report	22/09/09

1. Introduction

- 1.1 The purpose of this report is to record the findings of a recently completed audit of the General Ledger Feeder System Reconciliations. The audit was undertaken as part of the annual plan for 2008/09.
- 1.2 A feeder system is a system which transfers financial information to the general ledger via an interface program from a different system. This audit focused on the Service Finance Team (Central Services) and Exchequer Support Team who between them undertake twenty five feeder systems reconciliations. Most of these feeder systems are reconciled on a monthly basis, with Accounts Payables reconciled daily and the rest on a quarterly basis.
- 1.3 In order to undertake the review, six key reconciliations were reviewed and re-performed. In each case the reconciliation control sheet was reviewed. In addition the control, suspense and holding accounts were reviewed to ensure they were cleared as part of the year-end closedown process.

2. Review Objectives

The objectives of the review were to ensure that:

- 2.1 Data from feeder systems is correctly transferred to the general ledger.
- 2.2 Output from the general ledger properly reflects the data within the general ledger system and any errors within the general ledger are identified and corrected via exception reports.

3. Main Findings

The main findings of the review are as follows:

- 3.1 Although the expected reconciliations are taking place and data was being transferred to the general ledger correctly, the Central Service's Finance Team's Reconciliation Control Spreadsheet was found to be unsatisfactory in that:
 - It had not been updated each time the debtors reconciliation had been completed;
 - The named officers responsible for reconciliations had not been updated in the light of staff changes that occurred during 2008/09;
 - Only 97 (approximately half) of the completed 190 reconciliations had been reviewed at the time of the audit.

In addition, although the expected reconciliations are taking place and data was being transferred to the general ledger correctly, there was no control spreadsheet being maintained for reconciliations undertaken by the Exchequer Support Team.
- 3.2 Journals are posted twice daily by the Finance Systems Administration Team. Each time they are posted a journal posting report is produced. The report identifies all posted journals and any unposted journals or journals with errors. The Finance System Administration Team checks this report and acts to correct any unposted journals or journals with errors.

4. Conclusion

- 4.1 In terms of the objectives of this audit, data from feeder systems is correctly transferred to the general ledger and output properly reflects the financial data within the system. Whilst improvements have occurred since the last audit report on reconciliations, further improvements regarding the accuracy of the control spreadsheet and reviewing of reconciliations would provide further assurance that controls are operating satisfactorily.
- 4.2 As a result of this audit three recommendations are being made, all at priority grade 3, and are due to be implemented by December 2009.

Prioritisation Classifications (Risk assessment of area of concern)

Likelihood	Grade 3	Grade 1
	Grade 4	Grade 2
Impact		

AUDIT REPORT ACTION PLAN

Report Title

Report No.

Central Systems - General Ledger, Feeder System Reconciliations	HK11/009
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Report Ref.	Area of Concern	Grade	Management Agreed Action	Responsible Officer	Target Date
5.1	The reconciliation control spreadsheet is not kept up to date in terms of responsible officers or completed reconciliations.	3	An email reminder system will be implemented for all reconciliations to ensure the control spreadsheet is kept up to date and is properly evidenced via e-mails confirming senior officer reviews. The review e-mails will be retained by the reviewer in a separate folder.	Service Finance Manager (Central Services)	31/12/09
	Exchequer Support does not maintain a control spreadsheet.	3	A control spreadsheet will be set up and maintained for all reconciliations. It will be kept up to date and properly evidenced via e-mails confirming senior officer reviews. The review e-mails will be retained in a separate folder.	Policy & Development Manager	31/12/09
5.2	Only half of all the completed reconciliations had at the time of the audit, been reviewed and signed-off by a senior officer.	3	As per the action agreed for the Service Finance Manager above.	Service Finance Manager (Central Services)	31/12/09

AUDIT REPORT SUMMARY

Report Title

Chief Executive's Office - Compliance with RIP(S)A (Follow up)

Report No.	Type of Audit	Issue Date	
HA35/001	Systems	Draft Report	18/09/08
		Final Report	23/09/08

1. Introduction

- 1.1 An audit report on compliance within the Council with the Regulation of Investigatory Powers (Scotland) Act 2000 (RIP(S)A), was issued on 4th May 2007. The Act provides a legal framework which, if followed, will ensure the Council is acting within the law and can defend its actions against any allegations of breaching Article 8 of the Human Rights Act 1998, in undertaking surveillance activities.
- 1.2 This report concluded that while there was a good RIP(S)A policy in place, which complied with the Act, the policy was not being fully followed. In particular it was found that the then Legal Services did not receive Matrix updates detailing new RIP(S)A applications; incomplete forms were held in the Central Register file in Legal and Democratic Services; the Central Register which should hold copies of all RIP(S)A forms was incomplete; and there were inconsistencies with the format of RIP(S)A forms used throughout the Council.
- 1.3 This follow-up audit was undertaken as part of the annual plan for 2008/09 to ensure that the management agreed actions of the 2007 RIP(S)A audit had been undertaken.

2. Review Objectives

The objectives of the review were to ensure that:

- 2.1 There are effective management arrangements in place to ensure compliance with RIP(S)A.
- 2.2 The Central Register of RIP(S)A Authorisations is complete and accurate. The Register contains copies of all listed applications which have been correctly completed.
- 2.3 Legal and Democratic Services maintains the Delegation of RIP(S)A Authorisations document. This document is regularly updated to ensure that it is complete and accurate.
- 2.4 RIP(S)A and computer training has been provided to Officers involved in surveillance and the administration of RIP(S)A compliance.

3. Main Findings

The main findings of the review are as follows:

- 3.1 There are effective management arrangements in place to ensure compliance with RIP(S)A. The RIP(S)A Management Group was reformed in June 2007 and meets on a regular basis. Its membership includes all the Services currently authorising RIP(S)A applications and also includes representatives from Legal and Democratic Services, Employee Development and Internal Audit. The Group reviewed the RIP(S)A Handbook in 2007 and a further review is planned in 2009. The Group is also a forum allowing best practice, new information and guidance to be spread throughout the Council and it provides an opportunity for Legal and Democratic Service's officers to raise any relevant RIP(S)A issues.
- 3.2 The Central Register of RIP(S)A Authorisations was found to be incomplete and inaccurate. The main issues were:
 - Risk assessment forms were not being submitted with RIP(S)A applications,
 - RIP(S)A forms were not being sent to the RIP(S)A email account,

- Differences were found between the Central Register and the Services' Matrices,
- One section of the RIP(S)A cancellation form was not being completed by Services,
- The majority of RIP(S)A forms were not being date stamped at Legal Services,
- Electronic facsimile signatures were being used in the majority of the Finance Service's RIP(S)A applications.

3.3 There is a Scheme of Delegation, which details those Officers who can authorise RIP(S)A applications. The Scheme of Delegation was last updated in September 2008 and is subject to annual review. This is undertaken by Legal and Democratic Services, who contact every Director for details of changes required and then update the Scheme of Delegation. This ensures that this document is complete and accurate.

3.4 Extensive RIP(S)A training was provided to all Council Services in 2007 and more recently in June 2009. It is intended that this will continue to be provided to relevant Officers. Sixteen of the twenty two Council Members (73%) sitting on the Audit and Scrutiny Committee received RIP(S)A training in January and June 2009. Members of the RIP(S)A Management group, including the Employee Development Manager, have carried out talks to officers in various Council Services to raise awareness of RIP(S)A. The required computer training was undertaken in 2007 by the Solicitor in charge of the Central Register.

4. Conclusion

4.1 As detailed above the objectives in respect of (i), (iii) and (iv) were satisfactorily achieved, and it can be concluded that overall the system is reliable. The update of the RIP(S)A Handbook and restarting meetings of the RIP(S)A Management Group were both positive moves following the 2007 audit report. The Group has performed some excellent work in arranging Council-wide training and raising awareness of RIP(S)A with Council Services.

4.2 The audit did find some administrative issues with the Central Register, which was disappointing given there had only been seven RIP(S)A applications in the twelve month period examined. It is accepted that there has been good work carried out in the training and awareness of RIP(S)A throughout the Council, which has clearly required a lot of Officer's time that could otherwise have been spent on RIP(S)A administration. However, there does now need to be an ongoing emphasis on improving the administration systems in place. All the administrative issues found can be addressed by better Clerical support for the Solicitor in charge of the Central Register, or by liaising with the RIP(S)A Management Group.

4.3 There are five recommendations in this report, one is classified grade 2 and the other four are classified grade 3. One of the recommendations has already been implemented, three will be implemented by October 2009, and one recommendation is an ongoing standing item on the RIP(S)A Management Group's agenda.

Prioritisation Classifications (Risk assessment of area of concern)

Likelihood	Grade 3	Grade 1
	Grade 4	Grade 2
	Impact	

AUDIT REPORT ACTION PLAN

Report Title

Report No.

Chief Executive's Office - Compliance with RIP(S)A (Follow up)	HA35/001
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Report Ref.	Area of Concern	Grade	Management Agreed Action	Responsible Officer	Target Date
5.1.1 – 5.1.4	The administration errors have caused the Central Register of RIP(S)A Authorisations to become incomplete and inaccurate.	3	<p>Meeting(s) will be held with Authorised Officers from the relevant Services with written follow-up.</p> <p>The integrity of the Register will be a standing item on all future RIP(S)A Management Group Meeting agendas.</p> <p>A procedure will be developed for Legal and Democratic Service's clerical staff, but it is unlikely that resources will allow for a dedicated clerical officer to provide support for the RIP(S)A Solicitor.</p> <p>Technical [IT] support will be sought to improve the efficiency of regular actions carried out by the RIP(S)A Solicitor.</p>	Head of Legal & Democratic Services	<p>12/10/09</p> <p>Ongoing</p> <p>12/10/09</p> <p>12/10/09</p>
5.1.5	Electronic facsimile signatures were being used on RIP(S)A applications by the Finance Service's Authorising Officer.	2	RIP(S)A forms for the Policy and Development – Investigations team will no longer be authorised using electronic facsimile signatures.	Policy & Development Manager/NOSLA Shared Services Project Manager	16/06/09