Statement on Internal Control and Annual Report 2012/13

Report by Head of Internal Audit & Risk Management

Summary

The attached report includes an assessment of the adequacy, reliability and effectiveness of the Council's system of internal financial control and provides information for the Council's Corporate Governance Assurance Statement. This is contained within the Statement on Internal Control.

The annual report provides an overview of the Internal Audit Section's activities and performance data for 2012/13.

1.   Statement on Internal Control

1.1   In order to comply with the requirements of the CIPFA/ LASAAC Code of Practice on Local Authority Accounting, a Statement on Internal Control must be produced. Section 2 of the **attached** report gives details relating to the Statement on Internal Control and the sources of information which inform the Statement.

1.2   On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, it is the audit opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control systems for the year to 31st March 2013.

2.   Annual Report 2012/13

2.1   The report gives an overview of the Section's activities during 2012/13 and provides the first year's new performance data.

3.   Implications

3.1   There are no Resource, Legal, Equalities, Climate Change and Risk implications arising from this report.

Recommendation

Members are invited to note the content of the attached report and the audit opinion provided, and to raise any relevant points with the Head of Internal Audit & Risk Management.

Designation: Head of Internal Audit & Risk Management

Date: 11th June 2013

Author: Donna Sutherland, Principal Auditor

Background Papers:

The Highland Council

Statement on Internal Control and Annual Report 2012/13

Contents

1. INTRODUCTION

1.1 The purpose of this report is to provide an assessment of the adequacy, reliability and effectiveness of the internal control systems within the Council. This complies with the requirements of the CIPFA/ LASAAC Code of Practice for Local Authority Accounting in the United Kingdom which recommends that Scottish Authorities voluntarily conduct an annual review of the effectiveness of its system of internal control and include a statement reporting on the review with any Statement of Accounts. In respect of the Highland Council a Statement on Internal Control is produced and this is provided in Section 2 of this report.

1.2 This report also includes an overview of the Internal Audit Section's activities for the financial year 2012/13.

2. STATEMENT ON INTERNAL CONTROL

2.1 Responsibilities for Internal Control

The Council's Financial Regulations require Service Directors to ensure the principles of internal control are incorporated in the working practices of their Services.

The primary objective of Internal Audit is to review, appraise and report upon the adequacy of risk management and internal controls as a contribution to the proper, economic, efficient and effective use of resources. In addition to this primary assurance role, Internal Audit responsibilities include:

- An advice and consultancy role to Senior Management, including review of internal controls in the introduction of new systems.
- Assisting the Council discharge its corporate governance requirements.
- The investigation of any suspected fraud or irregularity. This will include a systems weakness review to establish how this occurred.

The Head of Internal Audit & Risk Management provides an annual overall assessment of the robustness of the system of internal control.

2.2 Internal Control

Internal control is defined as *"the whole system of checks and controls, financial or otherwise, established by management in order to provide reasonable assurance"* regarding the achievement of one or more of the following objectives:

- The reliability and integrity of information.
- Compliance with policies, plans, procedures, laws, regulations and contracts.
- The safeguarding of assets.
- The economical and efficient use of resources.
- The accomplishment of established objectives and goals for operations or plans.

Any system of control can only provide reasonable, and not absolute assurance that control weaknesses or irregularities do not exist, or that there is no risk of material errors, losses, fraud or breaches of laws and regulations. Accordingly the Council should seek continual improvement in the effectiveness of its systems of internal control.

2.3 Internal Audit

Internal Audit is an independent appraisal function established by the Council for the review of the internal control system as a service to the Council. It objectively examines, evaluates and reports upon the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources. Any areas of concern together with the management agreed actions and target dates for implementation are summarised in an Action Plan within the report. It is the responsibility of management to ensure that implementation of these actions takes place as agreed. The Internal Audit Section will undertake periodic follow-up reviews to ensure that the management agreed actions have been satisfactorily implemented.

The Internal Audit Section operates in accordance with the requirements of the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006. As required by the Code, a risk based tactical audit plan is produced each year, and submitted for information to the Audit & Scrutiny Committee.

2.4   Evaluation of Control Environment

Evaluation of the control environment is informed by a number of different sources:

- The audit work undertaken by the Internal Audit Section during the year to 31st March 2013.
- A review of internal controls consisting of a high level review of the adequacy and effectiveness of the Council's system of internal control, and targeted testing of key controls to confirm that the main financial systems are operating as intended.
- Knowledge and audit appraisal of the Council's governance, risk management and performance monitoring arrangements.
- The assessment of risk completed during preparation of the annual tactical plan.
- Any findings reported by the External Auditor and any other inspection agencies.

2.5   Review of Internal Controls and Main Financial Systems

As stated at 2.4 above, a high level review of the Council's system of internal control was undertaken by way of an evidence-based checklist comprising six key areas, as follows:

- Control environment.
- Identification and evaluation of risk and control objectives.
- Information and reporting.
- Control processes.
- Monitoring and corrective action.
- Assessment of whether the key controls have been applied during the year.

Some minor issues have been identified which will be addressed in a separate audit report but these do not affect the audit opinion.

During the financial year 2012/13 an audit was undertaken of the Debtors system. In addition, the other main financial systems; Creditors, Payroll, General Ledger, Income and Budgetary Control have been subject to a review of the key controls including:

- Financial procedures and guidance issued to staff;
- Segregation of duties;
- User access levels and appropriateness;
- System backups.

A sample of transactions was also selected for detailed testing to verify that the controls were operating as expected and no control issues were identified.

2.6   Assurance from Service Directors

As part of the Annual Accounts process, all Service Directors are asked to provide assurance that the following statements are valid:

- That Financial Monitoring Statements are regularly reviewed at Service Management Meetings.
- That Staff have been made aware of Financial Regulations and Contract Standing Orders.
- That Staff have been made aware of the Code of Conduct, Information Systems Security, Fraud and Corruption and Whistle blowing policies.
- That the Service has a robust scheme of delegation and that Staff have been informed of their supervisory and accountability responsibilities and that their responsibilities are documented in a Job Description.
- That segregation of duties is an important control mechanism operation within the Service and where it has not been possible to operate such a control a suitable alternative is in place.

- That appropriate targets have been established within the Service to measure financial and other performance.
- That a formal system of project management, including project governance operates within the Service.
- That appropriate arrangements are in place to govern companies.

The necessary assurances have been provided by all Service Directors and no issues have been highlighted which affects the Statement on Internal <u>Financial</u> Control.

2.7   Information Management and Security

The Council's information systems are provided by Fujitsu Services as part of a five year contract which commenced on 01/04/10. With regard to this service, assurance has been obtained in various areas. In particular, Fujitsu have provided an ISO 27001 (information security management) certificate which covers the period 05/05/12 – 04/12/15 and this covers their Data Centre in Stevenage and back up site in London. A visit was also made to the Stevenage Data Centre by Computer Audit staff on 21/05/13 and no areas of concern were identified.

A Customer Authorisation Notice (CAN) from the Public Services Network is in place, allowing use of this Network to 30/09/13. The Council's Computer Audit staff were involved in witnessing aspects of the testing towards achieving the CAN.

With regard to information management, an Information Management Strategy and Information Management Policy are both in place. Although the supporting Information Management Framework and Information Security Framework have not been implemented, the Council has a plan in place to complete these and also to review the Information Management Strategy.

The Council's arrangements for data protection compliance with regard to governance and controls need to be strengthened. The Council has recognised this and has an action plan to introduce appropriate improvements. In this respect the Information Management Governance Board has recently been established which will provide a forum to steer data protection and information governance issues.

2.8   Governance, Risk Management and Performance Monitoring

The Council has a Local Code of Corporate Governance, based upon the framework set out in the CIPFA/ SOLACE publication "Delivering Good Governance in Local Government", which is recognised as best practice. The Local Code is updated each year with a number of actions identified to demonstrate good governance arrangements and this is also subject to annual audit review.

Risk management is a key element of Corporate Governance. The Council has a risk management strategy which demonstrates its commitment to maintaining a structured approach to risk management and ensuring that it effectively manages its risks. The strategy is subject to annual review and minor revisions to this, was approved by the Audit & Scrutiny Committee on 21/11/12. In addition, the Corporate Risk Register is reviewed and updated on a six-monthly basis with the most recent update provided to the Committee on 28/03/13.

The Council has a Performance and Risk Management System (PRMS) which is used to record details of all risks identified and how these are managed, as well as providing performance information by Service. Monitoring of individual Service's performance is undertaken through the Council's Quarterly Performance meetings using the data from PRMS. In addition, an annual Corporate Performance report is provided to the Council in September each year which provides comprehensive information upon performance against the Corporate plan.

2.9 Areas of concern

Any areas of concern identified from an audit review will result in an audit recommendation being made which is contained within an action plan. These recommendations are graded as high, medium or low; high defined as *"major issues that managers need to address as a matter of urgency"*.

During 2012/13, a total of 109 audit recommendations were made. Of these, 24 were classified as High grade and details are provided in Table 1 below. A full breakdown of the audit grades and the overall audit opinions can be found at Table 2 on pages 11 - 12.

Table 1

Area of Concern – High Grades	Update
Corporate Internet Use	A formal follow-up review is included in the 2013/14 audit plan.
(1) There is no reference in the Acceptable Use Policy (AUP) on the use of social networks. The Council has a presence on Twitter, Facebook, Flickr and YouTube and some users have already been allowed access.	A Social Media Acceptable Use Policy was approved by the FHR Committee on 10/04/13 and this supports the revised AUP which was submitted for approval by the FHR on 05/06/13.
(2) Reports produced for Service monitoring were considered by Service Managers to be unreliable and not user friendly. In addition, there is no automated exception reporting alerts of suspected unauthorised corporate Internet use.	Revised monitoring reports have been produced and are under review by Human Resources and Legal staff in order to ensure that these are in an appropriate format.
Catering establishment system weaknesses	
(1) There are weaknesses with the ECS Catering Business Support Section's current system for monitoring income and as a result there were delays in identifying missing income or the risk that missing income is not identified.	An upgraded version of Saffron has been implemented which allows more efficient monitoring in that individual lodgements can be recorded and matched to payments in Oracle.
(2) At the time of the investigation, there was a lack of segregation of duties as the ex-employee was involved in income collection and banking which does not comply with the Council's Financial Regulations.	This issue was addressed at the time of the audit investigation with the dismissal of the employee.
School meals income collection and monitoring systems	A formal follow-up review is included in the 2013/14 audit plan.
(1) The requirement for separation of duties between staff dealing with income collecting and with banking is not being complied with at all Schools with the risk that there are errors or fraud.	All Headteachers and Cooks were reminded of the need for independent checking of the catering return and income for banking to be carried out on site. An instruction from the Director was issued to school based staff to input into Saffron, but at the time of the audit it was only undertaken in approximately 60% of schools. This position will be reviewed as part of the follow-up.

Area of Concern – High Grades	Update
(2) The current reconciliation process is completed termly and is a reconciliation of totals on the Saffron catering management system to the general ledger rather than on an individual lodgement basis. Therefore there are delays in identifying anomalies and only the larger differences are investigated and reviewed.	An upgraded version of Saffron has been implemented which allows more efficient monitoring in that individual lodgements can be recorded and matched to payments in Oracle.
Framework Agreement for Construction Works up to a Value of £25,000 (1) Work was awarded to contractors who were not registered on the framework agreement, and to contractors on the framework agreement for trades that they were not registered to carry out.	A new Contractors' Framework Agreement for Construction Works up to £50,000 was introduced from 01/09/12. A formal follow-up review is included in the 2013/14 audit plan and this will examine compliance with the new Framework.
Leader Programme 2011-12 (1) A number of issues were identified from the On The Spot and Ex Post Checks including differences between the Scottish Government's guidance for checks and the EU Regulations and the need to better evidence who undertook the checks and what was reviewed. (2) The Scottish Government verbally downgraded its own Technical Guidance stating it should be treated only as an aide memoire to the EU Regulations. (3) The Council is not complaint with the information systems security standard ISO 27001 and ISO 27002 required by EU Regulations 885/2006 Annex I 3 (b) (i) and the SLA between the Council and the Scottish Government. (4) A review of a sample of project files identified a number of high risk issues including concerns about value for money, sustainability and approval of projects. (5) 2 previous audit recommendations remained outstanding but these require resolution with the Scottish Government and previous attempts to do so by Leader staff had no response.	The Leader Programme is subject to annual review and the issues identified will be addressed as part of the 2012/13 audit report. The Scottish Government recently put a new process in place to review all live Leader projects and this will address the issues at (1) and (4). Internal Audit has provided guidance on the approach which should be followed. The Government will honour any ineligible expenditure identified during this review where the award has been made in good faith and the project subsequently properly administered. This review process has to be completed by the end of August.

Area of Concern – High Grades	Update
Nursery Payments System Weaknesses	A formal follow-up review is included in the 2013/14 audit plan.
(1) It was not possible to compare the details of children attending partner centres and Primary School nurseries to ensure that sessions were not being double claimed, as the information was held on a separate computer systems.	This has now been addressed as details of all pre-school children are recorded on the same management information system.
(2) Staff had on-going suspicions regarding the Nursery. However, no on-the-spot checks were completed as is permitted under the Pre-School Agreements signed with the nurseries. Also, no further action was taken when there were only 6 replies to correspondence issued to parents in 2009.	It has been agreed that closer monitoring of individual partner centres will be undertaken in the following circumstances: • where the Council's reconciliation identifies amendments required as a result of the failure by the centre to notify changes. • where there are low volumes of notifications of children leaving or no amendments are made by the centre to the checklists.
CareFirst (Follow Up) (1) There is no corporate network access control policy.	The ICT User and Network Access Control Policy which covers Third Party Guidelines was created and approved on 16/05/13.
Investigation into missing public convenience income (1) Cleaning of toilets and the collection of income is contracted out and was in the process of being re-tendered. There is a need to ensure that this tender includes the requirement for the contractor to maintain a sound system of internal control to ensure that all cash due is collected and accounted for.	This has been completed as the new contract includes a procedure for income collection and signed receipts for the amount collected. The contract monitoring team will benchmark the amount received against historic income levels and will make periodic spot checks at the facilities to ensure the amount recorded agrees with the cash collected.
Car Park Income Collection (Follow-up) (1) The lack of separation of duties within the INBS Area allows the Car Park Attendants and Car Park Supervisor to both issue and cancel fines.	This action was completed at the time and appropriate procedures were put in place to ensure that there is an appropriate segregation of duties in that an officer cannot cancel a fine notice which they issued.

Area of Concern – High Grades	Update
Business Continuity Planning (BCP) Arrangements	It should be noted that the actions below are not yet due but progress is being made as outlined below.
(1) The Council does not have a BCP which could be used in any situation.	The general BCP is on target to be completed by the due date (31/07/13) and will then be approved by the Senior Management Team.
(2) A number of areas of best practice have been identified which should be included in the Council's BCP such as work area recovery, transportation where necessary and salvage strategy. In addition, there are some Service specific issues which remain outstanding or need to be addressed within the BCP.	Service-specific BCP working groups have been established to develop Service-specific BCPs based on a model developed within TEC Services.
(3) The recommendations from a report on the flooding at Inverness College, which resulted in a network outage, were only partially implemented. Also the Council's HQ is a single point of weakness in the Council's network.	Work is to be carried out in two stages (11th June and later in the month) to address the issues raised in this report.
(4) The decision regarding which services are critical if the back-up data centre is used has not been agreed between ICT Service and the Council's Services.	Service-specific working groups are including identification of critical ICT services as part of the BCP model. Results will be passed to ICT Client services for their consideration.
(5) No annual testing of the IT BCP and Disaster Recovery Plans has taken place.	A BCP and DR plan walkthrough took place on 18/04/13 demonstrating and providing re-assurance that all processing and procedures are in place. A proposal to test the Service Centre ICT technologies and its scope is being considered as a live test.
Corran Ferry Income Collection (1) The PCI DSS requirements for the acceptance of EFT card payments were not fully complied with. In addition, staff were unaware of the Council's IT policy on the Acceptable use of Information Systems, Communication and Technology.	This matter is in progress and requires an interface with the credit card software. Staff have been provided with a copy of the Council's IT policy and instructed of the need to adhere to it.
Administration of Fuel Cards (Follow-up) (1) Fuel consumption monitoring is not undertaken. In addition, there is no reference to fuel consumption monitoring in the Fuel Card User Reference Guide.	It was agreed that an options appraisal would be produced and reviewed by Director of TEC Services and Director of Finance. This has since been undertaken and it was agreed to implement procedures to facilitate monitoring through TEC Stores, which will reconcile information from the fuel card system with that from Vectec (Council system for in-house fuel bunkers).

7 of the high grade findings relate to issues with income systems, particularly where cash is still collected, and 3 of these resulted from fraud investigations. The Council introduced a new Collection of Payments Strategy in April 2011 which ceased the acceptance of cash payments through its Service Point Network; exceptions are made for certain establishments and income types such as Schools, Public Conveniences and Ferries as outlined in table 1 above. Cash based income systems are recognised as high risk in that they provide greater scope for fraud to occur. However, this risk must be put in context within the overall level of income collected by the Council and is considered immaterial so does not affect the overall audit opinion at section 2.12.

2.10 Integrating Care in the Highlands

A Partnership Agreement is in place between the Council and NHS Highland (NHSH) for integrated services for Adult and Children's Services using the Lead Agency model which ensures that both organisations are jointly accountable for determining outcomes and the resources to be committed. This is the first such arrangement within Scotland and recognises the need to improve services for users. The Agreement came into effect on 01/04/12, with the Council the Lead Agency for Children and NHSH for Adults, and they are each responsible for all aspects of business delivery, strategy, internal governance, operational delivery or commission of services and fully accountable for the delivery of the agreed outcomes. This has been a transitional year and adjustments to the budget were agreed at the Council meeting of 07/03/13 which culminated in a budget quantum for 2012/13 of £86.9m for adults and £7.6m for children's services.

This is a significant change to the Council's operations and this has been recognised within the Internal Audit plan and an annual allowance of time is allocated for this subject.

For 2012/13 a review was undertaken of the first year of the Partnership Agreement to ensure that any Council expenditure and income relating to services transferred to NHSH (and vice versa) were identified, recharged and fully reconciled; there were appropriate arrangements for agreeing the budgets and addressing any over/underspends; and that performance was reported upon as set out in the Agreement. The findings of this audit review, which will be provided in a separate report to management, are broadly satisfactory in considering the compressed timeframe to which officers were working. It was accepted by management that the first year of the agreement was a transitional period and a pragmatic approach was adopted to facilitate implementation of the Agreement.

2.11 Action Tracking

The areas of concern detailed in Table 1 have been addressed by audit recommendations agreed with Management who should take the necessary implementation action. As part of the audit process, these are action tracked to ensure that the agreed actions were implemented as agreed. The results of the action tracking, including delays in achieving the target dates are reported to the Audit & Scrutiny Committee on a regular basis and a report is provided as a separate agenda item.

Three formal follow-up reports (CareFirst system, Administration of Fuel Cards and Car Park Income Collection), all of which had the audit opinion of "Limited Assurance" were provided to the Audit & Scrutiny on 28/03/13. At this meeting, the Chair and Members of the Committee expressed their dissatisfaction with the situation reported and were unhappy that a number of the agreed actions had not been implemented, particularly when assurances to the contrary had been provided by management for the original audit reports for the latter two listed.

As a result of the concerns raised by Members, the Chief Executive requested a report from the Head of Internal Audit & Risk Management for discussion at the

Weekly Business Meeting of 15/04/13. This was undertaken and revised procedures have now been put in place to ensure that management agreed actions are implemented timeously, including where a revised date is required this is flagged as an issue and escalated, and requests for time extensions are approved by a senior manager/ Director.

2.12 Audit Opinion

On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, it is the audit opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control systems for the year to 31st March 2013.

3. INTERNAL AUDIT GRADINGS AND OPINIONS

3.1 During the year, a total of 19 final reports were issued. Where the report contains an audit recommendation, this is given a grading of high, medium or low. In addition, the report contains an overall audit opinion which is used to inform the annual statement on internal control. With regard to the audit opinion, there are four levels of assurance which have the following definitions:

Level	Definition
Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
Substantial Assurance	While there is a generally a sound system, there are areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited Assurance	Weaknesses in the system of controls are such as to put the system objectives at risk, and/ or the level of non-compliance puts the system objectives at risk.
No Assurance	Control is generally weak, leaving the system open to significant error or abuse, and/ or significant non-compliance with basic controls leaves the system open to error or abuse.

3.2 Table 2 below, provides a summary of the audit reports issued together with the audit opinion, number of recommendations and a breakdown of the associated grades.

Table 2

Report Name	Report Date	Audit Opinion	No. of Recommendations	High	Medium	Low
Corporate Internet Use	03/10/12	Substantial Assurance	13	2	11	0
Corporate Governance 2011/12	27/08/12	Substantial Assurance	3	0	2	1
Verification of Statutory Performance Indicators 2011-12	26/02/13	Substantial Assurance	4	0	3	1
Catering establishment System Weaknesses	10/09/12	Limited Assurance	7	2	5	0
School Meals income collection and monitoring systems	12/11/12	Limited Assurance	17	2	12	3
Framework Agreement for Construction Works up to a Value of £25,000	07/09/12	Limited Assurance	5	1	2	2
Leader Programme 2011-12	26/02/13	Limited Assurance	7	5	1	1
Nursery Payments System Weaknesses	31/07/12	Limited Assurance	4	2	2	0
CareFirst (Follow Up)	18/03/13	Limited Assurance	5	1	4	0

Report Name	Report Date	Audit Opinion	No. of Recommendations	High	Medium	Low
Investigation into missing public convenience income	07/03/13	Limited Assurance	2	1	0	1
Car Park Income Collection (Follow-up)	18/03/13	Limited Assurance	8	1	6	1
Review of the rollout of the Alternate Weekly Collection Project	30/01/13	Full Assurance	3	0	2	1
Business Continuity Planning Arrangements	21/02/13	Limited Assurance	9	5	4	0
Corran Ferry Income Collection	10/09/12	Substantial Assurance	3	1	1	1
Council Tax - Billing and Collection	12/06/12	Substantial Assurance	1	0	1	0
Housing Benefit and Council Tax payments 2011-12	18/10/12	Substantial Assurance	1	0	1	0
Payroll	10/07/12	Substantial Assurance	8	0	6	2
Administration of Fuel Cards (Follow-up)	15/03/13	Limited Assurance	4	1	3	0
Matters arising from the Statement of Internal Control 2011/12	12/11/12	Substantial Assurance	5	0	5	0
Totals			**109**	**24**	**71**	**14**

4. OVERVIEW OF 2012/13

4.1 2012/13 Tactical Plan

The 2012/13 tactical plan was presented to the Audit & Scrutiny (A&S) Committee on 22/03/12. Progress against the plan is reported as a standing item at each Committee meeting as part of the internal audit reviews and progress report.

The audit reviews which could not be undertaken during the year, as originally planned, were discussed with Directors as part of the consultation process in producing the 2013/14 tactical plan.

4.2 Staffing Issues

The Audit Plan for 2012/13 was presented to the Audit & Scrutiny Committee on 23/03/12. At that time it was reported that the Section, which has a complement of 10 staff, had a vacant Auditor post and that the Plan had been prepared on the assumption that this post would be filled, with effect from 01/07/12.

In order to contribute to the Finance Service's vacancy management savings target for the year and in order to ensure that future year's targets are achieved, the Director of Finance subsequently requested that the post be held vacant pending a meeting of the Finance Management Team to discuss budget pressures and look at alternative service models and structures together with proposed savings and their impact.

In addition to the above, a further vacancy at Auditor level arose during the course of the year. In this respect, Members were informed at the meeting on 21/11/12 that although the post had been advertised it had not been possible to fill the vacancy. Consequently this post has also been held vacant.

Following on from the Management Team discussions, it was considered appropriate to re-structure the Internal Audit, Insurance & Risk Management Team and proposals have recently been agreed by the Finance, Housing & Resources Committee on 0506/13.

The revised structure will provide for a Trainee Auditor post and will also allow the remaining Auditor post to be filled thus ensuring that there is no significant impact on the number of planned audit days.

4.3 Scrutiny Reviews

The 2012/13 tactical plan had a provision of 50 internal audit days for 2 Scrutiny Reviews. However, it has only been possible to undertake 1 of the reviews as these they were delayed until after the Council elections in May and the first meeting of the A&S Committee did not take place until 20/09/12. At this meeting the Committee agreed that the first review would centre upon Audit Scotland's national report, *"Using Cost Information to Improve Performance: Are You Getting it Right?" and the "key points for action"* contained within the report.

A further Audit Scotland national report, *"Managing performance: are you getting it right?"* was published the following month and when the Scrutiny Working Group met on 09/11/12 the overlap between both reports was recognised and it was decided that the review would consider both in order to establish whether further actions are required by the Council. This review has identified a number of areas for improvement and will be reported to Committee in due course.

4.4 Fraud and Irregularity Investigations

As for the previous year, there were a significant number of days associated with fraud and irregularity investigations, mainly in respect of on-going investigations brought forward from the previous year. During 2012/13, the Internal Audit section was involved in 7 fraud and irregularity investigations, 5 of which were carried over from the year before. A total of 71 days were incurred but this was

contained within the allocated budget allowance of 80 days. These include 3 which are subject to on-going Police investigations:

- Over-claiming by Service Provider. In the 2011/12 annual report it was stated that an overpayment of £10,000 had been identified. Further investigation resulted in this sum being increased to £39,000.
- Theft of income by employee of £21,000. The individual concerned originally worked for the Council and continued the theft of income with another organisation. A joint investigation was undertaken and the individual was dismissed.
- Payment of £24,848 to a Contractor in Liquidation. A report on this matter was previously provided to the A&S Committee on 20/09/12.

5.   PERFORMANCE DATA

5.1   Performance Data

One of the areas for improvement identified from the annual benchmarking exercise was the need for a performance and quality assurance framework. This requirement is set out in the Code of Practice in order to demonstrate that the Internal Audit Service is: meeting its aims and objectives; compliant with the Code; meeting internal quality standards; efficient, effective, continuously improving, and adding value and assisting the organisation in achieving its objectives.

The framework includes a comprehensive set of targets to measure performance and these were implemented with effect from 01/04/12. Table 3 below provides details of these measures and performance against target but as this is the first year, it is only possible to report upon performance for 2012/13. It is intended that this will be expanded upon in future years and trends can be identified when data for 3 successive years is available.

Table 3

Category	Performance Indicator	Target	2012/13 Actual	Within Target?
Completion of Audit Plan	Number of audits completed in the year v Number of audits in the Plan, expressed as a %	85%	24%	X
Timeliness of Report	Number of draft reports issued within 15 days of Matters for Discussion meeting, expressed as a %	90%	0%	X
Implementation of Recommendations	Number of recommendations accepted v number of recommendations made, expressed as a %	95%	99%	√
Quality of audit service	Feedback through Client Audit Questionnaires, expressed as a % satisfaction score	90%	90%	√
Training & Development	Average number of training and development hours per employee	14 hours	36 hours	√
Follow up reviews	Number of follow ups undertaken within due date, expressed as a %.	95%	88%	X
Sickness Absence	Number of days absence per employee	5 days per annum	2 days p.a.	√
Cost of Internal Audit	Actual net expenditure v budgeted net expenditure, expressed as a percentage	<100%	83%	√
Cost of Internal Audit	Cost per £m gross turnover	Within lowest quartile of Cipfa benchmarking comparators	Not yet available	n/a
Compliance with Cipfa Code of Practice	Number of areas of compliance v best practice checklist, expressed as a %	95%	97%	√

Comments on the performance data:

The following comments are made:

(i)   Completion of Audit Plan:

- The staff vacancies referred to at Section 4.2 above have had a significant impact on the ability to complete the Audit Plan.

- Reviews which are in progress at the end of the year have not been included.

- All audit reviews are given a budgeted number of days to complete. However, where similar reviews have not been undertaken previously, the budget is an estimate which, on occasions, has been too low.

(ii)   Timeliness:

- This is a new indicator which has been established for 2012/13. It therefore appears that this has been set too low and will therefore be investigated further.

- Audit staff need to work on several audits at the same time. Audit reviews frequently need to be put on hold in view of other work demands, including fraud reviews, unplanned reviews and higher priority work, particularly at the year-end.

- Draft reports need to go through a review process before being issued.

- The staff vacancies have had an impact on the ability to achieve the target set.

(iii)   Follow up reviews:

- Again, the staff vacancies have impacted on the ability to achieve this target.