

INTERNAL AUDIT SUMMARY OF ACTIVITIES

1. EXECUTIVE SUMMARY

1.1 The objective of the report is to provide a summary of Internal Audit activity and progress during Quarter 4.

1.2 Core activities together with a progress update statement are shown below.

- **15/16 Audit Plan progress:** Audit plan is currently on track.
- **Individual Audits undertaken:** Six audits have been completed during the period. Of these audits, 2 are rated High and 4 are rated Substantial.
- **Continuous Monitoring Programme Testing:** A number of auditable units are subject to continuous testing. Reporting is by exception. Management have responded to previous quarter notifications and there are no outstanding issues.
- **National Fraud Initiative:** Good progress has been made in completing matches. A new release of Council Tax matches will be released shortly.
- **Development Plan:** Progress continues to be made against revised development plan action points. All items are currently on track.
- **Performance indicators:** Revised indicators are in place and current status is on track / green.

INTERNAL AUDIT SUMMARY OF ACTIVITIES**2. INTRODUCTION**

2.1 The objective of the report is to provide an update on Internal Audit activity during Quarter 4 against a number of areas;

- 15/16 Audit Plan progress
- Individual Audits undertaken
- Continuous Monitoring Programme Testing
- National Fraud Initiative
- Internal Audit Development Plan
- Performance indicators

3. RECOMMENDATIONS

3.1 The Audit Committee is asked to note the content of the report.

4. DETAIL

4.1 The Audit Plan is currently on track. It was previously reported that potential long term absence may impact the timely completion of the 15/16 Audit Plan however it is now anticipated that all audits will be complete by 31st March 2016. 15/16 Audits in progress and which will be reported to the June committee includes Pier and Harbours, Disposal of Equipment and Capital Projects.

4.2 Audits completed to February are detailed in Table 1.

Table 1: Summary of Audits performed in Quarter 4 2015/16:

Audit Name	Level of Assurance	No. of recommendations	High Recommendations
Welfare Reform	High	0	0
Exclusions and Truancy	Substantial	2	0
Economic Development Action Plans	Substantial	4	0
Homelessness	High	0	0
School Hostels	Substantial	9	4
School Transport	Substantial	4	2

4.3 The table below shows planned Quarter 1 audits, subject to the Committee approval of the 16/17 Audit plan.

Quarter 1
Revenue and Benefits: Debt Recovery and Write Off
Governance and Law: Freedom of Information Requests
Children and Families: Criminal Justice
Housing: Repairs and Improvement Grants
Education: Census Submission protocols
Cross Cutting: Parking Permits
Adult Services: Homecare contract compliance
Marine and Airports: CAA Compliance
Strategic Transportation – Project certification

4.4 A number of areas which were previously subject to individual audits now form part of our continuous monitoring programme. These areas are tested on a regular basis and detailed reporting will be by exception to Audit Committee. Standard audit tests are applied relevant to each auditable unit. A follow up process is in place whereby management are advised of findings and where appropriate, requested to take remedial actions. There are currently no outstanding follow-up points arising from previous quarters testing. Table 2 below summarises activity to date outlining issues arising and provides a level of assurance together with follow up detail.

Table 2: Continuous monitoring programme results:

Audit Unit	Areas Tested	Issues Arising	Assurance Level	Follow up
Payroll and Overtime	<ul style="list-style-type: none"> • Excessive & Regular Overtime • Ghost Employees • Duplicate Employees • Starters • Absences • Deductions • Leavers & Transfers • Variations to Pay 	<ul style="list-style-type: none"> • Excessive overtime payments • None • None • Sample testing highlighted that 20% of starter forms were submitted after the employees start date. • None • None • Sample testing highlighted that 48% of leavers forms were submitted prior to the leaver's termination date. • None 	Substantial	Management are currently reviewing findings.

Audit Unit	Areas Tested	Issues Arising	Assurance Level	Follow up
	<ul style="list-style-type: none"> • Reporting to HMRC • Changes to personal information 	<ul style="list-style-type: none"> • None • None 		
Treasury	<ul style="list-style-type: none"> • Deposits and Interest • Record keeping and reconciliation 	<ul style="list-style-type: none"> • None 	Substantial	N/A
Debtors	<ul style="list-style-type: none"> • Changes to customer standing data 	<ul style="list-style-type: none"> • No available facility to highlight any standing data changes processed. 	Substantial	<p>Monthly report will be set up and issued to all departments from 1st April 2016 to report an audit trail of all changes to accounts. System Administrator will run these reports however it is the responsibility of the departments to check any changes carried out by their staff.</p>
Council Tax	<ul style="list-style-type: none"> • All persons liable for Council Tax have been identified and all discounts, benefits, exemptions and allowances have been correctly recorded to comply with statutory requirements. • Council tax bills are raised accurately and in a timely manner. • Income is recorded correctly within 	<ul style="list-style-type: none"> • None • None • Suspense codes are reviewed and 	Substantial	<p>N/A</p> <p>N/A</p> <p>Procedure has to be documented</p>

Audit Unit	Areas Tested	Issues Arising	Assurance Level	Follow up
	<p>the individual's accounts.</p> <ul style="list-style-type: none"> • Arrears are identified promptly and pursued. • All write offs are valid and authorised. 	<p>cleared on a daily basis; however this process is not documented and is not readily available to authorised persons.</p> <ul style="list-style-type: none"> • None • None 		<p>and made readily available.</p> <p>N/A</p> <p>N/A</p>
Budgeting	<ul style="list-style-type: none"> • Ensure that budgets recorded in oracle are accurate. • Ensure that virements recorded between cost centres and departments are properly authorised and accurate 	<ul style="list-style-type: none"> • None • None 	Substantial	<p>N/A</p> <p>N/A</p>
NDR	<ul style="list-style-type: none"> • Payments received are promptly processed and correctly posted to rate payers' accounts 	<ul style="list-style-type: none"> • None 	Substantial	N/A
General Ledger	<ul style="list-style-type: none"> • Journals contain adequate descriptions to identify source and reason for transaction. • Creation and posting of journals demonstrate segregation of duties 	<ul style="list-style-type: none"> • Sample testing resulted in 20% compliance • Sample testing resulted in 10% compliance 	<p>Limited</p> <p>Limited</p>	Email sent to Creditors supervisor to review practices
Establishments	<ul style="list-style-type: none"> • Salen Primary School 	<ul style="list-style-type: none"> • The school does not issue sequentially numbered 	Substantial	School to issue income receipts as per guidance

Audit Unit	Areas Tested	Issues Arising	Assurance Level	Follow up
	<ul style="list-style-type: none"> Customer Service Centre – Mull 	<p>receipts for income received. Invoices are issued on headed paper on request.</p> <ul style="list-style-type: none"> Reconciliations were not evidenced as regularly reviewed by an independent member of staff. It was noted that the establishment's Health & Safety Act poster was out of date and displayed out of date contact information. It was noted that there are no trained first aider's in the building. 	Substantial	<p>in circular 1.10.</p> <p>Head Teacher will evidence review of reconciliation by signature.</p> <p>Management have removed the out of date poster. Health & safety have issued a new poster for display and management have updated this with current contact information.</p> <p>Following discussion with H&S r.e this, it was found that a building may not require a trained first aider dependant on individual circumstance (e.g. office proximity to medical care).</p>
Imprest	<ul style="list-style-type: none"> Customer Service Centre – Mull 	<ul style="list-style-type: none"> It was noted that the cash float is being excluded from the reconciliation 	Substantial	Management will include the cash float when carrying out their

Audit Unit	Areas Tested	Issues Arising	Assurance Level	Follow up
		calculation. Following discussion with creditors, this should be included in the 'CASH and BANK and STAMPS' section of the reconciliation.		reconciliation

- 4.7 National Fraud Initiative (NFI). Data matching involves comparing computer records held by one body against other computer records held by the same or another body to see how far they match. This is usually personal information. Computerised data matching allows potentially fraudulent claims and payments to be identified but the inclusion of personal data within a data matching exercise does not mean that any specific individual is under suspicion. Where a match is found it indicates that there may be an inconsistency which requires further investigation. No assumption can be made as to whether there is fraud, error or other explanation until an investigation is carried out.
- 4.8 Progress continues to be made with our Data match sets. The Revenue and Benefits service which covers Council Tax have undertaken a review of Council Tax discounts which included the NFI matches. In total 317 cases were selected to be reviewed resulting in the removal of 87 discounts with an approximate value of £30k. In addition there are currently 15 cases where further work is being undertaken in respect of Single Person discount fraud which is estimated to have a Council Tax receipt value of approximately £11k.
- 4.9 The Corporate Fraud team have also been involved in a number of other areas as outlined below:
1. Fictitious tenancy/False lease: Non Domestic Rates – increase In NDR recovery £38,468.
 2. Fictitious tenancies re Council Tax and benefit fraud. Joint investigation working with DWP partners. Cases involved creation of fake identities and benefit claims based on these. Case value estimated at £80,000 (DWP) of which £8,000 due for Council Tax liability as landlord now liable not the fictitious tenants.
 3. Two cases where there is evidence to suggest that deceased exemption has been applied on the basis of the provision of false information. Total liability £11,000.
 4. Fraudulent activity report on two cases in an effort to avoid a double charge of Council Tax. Anticipated additional Council tax recovery of £5,500.

4.10 This section highlights progress made against the actions points in our Internal Audit development plan. These include improvements identified as a result of our review against the Public Sector Internal Audit Standards. An additional action has been added in respect of Assurance Level review.

Table 4: Internal Audit Development Key Actions:

Area For Improvement	Agreed Action	Progress Update	Timescale
Training and CPD	Formalise our plans for internal audit training, including continuing professional development (CPD)	On Track: Senior Audit Assistants are signed up to complete IIA Diploma qualification. Participation in Strategic Finance Training programme	Complete
Audit Plan Preparation	2016/17 Draft Plan submitted to December Audit Committee	Submitted to December Committee . Final Version to March Committee	Complete
SharePoint site	Upload Audit stage tracker information.	Base Sharepoint site developed and now in use by Internal Audit and Auditees.	Complete
Assurance Levels	Review Assurance Levels.	Internal Audit Team are reviewing options for assurance levels.	Complete

4.11 Internal Audit scorecard data is available on pyramid. The indicators are currently showing as on track. The undernoted table is an extract of the key information.

Internal Audit Team Scorecard 2015 – 16 FQ 3 15/16			
TEAM RESOURCES			
PRDs IA Team G →	TARGET		Percentage of PRDs complete
	90%		100%
	Number of eligible employees FTE		Number of PRDs complete FTE
	5		0
Financial			
Revenue Finance	ACTUAL	BUDGET	G →
Year to date	£160,647	£170,906	
Year end	£252,437	£252,437	

SF02 Assurance...that financial and management controls are operating effectively		Links to Enablers ABC 7	A ↓
Audit risk assessment prepared by 31 January	Status	On Track	G →
	Target		
Annual Audit Plan	Status	On Track	G →
	Target	On track	
Annual audit plan approved by 31 March	Status	On track	G →
	Target		
% of audit recommendations accepted	Actual	100%	G →
	Target	100%	
	Benchmark	100%	
% Recommendations followed up	Actual	100%	G →
	Target	100%	
Annual report on risk management	Status	Complete	G →
	Target	Complete	
Percentage qualified staff	Actual	50%	R ↓
	Target	60%	
	Benchmark		
% satisfaction rates from post audit surveys	Actual	100%	G →
	Target	80%	
	Benchmark		
% customer satisfaction with audit reports	Actual	93%	G ↑
	Target	80%	
	Benchmark		
Internal Audit Training hours	Actual	44 days	R ↑
	Target	45 days	
	Benchmark		

5. CONCLUSION

5.1 The 15/16 Audit Plan is currently on track and is anticipated to be fully complete by March 31st. Continuous monitoring testing has provided an overall substantial level of assurance. Internal Audit continues to raise the profile of governance, risk and control. Post-Audit feedback from management has been very positive. Good progress is also being made by the Corporate Fraud Team as demonstrated by the activity to date.

6. IMPLICATIONS

6.1 Policy - Internal Audit continues to adopt a risk based approach

6.2 Financial -None

6.3 Legal -None

6.4 HR - None

6.5 Equalities - None

6.6 Risk – None

6.7 Customer Service - None

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