

REPORT TO: SCRUTINY COMMITTEE – 15 FEBRUARY 2012

REPORT ON: INTERNAL AUDIT REPORTS

REPORT BY: CHIEF INTERNAL AUDITOR

REPORT NO: 75-2012

1.0 PURPOSE OF REPORT

To submit to Members of the Scrutiny Committee a summary of the Internal Audit Reports finalised since the last Scrutiny Committee.

2.0 RECOMMENDATIONS

Members of the Committee are asked to note the information contained within this report.

3.0 FINANCIAL IMPLICATIONS

None

4.0 MAIN TEXT

4.1. The day-to-day activity of the Internal Audit Service is primarily driven by the reviews included within the Internal Audit Plan. Broadly, on the completion of a specific review, a report which details the audit findings and recommendations is prepared and issued to Management for a formal response and submission of Management's proposed action plan to take the recommendations forward. Any follow-up work subsequently undertaken will examine the implementation of the action plan submitted by Management.

4.2. Executive Summaries for the reviews which have been finalised in terms of paragraph 4.1 above are provided at Appendix A. Within each Executive Summary the prime aim is to provide both Members and Management with key information which includes the reason for undertaking the review, summary financial data and statistics, the areas encompassed within the review and specific areas which were excluded, the principal audit objectives, an audit opinion on the adequacy of the systems and control framework of the area reviewed, the key conclusions based on the audit findings and recommendations and a summary of Management's response to the audit report. The full reports are available to Members on request.

5.0 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

6.0 CONSULTATIONS

The Chief Executive, Depute Chief Executive and Director of Finance have been consulted on the content of this report.

7.0 BACKGROUND PAPERS

None

Sallie Dailly, Chief Internal Auditor

DATE: 31 January 2012

i) INTERNAL AUDIT REPORT 2011/15

Client	Corporate
Subject	Risk Management Arrangements

Introduction

A review of the Council's risk management arrangements is part of the planned internal audit work.

Risk management is regarded as an essential element of good governance and decision-making, both in the private sector and across government and the public services. In their publication *Worth the Risk: Improving Risk Management in Local Government*, the Audit Commission defines risk as "the threat that an event or action will adversely affect an organisation's ability to achieve its objectives and to successfully execute its strategies" and risk management as "the process by which risks are identified, evaluated and controlled".

In terms of the Council's risk management arrangements the Corporate Risk Register was submitted to the Policy and Resources Committee in June 2011 (Report No 285-2011). In addition, the 2010-12 departmental service plans, submitted to the relevant committee during 2010, incorporated a departmental risk register which reflected their key service objectives. The Council's strategic management of risk is included within the remit of the Risk and Business Continuity Manager who is based within the Finance Department, reporting to the Head of Financial Services.

The terms of reference of the Council's Scrutiny Committee which were revised in June 2010 and included within its remit is "to consider and monitor the strategy, plan and performance of Council's risk management arrangements and seek assurances that action is being taken on risk related issues". This area had previously been included within the remit of the former Audit and Risk Management Sub-Committee.

Scope and Objectives

The overall objective of the review was to undertake a high level review of the risk management arrangements in the Council and assess if they were in line with recommended risk management practices.

Conclusion

The principal conclusion drawn from this review is that there are weaknesses in the system which should be addressed.

The main areas highlighted in the report are as follows:

- Through our discussions with the Risk and Business Continuity Manager and Social Work and Environmental Directorate teams we noted a good knowledge of the insurance and business continuity risks facing the Council. In addition, an understanding of project risks with specific examples such as the waterfront development were highlighted in discussions. However, a clear and robust process to capture the wider strategic and business risks facing the Council was not evident. Given this the Council's risk management arrangements should be reviewed with a view to ensuring an appropriate focus on the wider strategic and business risks. The key areas that require to be strengthened and developed include governance, the risk management strategic plan, roles and responsibilities, the corporate risk register and departmental risk registers.

Management Response to the Audit Report

The audit findings and recommendations were formally reported to the Chief Executive and Director of Finance and appropriate action agreed to address the matters raised.

ii) INTERNAL AUDIT REPORT 2011/16

Client	Social Work
Subject	Control Self Assessment for Social Work Establishments

Introduction

A review of the development of control self assessment for establishments within the Social Work Department was part of the planned internal audit work.

The term 'system of internal control' is used to describe the totality of the way an organisation designs, implements, tests and modifies controls in specific systems to provide assurance at the corporate level that the organisation is operating efficiently and effectively. Within this context staff in the Department at an operational level are responsible for ensuring adherence to good practice in such areas as financial planning, budget monitoring, purchasing, financial controls, income, banking, petty cash, voluntary funds, property and data security.

Following a risk assessment to identify locations within the Social Work Department handling larger amounts of money central support staff set up a programme of financial control visits for 2010/11. Such visits were intended to provide a mechanism for central support staff to assess the adequacy of the procedures operated at an establishment level and also to provide an opportunity to identify areas for improvement or where further training may be required. In addition such work could be used to inform the process for signing off the year end assurance statement.

In some areas of the Council control self assessment has been developed to assist in gauging internal control effectiveness and to reduce the level of inspection activities required.

Scope and Objectives

The overall object of the review was to examine the systems operated in respect of the planned financial control visits and the development of control self assessment for establishments within the Department.

Conclusion

The principal conclusion drawn from this review is that whilst there is basically a sound system of control there are some areas where it is viewed improvements can be made.

The main area commented upon in the report is as follows:

- To maximise utilisation of available resources in the provision of assurance to management and reduce the level of inspection activities required, consideration should be given to the introduction of control self assessment.

Management Response to the Audit Report

The audit finding and recommendation were formally reported to the Director of Social Work and appropriate action agreed to address the matters raised.

iii) INTERNAL AUDIT REPORT 2011/17

Client	Education
Subject	Control Self Assessment for Education Establishments

Introduction

A review of further developments in the use of control self assessment within the Education Department was part of the planned internal audit work.

The term 'system of internal control' is used to describe the totality of the way an organisation designs, implements, tests and modifies controls in specific systems to provide assurance at the corporate level that the organisation is operating efficiently and effectively. Within this context at an operational level, staff within the various education establishments are responsible for ensuring adherence to good practice in such areas as devolved school budgets, purchasing and ordering, income, banking, petty cash, school funds, security and inventories.

The Education Department has used control self assessment questionnaires previously as a tool to inform the assessment of the control environment within establishments and identify areas of potential risk. One of the benefits of this approach is that it can result in a reduction in the level of internal inspection activities required. In addition, such work can also be used to inform the process for signing off the Department's year end assurance statement. The previous control self assessment exercise was undertaken in 2009. During the 2011/12 financial year the centrally based Education Finance Team established a working group to review the content of the questionnaire previously used with a view to updating it prior to being issued to establishments for completion.

Currently the Department has responsibility for a total of 56 establishments. The breakdown across the various sectors is 9 secondary, 37 primary, 9 nursery and 1 special.

Scope and Objectives

The overall objective of the review was to examine the final draft of the control self assessment questionnaire prepared by staff within the centrally based Education Finance Team and provide comment on potential areas for improvement prior to it being issued to the Department's establishments.

Conclusion

The principal conclusion drawn from this review is that whilst there is basically a sound system of control there are some areas where it is viewed improvements can be made.

The main areas commented upon in the report are as follows:

- To further strengthen the content of the questionnaire prior to it being issued consideration should be given to the inclusion of contextual narrative to underpin the linkage between risk assessment and the control self assessment process. In addition, to assist in the assessment of the effectiveness of internal controls the questionnaire should be amended to include the designations for example of committee members and personnel having access to computerised systems.

Management Response to the Audit Report

The audit findings and recommendations were formally reported to the Director of Education and appropriate action agreed to address the matters raised.

iv) INTERNAL AUDIT REPORT 2011/18

Client	Corporate
Subject	Arrangements for the Management of Asbestos

Introduction

A review of the arrangements in place in the Council for the management of asbestos was part of the planned internal audit work.

The Health and Safety Executive (HSE) describes asbestos as a "naturally occurring fibrous material". Asbestos is a good insulator, has good fire protection properties and protects against corrosion. Consequently, prior to 2000 when usage was completely banned, it was extensively used in new and refurbished buildings in various materials including ceiling tiles, pipe insulation, boilers and sprayed coatings. Workers most likely to come into contact with asbestos are those in the construction, maintenance and refurbishment related professions / trades. Asbestos containing materials in good condition are safe, however, if damaged or disturbed can release dangerous fibres which, if breathed in, can have serious health implications. Of the order of 0.7% of UK deaths each year are as a result of asbestos related diseases. Asbestos related diseases do not affect people immediately, but later on in life. The HSE is to re-launch its asbestos information campaign in 2012 to improve awareness.

The Control of Asbestos Regulations 2006 (the Regulations) prohibit the importation, supply and use of all forms of asbestos and require that if you own, occupy, manage or have responsibilities for non-domestic premises that may contain asbestos, or you are responsible for the non-private parts (i.e. common areas) of domestic premises, you either have a legal duty to manage the risk from this material or co-operate with whoever manages that risk. The Council is legally required under these Regulations to discharge a number of responsibilities including taking reasonable steps to find out if there are asbestos containing materials in its premises (including common areas in its housing stock), making and keeping up-to-date records of its location and condition, assessing the risk, providing information on the location and condition of materials to anyone liable to work on or disturb them and ensuring adequate information, instruction and training is given to employees who are, or are liable to be, exposed to asbestos or who supervise such employees.

Scope and Objectives

The overall objective was to carry out a review of the arrangements for the management of asbestos.

Conclusion

The principal conclusion drawn from this review is that there are weaknesses in the system which should be addressed.

The main areas highlighted in the report are as follows:

- To ensure that the Council complies with the Regulations, working groups should be established as planned so that the procedural documents listed in the Policy are developed and implemented by 31 March 2012.
- To ensure a co-ordinated and consistent approach to asbestos management within the Council, the two Duty Holders should work in conjunction with one another. In addition, a mechanism should be established for the onward communication of information on asbestos management.
- To assist with promoting awareness and understanding of asbestos related matters, including associated risks and how to mitigate these, the Council should develop a corporate targeted training and awareness programme in line with Regulations. A central register of asbestos related training should also be maintained.
- To reduce the potential risk of accidental exposure to asbestos, the responsibilities for ensuring / arranging all necessary surveys and re-inspections are carried out should be agreed, documented and clearly communicated to key staff. Arrangements should be put in place to ensure that information on the location and condition of asbestos containing materials identified within common areas of domestic premises is routinely provided to anyone liable to work on or disturb them. An appropriate re-inspection programme should also be established for all premises.

iv) INTERNAL AUDIT REPORT 2011/18 (cont'd)

Client	Corporate
Subject	Arrangements for the Management of Asbestos

Management Response to the Audit Report

The audit findings and recommendations were formally reported to the Director of City Development and the Director of Housing and appropriate action agreed to address the matters raised.

v) INTERNAL AUDIT REPORT 2011/ 21

Client	Corporate
Subject	Periodicals, Publications and Subscriptions

Introduction

A review of the periodicals, publications and subscriptions was part of the planned internal audit work.

As part of the Council's Changing for the Future (CFTF) Programme a review of Discretionary Expenditure has been undertaken. Expenditure was broadly defined as being discretionary if it is not required by statute or to achieve the Council's key objectives. The budget heads included in the CFTF review were staff training and conferences; furniture, fixtures and fittings; newspapers, periodicals and publications; hospitality; professional and other subscriptions and Council publications (hardcopy) and the key outcomes were reported to the CFTF Board in August 2011 and thereafter to the Policy and Resources Committee (Report 365-2011). From the work undertaken it was concluded that savings of the order of £0.25m could be made across these budget heads in a full financial year. Of this total, £32,000 related to expenditure on periodicals, publications and subscriptions.

Following on from the above it was agreed that internal audit would undertake a more detailed exercise in this area with a view to assessing if there was duplication across departments in respect of published materials being purchased and subscriptions being paid. In addition as part of this further work consideration was to be given to the practicalities of establishing a more co-ordinated approach which would enable departments to identify technical and professional resources available to them within the Council.

Budgeted expenditure for 2011/12 for periodicals, publications and subscriptions was of the order of £218,000. Actual expenditure to the end of December 2011 was approximately £154,000.

Scope and Objectives

The overall objective of the review was to examine periodicals, publications and subscriptions purchased by the Council in order to assess if there is duplication across departments and if there are opportunities for maximising sharing of resources.

Conclusion

The principal conclusion drawn from this review is that whilst there is basically a sound system of control there are some areas where it is viewed improvements can be made.

The main areas commented upon in the report are as follows:

- To reduce the risk of duplication of supply a more co-ordinated approach to the acquisition and access of reference material across the Council should be introduced. To facilitate this a corporate online register should be established. Where possible electronic copies of reference material should be purchased in preference to hard copy. In addition, given a significant proportion of the overall expenditure on publications and periodicals is in respect of newspapers consideration should be given to exploring ways in which this can be reduced.

Management Response to the Audit Report

The audit findings and recommendations were formally reported to the Director of Finance and appropriate action agreed to address the matters raised.