



**West Lothian
Council**
Finance Services

THE WEST LOTHIAN COUNCIL INTERNAL AUDIT UNIT

ANNUAL REPORT 2008/2009



FS36494



CUSTOMER SERVICE EXCELLENCE

2 June 2009

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1.0 INTRODUCTION

1.1 I am pleased to report on the performance and activities of the Internal Audit Unit for the financial year ending 31 March 2009.

1.2 The audit plan for 2008/09 was approved by the Audit Committee on 18 March 2008 and set out the audits to be undertaken during the year. They are categorised as follows:

	Days	Percentage
Systems Based Audits	455	56%
Best Value / Value for Money and Verification of Statutory Performance Indicators	75	9%
Reactive Work	280	35%
Total	810	100%

1.3 Audit work is undertaken in accordance with the CIPFA “Code of Practice for Internal Audit in Local Government in the United Kingdom”. Systems based audit work is undertaken in accordance with the quality management standard ISO 9001:2008, and in accordance with the requirements of the standard, all systems work is subject to review by a more senior member of staff.

1.4 The audit plan for 2008/09 has been completed, and further details of performance are included as Appendices A to C of this report. The benchmarking information included as Appendix B is derived from the CIPFA Benchmarking Club and compares key ratios with the other participating authorities.

2.0 QUALITY ACCREDITATION

- 2.1 During the year the Internal Audit Unit successfully retained its quality management standard after inspections by the British Standards Institute (BSI) on 12 September 2008 and 20 March 2009. The Unit made a successful transition to the revised standard ISO 9001: 2008 in March 2009.
- 2.2 The quality standard requires us to continually improve the effectiveness of our quality management system, and I fulfil this obligation by regularly reviewing the performance of the Internal Audit Unit via meetings of our Quality Management Team (QMT). All members of staff within the Internal Audit Unit are members of the QMT, which meets quarterly, and considers all aspects of service provision such as service standards, customer complaints, procedures and processes, and the results of internal audits of the quality system.
- 2.3 The remit of the QMT covers all aspects of our activities, including Customer Service Excellence and the West Lothian Assessment Model.

3.0 CUSTOMER SERVICE EXCELLENCE

- 3.1 In August 2004 the Internal Audit Unit successfully attained Charter Mark status, becoming the first internal audit service in the public sector in Scotland to achieve a Charter Mark, and the first unit within Finance Services of West Lothian Council.
- 3.2 In 2007 the council achieved a corporate Charter Mark and in August 2008 the Internal Audit Unit became one of the first services within the council to successfully achieve the transition to the new Customer Service Excellence standard.
- 3.3 Details of the Unit's performance in relation to its service standards are included as Appendix A.

4.0 AUDIT SCOTLAND

- 4.1 Internal audit is considered by Audit Scotland to be a key element of the council's internal control system. Audit Scotland recently completed their annual review of the Internal Audit Unit and identified that we continue to operate to the highest standards and in accordance with the CIPFA Code of Practice for Internal Audit in Local Government.
- 4.2 Audit Scotland have concluded that, subject to satisfactory review of our audit files and reports, they will place reliance on the following audits included in their 2008/09 internal audit plan:
- treasury management
 - rent accounting (billing)
 - cash and bank (daily cheques)
 - payroll (permanent changes)
 - non domestic rates
 - business continuity planning
 - performance management (Covalent)
 - performance indicators.

5.0 SYSTEMS BASED AUDIT WORK

- 5.1 In the year to 31 March 2009 the Internal Audit Unit produced 25 systems audit reports and conducted 32 follow up audits to determine what action had been taken in respect of previous audit recommendations.
- 5.2 Appendix C details the systems audits undertaken during the year and sets out the conclusions arising from the work. The table below explains the conclusions reached.

CONCLUSION	DESCRIPTION
EFFECTIVE	Major strengths. Only minor recommendations. A good example of effective internal control.
GOOD	Important strengths with some areas for improvement.
REQUIRES IMPROVEMENT	Control environment could be improved.
POOR	Some important weaknesses. Changes must be made.
UNSOUND	Major weaknesses. Fundamental improvements are required.

6.0 REACTIVE WORK

6.1 As normal, a number of items of unplanned work were undertaken during the year. The main areas of work are summarised below.

	Audit	Comments
1	Social Policy Cash Holdings	<p>As a result of two thefts at council units in the period before Christmas, we undertook a review of cash security at the main Social Policy units. Our main findings were that:</p> <ul style="list-style-type: none"> • processes for reconciling cash at the Social Work Centres were generally good, however at other units checks of cash were not always undertaken or evidenced; • our cash counts identified that unit records were accurate, with the exception of one or two minor differences; • Social Policy guidelines in relation to cash handling required to be updated. <p>Memoranda containing recommendations for improvements in control have been sent to all unit managers and to Social Policy centrally.</p>
2	Planning Application	<p>At the request of the Chief Executive, we undertook a review of the circumstances relating to the disclosure of a confidential medical report submitted in support of a planning application. We identified that, as a result of an initiative to make details of planning applications publicly available, and the consequent back-scanning of a large volume of documents, the report was placed on the council's website in error.</p>
3	Civic Centre Furniture Contract	<p>At its meeting on 24 March 2009 the Council Executive considered a letter of complaint from a company which had unsuccessfully tendered for the Civic Centre furniture contract. The Executive requested that this matter be investigated and our resultant report was submitted to it on 7 April. We concluded that there were no grounds for changing the Executive's decision on the award of contract.</p>
4	Planning Inquiry	<p>As a result of substantial costs incurred, we undertook a review of the processes in relation to the engagement and monitoring of consultants to represent the council at a public inquiry. We concluded that control over costs was unsound, and made a number of recommendations for improvement which will be monitored during 2009/10.</p>

7.0 PERFORMANCE INDICATORS AND BEST VALUE

7.1 The following assignments were undertaken during the year.

	Study	Comments
1	Verification of Statutory Performance Indicators 2007/08	<p>We checked a sample of six indicators. The indicators were selected either because:</p> <ul style="list-style-type: none"> • they had previously required revision; or • there had been feedback from the service area in relation to their reliability; or • as a result of our own analytical review. <p>Of the six indicators examined, one was found to be unreliable (RL3 Street Light failures), three required material changes (BA3 – Accuracy of Processing, PS2 – Domestic Noise Complaints and PS3 – Non Domestic Noise Complaints) and two were found to be accurate (RL4 Street Lights over 30 years and CC4 Library Services: changes in library stock).</p> <p>Further time has been included within the 2009/10 audit plan for checking statutory performance indicators and the precise coverage will be agreed with Audit Scotland.</p>
2	Mobile Phones	<p>We conducted a review of the usage of mobile phones and BlackBerrys and identified that 185 mobile phones and 9 BlackBerrys did not appear to have been used for an entire year, on the basis that no costs were incurred for making calls. A number of other devices had not been used for periods of up to a year. The total annual rental costs associated with these devices amounted to approximately £16,000. Support Services has agreed to undertake quarterly reviews of unused devices and seek explanations where appropriate.</p>
3	Building Services	<p>At the request of the service we undertook a review of their methodology for recharging overhead costs. We noted that a high proportion of overheads were recharged on the basis of direct labour time spent, and made some recommendations for changes to the methodology. The changes as identified by our report were broadly neutral in relation to their impact on the Housing Revenue Account and General Fund budgets. It was noted that although there may be scope to obtain an even greater degree of accuracy using a variety of other recharging methods, the costs of doing so may outweigh the benefits.</p>

8.0 CONCLUSION

- 8.1 During the year we reviewed controls within council systems, both financial and non-financial, based on an assessment of risk.
- 8.2 The results of our audits are reported to management who are asked to complete and return action plans. We aim to follow up action plans within 12 months to ensure that the agreed action is undertaken.
- 8.3 It was pleasing to note that our audit work identified a number of well controlled areas, for example house allocations, treasury management, non domestic rates, rent accounting and the monitoring of the Civic Centre construction project.
- 8.4 Some issues arising from the audit work undertaken during the year are worthy of specific comment:
- our audit of business continuity planning identified that control was poor. We recommended that a council business continuity policy and procedures be prepared, and that services review their business continuity plans to ensure that they are effective;
 - our audit of the council's payroll system identified a number of critical weaknesses. At the time of writing an action plan is under discussion with HR Pay and Reward and it is intended that our audit report will be submitted to the Audit Committee in due course.
- 8.5 Based upon the our work during the year, I am of the opinion that the systems of internal control in place within the council are generally sound. Improvements are required in certain areas, as noted above, and recommendations made during 2008/09 will be followed up to determine whether they have been implemented.

Kenneth Ribbons
Internal Audit Manager

APPENDIX A SERVICE STANDARDS

OVERALL	TARGET	08/09	07/08	06/07	05/06	04/05	COMMENT
1. Customer Satisfaction as measured from return of issued questionnaires	90% good	100%	91%	100%	93%	95%	
SYSTEMS AUDITS	TARGET	08/09	07/08	06/07	05/06	04/05	COMMENT
1. Draft systems audit reports issued within 12 weeks of the start of the audit.	100%	92%	77%	100%	84%	100%	
2. Complete systems audits, in total, within budget.	within budget	no	yes	yes	yes	yes	Time spent was greater than budget due to the employment of a temporary member of staff during 2008/09. This staff member left in July 2008.
3. Percentage of completion of systems audits in the annual audit plan.	100%	96%	91%	100%	95%	90%	This is measured on the basis of draft reports issued at the year end. One audit was still in progress at the year end. The plan is now complete - all reports are now either issued or in draft. There are a small number of reports for which an action plan is still awaited – see Appendix C.
4. Follow up audits undertaken within 12 months of the date of issue of the original audit report.	100%	93%	100%	95%	93%	86%	All follow ups have now been undertaken. The average time to undertake a follow up was 11.3 weeks.

BEST VALUE / VALUE FOR MONEY	TARGET	08/09	07/08	06/07	05/06	04/05	COMMENT
1. Draft reports issued within 16 weeks of the start of the audit.	100%	100%	66%	75%	66%	0%	
2. Complete the number of studies outlined in the annual audit plan.	3	100%	75%	100%	75%	75%	
REACTIVE WORK	TARGET	08/09	07/08	06/07	05/06	04/05	COMMENT
1. Requests for reactive work responded same day.	100%	100%	100%	100%	100%	100%	
2. Draft reports re reactive work issued within 8 weeks or such other date as agreed with customer.	100%	89%	91%	100%	90%	75%	8 of 9 reports – one report took longer than 8 weeks.
3. Requests for advice acknowledged by end of next working day.	100%	99%	99%	98%	99%	99%	
4. Percentage of requests dealt with within 3 working days	98%	98%	96%	98%	94%	91%	

APPENDIX B

BENCHMARKING INFORMATION

CIPFA BENCHMARKING CLUB RESULTS 2007/08

Measure	WLC	CIPFA Average*	Variance	Comment
1. Chargeable days per auditor	167	168	-1	
2. Cost per £ million “turnover”	£751	£1,073	-322	
3. Sickness days per auditor	3.5	8.2	-4.7	
4. % qualified staff	80%	29%	-51	Refers to accountancy or internal audit qualification.
5. Cost per chargeable day	£328	£302	+26	

* average of all unitary councils UK wide

Note: CIPFA benchmarking information is prepared annually in arrears; the 2008/09 results were not available at the time of writing.

APPENDIX C

SYSTEMS AUDITS 2008/09

Audit	Reference	Date Report Issued	Conclusion	Comment
CORPORATE GOVERNANCE	CW0807	23/4/09	Good	
PROCUREMENT STRATEGY	FA0809	24/3/09	Good	
IMPROVEMENT SERVICE	EX0803	In draft as at 30/3/09	Good	Audit of corporate governance arrangements.
DAILY CHEQUES (compliance re policies on e-procurement and Standing Orders)	CW0812	9/3/09	n/a	No overall conclusion – audited a sample of payments across service areas.
NON DOMESTIC RATES	FA0803	In draft as at 31/3/09	Good	
DAILY CHEQUES – FINANCE SERVICES	FA0805	30/1/09	Requires Improvement	
WEST LOTHIAN LEISURE	EX0801	14/4/09	Requires Improvement	Audit of cash collection.
CIVIC CENTRE (Payment / Monitoring)	PS0801	9/12/08	Effective	Reported to the Audit Committee 17/3/09.
PAYROLL	SS0801	In draft as at 19/3/09	Requires Improvement	
TREASURY MANAGEMENT	FA0802	27/2/09	Good	Reported to the Audit Committee 9/6/09.
PERFORMANCE MANAGEMENT	CW0811	24/11/08	Requires Improvement	Reported to the Audit Committee 11/12/08.
PROJECT MANAGEMENT (WAN/LAN/IPT)	CW0803	9/1/09	Effective	

Audit	Reference	Date Report Issued	Conclusion	Comment
PROJECT MANAGEMENT (Disaster Recovery)	CW0803	4/2/09	Requires Improvement	
PURCHASE CARDS	CW0806	11/3/09	Requires Improvement	
HOUSING BENEFIT	FA0801	2/2/09	Good	
BATHGATE SHOPFRONT IMPROVEMENT SCHEME	PR0801	2/12/08	Requires Improvement	
RENT ACCOUNTING	FA0804	3/2/09	Good	
WEST LOTHIAN HOUSING PARTNERSHIP	EX0802	31/10/08	Requires Improvement	Audit of debt recovery.
INFORMATION SECURITY	CW0805	17/10/08	Good	Review of Education and Cultural Services and Social policy.
DEV AND REG RISK REGISTER	DS0801	29/8/08	Effective	Review of compliance with controls in the corporate risk register.
HOUSE ALLOCATIONS	HS0801	3/12/08	Good	Reported to the Audit Committee 17/3/09.
SCHOOL FUND/IMPREST	ES0802	2/10/08	n/a	No overall conclusion – audited a sample of schools for compliance with good practice and council procedures.
BUSINESS CONTINUITY PLANNING	CW0804	3/11/08	Poor	Reported to the Audit Committee 17/3/09.
PROJECT MANAGEMENT (Civic Centre)	CW0803	26/11/08	Good	
PERFORMANCE MANAGEMENT	CW0801	3/6/08	Requires Improvement	Reported to the Audit Committee 3/6/08.