

WEST DUNBARTONSHIRE COUNCIL

Report by Chief Officer – Resources

Audit Committee: 2 March 2022

Subject: Internal Audit Plans 2020/21 and 2021/22 – Progress to 2 March 2022

1. Purpose

1.1 The purpose of this report is to advise Members of progress at 31 January 2022 against the Internal Audit Plans for 2020/21 and 2021/22.

1.2 The report also advises Members of:

- Recently issued Internal Audit reports and action plans; and
- Status of implementation progress relating to action plans from previously issued Internal Audit reports.

2. Recommendations

2.1 It is recommended that Members note the contents of this report.

3. Background

3.1 The annual audit plans for 2020/21 and 2021/22 were approved by the Audit Committee on 17 June 2020 and 10 March 2021 respectively. This report provides information on the progress in implementing the plans.

3.2 When audit reports are issued by Internal Audit, an action plan is agreed with management in relation to issues highlighted by the audit report. Progress on implementing the actions is monitored by Internal Audit on a monthly basis and regularly reported to the Audit Committee.

4. Main Issues

4.1. The annual audit plan sets out the audit coverage for the year utilising available staff resources to enable the Shared Service Manager – Audit & Fraud to provide the annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.

4.2 A new risk-based audit methodology was implemented during 2020/21. For each audit, one of 4 audit opinions is expressed:

| | |
|---------------------|---|
| Strong | In our opinion there is a sound system of internal controls designed to ensure that the organisation is able to achieve its objectives. |
| Satisfactory | In our opinion isolated areas of control weakness were identified which, whilst not systemic, put some organisation objectives at risk. |

| | |
|-----------------------------|--|
| Requires Improvement | In our opinion systemic and/or material control weaknesses were identified such that some organisation objectives are put at significant risk. |
| Unsatisfactory | In our opinion the control environment was considered inadequate to ensure that the organisation is able to achieve its objectives. |

4.3 Detailed findings and recommendations reported to management are graded using the following criteria:

| | |
|--------------|---|
| Red | In our opinion the control environment is insufficient to address the risk and this could impact the Council as a whole. Corrective action must be taken and should start immediately. Overseen to completion by Corporate Management Team. |
| Amber | In our opinion there are areas of control weakness which we consider to be individually significant but which are unlikely to affect the Council as a whole. Corrective action must be taken (some exceptions may be agreed with Internal Audit) within reasonable timeframe. Overseen to completion by Chief Officer/Head of Service. |
| Green | In our opinion the risk area is well controlled or our audit highlighted areas for minor control improvement and/or areas of minor control weakness. Process improvements/efficiencies may be actioned at management discretion in consultation with Internal Audit. Managed by service owner. Not reported in Audit Committee papers. |

4.4 Two audit reviews have been finalised since the Audit Committee meeting in November 2021 as follows:

- IHMS Stores and Stock Management
- Control Self-Assessment – HSCP Client Accounts Process (Care Homes)

IHMS Stores and Stock Management

4.5 The management of stock is an important function of Building Services. It is an essential part of the valuation of jobs undertaken and the subsequent charge for that job to other services within the Council. The value of each stock item is dependent on the accurate recording of the correct information in the stock module of the IHMS. Building Services stocks consists of approximately 2000 items varying in value from less than £1 to just under £1000. The majority of the items stored are of low value e.g. screws, nuts, bolts, tins of paint and other small building materials. Among the larger items stored are boiler units, bathroom fittings and kitchen units.

4.6 Stocks are maintained at three main stores Cochno Street Clydebank, Overburn Avenue Dumbarton and Elm Road Dumbarton. All stores contain a large variety of building materials. The value of Building Services stock at 31st March 2021 was £562,392.

- 4.7 In addition to the items in storage other items are delivered direct to the sites (Direct Purchases) where the work is carried out. This will include Windows, Doors, Timbers and Concrete Slabs and are shown separately in the Building Services financial accounts.
- 4.8 The objective of this audit was to provide management and the Audit Committee with an assessment of the adequacy and effectiveness of the governance, risk management and controls over the key risks faced by West Dunbartonshire Council in relation to IHMS – Stores and Stock Management.
- 4.9 The overall control environment opinion was **Satisfactory**. There was one RED issue and 4 AMBER issues identified as follows:

Lack of Stock Control Process for Direct Purchases of UPVC Units (Red)

During our attendance at site stock checks in September 2021, we identified that there are currently UPVC windows/doors units and Timber Roof Battens with an approximate value of around £250,000 stored across 3 Council sites on Elm Road Dumbarton which were procured as direct purchases and therefore not included as part of stores. However, the stock stored at the 3 sites is held in an open area which is not adequately protected from theft or damage.

In addition, the stock of UPVC windows/doors includes 166 units relating to inactive orders where windows purchased have not been installed due to Building Services being unable to gain access to relevant properties. Most of the inactive UPVC windows/doors have accumulated over many years with limited records available.

Where large volumes of material items are stored out with the recognised stores premises and are not subject to stores procedures there is a risk of deterioration/loss/theft of stock as a result of items being stored inappropriately.

Non-compliance with Council Procedures for Stocktaking (Amber)

We attended the stock checks carried out in September and observed that the team who carried out the perpetual stock check at the Building Services Overburn Avenue were officers who had direct responsibility for managing the stores depot and did not comply with the Council's Instructions for Stocktaking and Annual Reporting which requires that:

"Administrative/technical personnel should be involved in stocktaking rather than persons handling the stores on a day to day basis".

Where perpetual stock checks are carried out by personnel with direct responsibility for managing the stores depot where the stock check is being carried out including the receipt and issuing of materials, there is a risk that errors/losses/thefts regarding materials stored could be occurring which may go undetected.

Full implementation of Minimum/Maximum Levels and automatic reordering of stock items (Amber)

Through observation and enquiry it was identified that the Minimum/Maximum levels facility within the QL system is not being utilised at all depots by the storemen authorised to place orders. It was also identified that system functionality for the automatic re-ordering of materials when the minimum level is reached has not been fully developed within the IHMS.

Where all available system functionality is not utilised by staff in the IHMS system there is a risk that the Council will not fully achieve all efficiencies in processes identified through the cost benefit analysis for the newly implemented IHMS system.

Authorisation of Stock Check Adjustments (Amber)

It was observed during the Perpetual Stock Check at the Overburn Depot on 22nd September 2021 that all adjustments to stock quantities identified from the stock check were uploaded into QL without the authorisation required by the Council's stocktaking procedures.

Where discrepancies disclosed by stock counts are not independently checked and authorised by senior officials when updating the QL system, there is a risk that any loss or theft of stock goes undetected as a result of items being wrongly or fraudulently recorded on the QL system.

Lack of functionality to record the transfer of materials between jobs on QL System (Amber)

Through walkthroughs of procedures with Building Services staff it was identified that there is no functionality in the QL system to allow the recording of the transfer of materials from one job to another. Currently when direct materials purchased have been invoiced and receipted to a job they cannot then be transferred to another job in the system.

Where there is no functionality to transfer the cost of excess materials or materials that have been incorrectly charged to individual jobs there is the risk of the cost of jobs may be over or under stated. There is also a potential fraud risk where complete and accurate records are not held for jobs which may increase the opportunity for theft of excess materials which goes undetected.

- 4.10** The audit identified 7 issues, 5 of which we consider to be individually significant and an action plan is in place to address all issues by 31 March 2023.

Control Self-Assessment – HSCP Client Accounts Process (Care Homes)

- 4.11** The Council has 2 care homes namely Queens Quay House and Crosslet House. Both care homes operate a Clients Account for handling residents' finances. Specifically, where a resident is unable to manage their own finances, lacks capacity or requires protection from exploitation, the Council can apply for Corporate Appointeeship. In this regard, this allows the Council to manage the

resident's pension, pay the resident's board charges and support the resident to make personal choices in relation to their money.

4.12 Control self-assessment is a process through which management confirm levels of compliance with expected controls and best practice guidance. Sample testing is carried out by Internal Audit to verify the completeness and accuracy of the self-assessment return.

4.13 The self-assessment exercise identified a number of areas of non-compliance with expected controls as follows:

Queens Quay House

- The Client Bank Account is not in the name of Queens Quay House which is the registered organisation and the list of authorised signatories requires to be updated;
- Bank reconciliations are not being carried out to ensure that any errors or irregularities are identified and corrected in a timely manner;
- There are some weaknesses in the process for purchasing goods and services for service users; and
- Although cash reconciliations are carried out, these are not independently checked.

Crosslet House

- Procedures for checking purchases and receipts are not being carried out;
- Cash reconciliations are not being independently checked.

4.14 Action plans have been agreed with management for each Care Home and will be monitored for completion as part of the 2022/23 audit plan.

4.15 The 2021/22 Annual Audit Plan is underway and current status is as follows:

| Stage | Number of Audits |
|-------------------------------------|-------------------------|
| Final Report | 1 |
| Draft Report | 0 |
| Fieldwork Complete | 0 |
| Fieldwork | 4 |
| Planning | 1 |
| Not Started | 5 |
| B/f 20/21 Audits completed in 21/22 | 5 |
| Total | 16 |

4.16 Delivery of the 2021/22 audit plan has been delayed due to unanticipated staff turnover, staff absence and completion of 2020/21 audit plan. The team is now back to full complement and completion of the plan will regain momentum over the next few months with a target completion date of June 2022. As such, the audit plan for 2022/23 will now be presented to the June 2022 Audit Committee to take account of any carry forward required at that stage.

- 4.17** In relation to audit work for IJB, 2 planned audits are underway and reports will be provided to management and reported to HSCP Board Audit and Performance Committee.
- 4.18** In relation to the Valuation Joint Board, one planned audit is underway for the audit work that will be carried out during 2021/22.
- 4.19** In relation to the Leisure Trust, one planned audit is underway for the audit work that will be carried out during 2021/22.

4.20 Internal and External Audit Action Plans

In relation to audit action plans, these are monitored by Internal Audit on a monthly basis. There were 7 actions due for completion by the end of December, 3 of which have been implemented and the completion date in relation to the other 4 actions has been revised.

Work is ongoing with services to ensure action plan dates agreed are realistic. The status report at 31 December 2021 is provided at Appendix 2.

- 4.21** The Council's Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective April 2013 (updated April 2017) which includes:

- Definition of Internal Auditing;
- Code of Ethics;
- Attribute Standards (responsibility, independence, proficiency, quality); and
- Professional Standards (managing activity, nature of work, engagement planning, performing the engagement, communicating results, monitoring progress, risk management).

Ongoing Corporate Fraud Team Work

- 4.22** From 1 April to 31 December 2021, the Corporate Fraud team's day to day work has resulted in actual recoveries, charges and re-billings as detailed below, against an annual target of £250,000.

| Description | Amount (£) |
|---|-------------------|
| Council Tax Reduction | 38,084 |
| Council Tax Single Person's Discount | 21,858 |
| National Fraud Initiative (CTR) | 22,669 |
| National Fraud Initiative (SBBS) | 57,278 |
| J/W Housing Benefit/Council Tax Reduction | 0 |
| Non DWP Housing Benefit | 108,576 |
| Non DWP Council Tax Reduction | 420 |
| Administrative Penalty | 1,260 |
| Total | £250,145 |

- 4.23** The Internal Audit Team and the Corporate Fraud Team continue to work together as appropriate in order to ensure a joined-up approach to fraud investigation and detection.

National Fraud Initiative

- 4.24** The National Fraud Initiative (NFI) is a series of biennial exercises run by the Cabinet Office and Audit Scotland to identify or prevent fraud and error by matching electronic data held by public bodies. Participating bodies are required to investigate data discrepancies within a timescale and report back on any savings.
- 4.25** The most recent biennial exercise for 2020/21 was released data to Councils in January 2021 providing matched datasets for organisations to investigate. There is an expectation that organisations would examine all “High Risk” matches and a proportion of the other matches too. WDC applies a risk-based approach to the NFI matches in the medium and low risk categories.
- 4.26** Services are progressing with investigations and a progress report on the 2020/21 exercise is included on the agenda for the March 2022 meeting of the Audit Committee.

Benchmarking

- 4.27** In accordance with the Council’s Strategic Improvement Framework, services should undertake benchmarking activity with the equivalent function in other Councils. Therefore, WDC Internal Audit has entered into a benchmarking group which involves seven other Councils, these being:

- Argyll and Bute;
- Clackmannanshire;
- East Dunbartonshire;
- Falkirk;
- West Lothian;
- Inverclyde; and
- Stirling.

- 4.28** Regular meetings will continue to take place during 2022 to review performance against agreed performance indicators and identify other areas for sharing of best practice. Relevant action will be taken where improvements are identified. The outcome of this review will be reported to Committee when completed.

5. People Implications

- 5.1** There are no people implications.

6. Financial and Procurement Implications

- 6.1** As a result of Corporate Fraud Team activity, actual recoveries, charges and re-billings of £250,145 from 1 April to 31 December 2021 have been identified, against an annual target of £250,000.
- 6.2** There are no procurement implications arising from this report.

7. Risk Analysis

- 7.1** There is a risk that failure to deliver the Internal Audit Plan would result in an inability to provide a reasonable level of assurance over the Council’s system of

internal financial control to those charged with governance. The main basis for providing assurance is coverage of the planned risk-based audits. Every endeavour is made to ensure that no material slippage occurs in risk-based audits by concentrating resources on these audits.

8. Equalities Impact Assessment (EIA)

8.1 There are no issues.

9. Consultation

9.1 This report has been subject to consultation with appropriate Chief Officers.

10. Strategic Assessment

10.1 This report relates to strong corporate governance.

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Date: 31 January 2022

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Appendices: 2021-22 Annual Audit Plan – Progress to 31 January 2022
(Appendix 1)
Status of Internal Audit Action Plans to 31 December 2021
(Appendix 2)

Background Papers: Audit Committee – 10 March 2021: Internal Audit Annual
Plan 2021/22
Audit Committee – 21 March 2018: Counter Fraud and
Corruption Strategy
Internal Audit Reports - Copies available on request

Wards Affected: All wards