

FALKIRK COUNCIL

**Subject: INTERNAL AUDIT PROGRESS REPORT**  
**Meeting: AUDIT COMMITTEE**  
**Date: 16 December 2013**  
**Author: INTERNAL AUDIT MANAGER**

**1. INTRODUCTION**

- 1.1 The purpose of this paper is to update Members on progress with completing the agreed 2013/14 Internal Audit Plan (the Plan), as presented to Audit Committee on 25 March 2013.
- 1.2 The paper also proposes changes to the way in which 'Recommendations Outstanding' will be reported to future meetings of the Committee.

**2. AUDIT PROGRESS**

- 2.1 Progress with completing 2013/14 Internal Audit work is summarised in the table below.

Status	Number	%
Final Reports Issued	10	40%
Draft Reports Issued	4	16%
In Progress	7	28%
Not Started	4	16%
<b>Total</b>	<b>25</b>	<b>100%</b>

- 2.2 Progress is as planned and in line with previous years. No significant adjustments have been made. **Appendix 1** lists each planned review and current status, along with the assurance level provided for those completed to final report stage (see **Appendix 2** for definitions).
- 2.3 Key findings arising from those reports completed to final report stage are set out at **Appendix 3** (Previously Reported to Committee) and **Appendix 4** (Not Previously Reported to Committee).

**3. INTERNAL AUDIT PERFORMANCE**

- 3.1 Performance against our established 5 Key Performance Indicators is as set out in the table overleaf:

Key Performance Indicator	2013/14 - to date	2012/13	2011/12
Complete <b>85%</b> of main audit programme	<b>56%</b>	100%	100%
Have <b>90%</b> of recommendations accepted	<b>100%</b>	99%	99%
Spend <b>75%</b> of time on direct audit work	<b>76%</b>	78%	77%
Issue <b>75%</b> of draft reports within 3 weeks of completion of fieldwork	<b>93%</b>	96%	82%
Complete (to issue of final report) <b>75%</b> of main audits within budget	<b>90%</b>	87%	82%

- 3.2 As with previous years, performance against each indicator is as expected. The level of consistency achieved is pleasing, and is indicative of the efficient and effective service provided by the Internal Audit team.

#### 4. REPORTING OF RECOMMENDATIONS OUTSTANDING

- 4.1 Members will recall that, at the 23 September meeting of the Committee, there was discussion in relation to the respective roles of the Audit Committee and of Officers for the oversight of Internal Audit 'Recommendations Outstanding'.
- 4.2 The 2013 '*Public Sector Internal Audit Standards*' are clear that responsibility for implementing (or accepting the risk of not implementing) Internal Audit recommendations rests with Officers. Related to that, CIPFA's '*Audit Committees: Practical Guidance for Local Authorities*' and CIPFA Scotland's '*Audit Committee Principles in Local Authorities in Scotland*' both include the monitoring of recommendations as part of the role of the Audit Committee.
- 4.3 To allow the Committee to properly discharge this function, it is part of my role to provide information on recommendations that remain outstanding. It is important to note that all Internal Audit recommendations, and action to address each recommendation, is agreed with managers as part of the process of moving from draft to final report. It is the case, therefore, that Internal Audit **and** the responsible manager agree that there is a risk, and that the recommendation and agreed action adequately and proportionately address that risk.
- 4.4 I have previously (October 2012, March 2013, and September 2013) provided the Committee with reports on 'Recommendations Outstanding'. These reports show that good progress has been made with implementing recommendations, with the number outstanding steadily decreasing.
- 4.5 In the most recent report a total of 109 recommendations were reported as outstanding, broken down as follows:
- Agreed Action Date Yet to Lapse = 50 recommendations; and
  - Agreed Action Date Lapsed = 59 recommendations.

- 4.6 Clearly, Members' attention should be focussed on those recommendations where the agreed action date has lapsed. While previous reports to Committee on recommendations outstanding have been complete and up to date, they have not been presented in a way that clearly focuses on those, key, recommendations.
- 4.7 On that basis, and with Members' agreement, I would propose that I prepare a further report on recommendations outstanding for the March meeting of Committee, but focussing more clearly on:
- Recommendations where the Agreed Action Date has lapsed<sup>1</sup>;  
**AND**
  - Where no revised (and reasonable) Action Date has been agreed with managers;  
**AND**
  - Where there is a clear and material link to one of the Council's seven agreed risk categories (ie financial; information; human resource; asset; change management; governance / accountability; or partnerships).
- 4.8 This approach would allow me to highlight any particular areas of risk / concern, and provide positive assurance where appropriate (in a much more user friendly and readable format).

## **5. RECOMMENDATIONS**

### **5.1 Members are invited to:**

**5.1.1 note that good progress is being made with planned Internal Audit work;**

**5.1.2 note that performance against KPIs is as reported at paragraph 3.1;**

**5.1.3 agree that a further report on recommendations outstanding is presented to the March 2014 meeting of the Committee.**

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**Internal Audit Manager**

**Date: 06 December 2013**

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<sup>1</sup> **NOTE** - Excluding those which have been superseded, where circumstances / risks have changed, or where alternative actions have been taken to address the identified risk.

## 2013/14 INTERNAL AUDIT PLAN – PROGRESS AT DECEMBER 2013

No.	Service/Status	Audit	Level of Assurance
<b><i>Final Reports Issued</i></b>			
1.	Corporate and Neighbourhood	Fleet Management – Operator's Licence Requirements	Substantial
2.	Finance	Debtors	Substantial
3.	Governance	Records Management	Substantial
4.	Social Work	Clients' Funds / Intermediary Accounts	Limited
5.	All Services	Statutory Performance Indicator Verification	Substantial
6.	Social Work	Cash Spot Checks	Substantial
7.	All Services	Corporate Purchasing and Contract Management	To be Confirmed <sup>2</sup>
8.	Development / Finance	Strategic Projects – Position Statement	N/A
9.	All Services	Continuous Auditing	N/A <sup>3</sup>
10.	All Services	Welfare Reform – Position Statement	N/A
<b><i>Draft Reports Issued</i></b>			
11.	Corporate and Neighbourhood / Finance	Chip and Pin and Paye.Net	To Be Confirmed
12.	Finance	General Services Capital Programme	To Be Confirmed
13.	Education	Site Key Control Testing (Head of Muir Primary School)	To Be Confirmed
14.	Falkirk Community Trust	Repairs and Maintenance / Library Acquisitions / Payroll	As reported to Trust Board
<b><i>Audits In Progress</i></b>			
15.	Social Work	Self Directed Support	N/A
16.	All Services	Serious Organised Crime	N/A
17.	Finance	Corporate Fraud	N/A
18.	All Services	National Fraud Initiative	N/A
19.	All Services	Data and Information Security – Governance and Practice	N/A

<sup>2</sup> **NOTE** – Report issued 04 October 2013 covering period 01 April 2013 to 30 September 2013. A second report will be issued in April 2014, at which point a formal 'Level of Assurance' will be reported.

<sup>3</sup> **NOTE** – reporting is on an on-going basis. Focus is on analysis of transactions rather than provision of system assurance.

## Appendix 1

No.	Service/Status	Audit	Level of Assurance
20.	All Services	Premises Managers' Handbook Compliance	N/A
21.	Development	Reciprocal Review with West Lothian Council – Falkirk Council Carbon Management Arrangements	N/A
	<b><i>Audits Not Started</i></b>		
22.	Education	Education Services – Financial Governance and Management	N/A
23.	All Services	Business Continuity Planning	N/A
24.	Development	Falkirk Townscape Heritage Initiative	N/A
25.	Internal Audit	Income Generation	N/A

## DEFINITION OF INTERNAL AUDIT ASSURANCE CATEGORIES

Level of Assurance	Definition
<b>Comprehensive assurance</b>	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
<b>Substantial assurance</b>	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or abuse.
<b>Limited assurance</b>	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or abuse.
<b>No assurance</b>	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or abuse is unacceptable. Significant improvements are required.

## FINAL REPORTS ISSUED – SUMMARY OF KEY FINDINGS 2013/14

(Previously Reported to Audit Committee)

No	Audit Area and Service	Assurance and Key Findings
1.	<p>Fleet Management – Operator's Licence Requirements</p> <p>Corporate and Neighbourhood</p>	<p><b>Substantial Assurance</b></p> <p>Covered arrangements for ensuring compliance with the conditions attached to the Standard National Goods Vehicle Operator's Licence granted to Falkirk Council in August 1995.</p> <p>In general, adequate arrangements were in place. A robust vehicle servicing and maintenance programme has been developed, with all vehicles covered by the Licence subject to regular inspection.</p> <p>We did, however, note scope for improving: training for drivers, Service Transport Officers and line managers; risk management; first use vehicle checks; line manager sample checking; driver infringement reports; and management information.</p>
2.	<p>Debtors</p> <p>Finance</p>	<p><b>Substantial Assurance</b></p> <p>Covered controls over the identification, input, and authorisation of debtor information on Integra; arrangements for recording payments; debt management, arrears, and write-offs; reconciliations; and management information.</p> <p>Sound systems of control were in place, with clear roles, responsibilities, and guidance. There was some scope for further improving system access and administration; authorised signatory lists; debt-write off and recovery arrangements; and performance information.</p>
3.	<p>Records Management</p> <p>Governance</p>	<p><b>Substantial Assurance</b></p> <p>Covered arrangements for ensuring an effective records management function, focussing on compliance with the Public Records (Scotland) Act 2011.</p> <p>We found that work in relation to the six compulsory elements of the Act was substantively complete, with work planned to address any remaining outstanding areas. Of the remaining eight, non-compulsory, elements, we noted that there were several where improvements are planned or in progress.</p> <p>In overall terms, however, we found that the Records Management Plan submitted to the Keeper of the Records of Scotland complied, in general terms, with the requirements of the Act.</p>

No	Audit Area and Service	Assurance and Key Findings
4.	Clients' Funds / Intermediary Accounts  Social Work	<p><b>Limited Assurance</b></p> <p>Covered policies, procedures, and guidance; financial and operational controls; the security and retention of clients' funds records; and the production of management information. Internal Audit visited Brockville, Camelon, and Grangemouth Area Offices to review local arrangements.</p> <p>While we noted that operational guidance had recently been updated and that training had taken place, there remained a number of weaknesses.</p> <p>In particular, we made recommendations in relation to criteria for appointeeship; the application of segregation of duties; management checks; reconciliations and record keeping; reviewing account balances; and management information.</p>
5.	Statutory Performance Indicator Verification  All Services	<p><b>Substantial Assurance</b></p> <p>Reported on Internal Audit's role in collecting and validating SPI returns prepared by Services. For each of the SPIs falling within our remit, we found that the information gathered for publication was accurate and complete.</p>
6.	Cash Spot Checks  Social Work	<p><b>Substantial Assurance</b></p> <p>We reviewed procedures for the receipt, recording, and reconciliation of cash (imprest, donations, and client funds) at Torwoodhall and Grahamston House Care Homes, and at Caledonia Clubhouse.</p> <p>While arrangements were generally sound, we made a number of recommendations relating to security and record keeping.</p>



## FINAL REPORTS ISSUED - SUMMARY OF KEY FINDINGS 2013/14

**(NOT Previously Reported to Audit Committee)**

No	Audit Area and Service	Assurance and Key Findings
1.	<p>Corporate Purchasing and Contract Monitoring</p> <p>All Services</p>	<p><b>Level of Assurance To Be Confirmed in April 2014</b></p> <p>On a weekly basis Internal Audit reviews a sample of payments of greater than £10,000 to assess compliance with Financial Regulations and Contract Standing Orders.</p> <p>All sampled payments are checked to ensure that a contracted supplier has been used. Where this is not the case, Internal Audit contact the 'authorising officer' to confirm whether the appropriate quotation / tendering exercise was undertaken.</p> <p>To date, we have found there to be broad compliance with Financial Regulations and Contract Standing Orders when procuring goods and services.</p> <p>An interim report on our findings was issued to management in October 2013. We will continue to undertake weekly sample checking, with a view to issuing a final report, incorporating a formal 'level of assurance', in April 2014.</p>
2.	<p>Strategic Projects – Position Statement</p> <p>Development / Finance</p>	<p><b>N/A – Position Statement</b></p> <p>Internal Audit has maintained an oversight role in relation to strategic projects, focussing on the pilot Tax Incremental Finance project.</p> <p>We noted that significant work had been undertaken to satisfy the requirements of the Scottish Government's terms and conditions of approval, and to put in place governance and management structures. In the short term, the TIF Delivery Team need to ensure that a full risk register is maintained to allow robust risk reporting to the TIF Steering Group and TIF Executive. In addition, it is important that the programme of meetings with the Scottish Futures Trust and Scottish Government is maintained.</p> <p>Internal Audit will continue to monitor progress, and will include review of ongoing arrangements for monitoring, measuring, governance, and reporting in future Internal Audit Plans.</p>

No	Audit Area and Service	Assurance and Key Findings
3.	Continuous Auditing	<p><b>N/A – Ongoing Reporting and Assurance</b></p> <p>To date, work has focussed on:</p> <ul style="list-style-type: none"> <li>• creditors duplicate payments;</li> <li>• overtime payments;</li> <li>• finance system access control;</li> <li>• debtor analysis (feeding into Review of Debtors);</li> <li>• VAT registration number / post code validity; and</li> <li>• taxi operator licences.</li> </ul> <p>Various reports have been issued and, in the main, these continue to provide positive assurance on transactional processes. As with previous years, a number of duplicate creditors payments have been identified (totalling c£30k for 2013/14 to date) – action has been taken (or is being taken) to recover these amounts (either by credit note or refund).</p>
4.	Welfare Reform – Position Statement	<p><b>N/A – Position Statement</b></p> <p>Internal Audit has maintained an oversight role in relation to Welfare Reform planning and change management. This includes governance arrangements (via the Welfare Reform Governance Group), risk management, and the associated operational work programme.</p> <p>A Welfare Reform Project Manager (PM) has recently been appointed. The PM will further develop and improve monitoring and reporting, project risk management, and project planning arrangements.</p> <p>Much work has been undertaken to satisfy the requirements of the Welfare Reform Change Programme set by the Department for Work and Pensions. The implementation of welfare reforms is, however, an ongoing process, and Internal Audit will continue to allocate resource to the project in future Internal Audit Plans.</p>