

FALKIRK COUNCIL

Subject: INTERNAL AUDIT: ANNUAL ASSURANCE REPORT
2013/14
Meeting: AUDIT COMMITTEE
Date: 23 June 2014
Author: INTERNAL AUDIT MANAGER

1. INTRODUCTION

- 1.1 This paper reports on 2013/14 Internal Audit work, and provides an overall assurance on the Council's control framework based on that work.
- 1.2 As Members are aware, it is Senior Managers' responsibility to establish and maintain effective and proportionate risk management, governance, and control arrangements. Internal Audit is not an extension of, or substitute for, operational management, and Auditors have no direct responsibility or authority over any operational activities. Internal Audit is, therefore, organisationally independent, and able to provide an objective opinion to Members.
- 1.3 The Public Sector Internal Audit Standards 2013 (the Standards) require the Internal Audit Manager to provide an Annual Assurance Report that includes:
- a statement on the overall adequacy of the Council's control environment;
 - a summary of Internal Audit work undertaken during the year; and
 - a statement on conformance with the Standards.
- 1.4 This report has been prepared to meet those requirements.

2. OVERALL OPINION

- 2.1 Internal Audit completed 25 main assignments during 2013/14. These comprised a mix of assurance reports, continuous auditing, position statements, and involvement in on-going workstreams. This mix of outputs reflects the Council's ever changing operating environment and risk profile.
- 2.2 I am, therefore, content that the breadth and depth of coverage was sufficient to allow me to provide a balanced opinion on the overall adequacy of the Council's control environment.
- 2.3 As Members are aware, Internal Audit use a set of Assurance Categories to provide an opinion on the adequacy of arrangements for risk management, governance, and control. A summary of these is set out at **Appendix 1**.
- 2.4 On this basis, Internal Audit can provide **SUBSTANTIAL** assurance in relation to the Council's overall framework of controls for the year to 31 March 2014.

3. OPERATIONAL ACTIVITY DURING 2013/14

3.1 Internal Audit's Annual Plan for 2013/14 consisted of 25 main reviews. Details of these are set out at **Appendix 2**¹, with a summary of the scope of, and findings arising from, each set out at **Appendix 3**.

3.2 Internal Audit provided a formal assurance in relation to 12 planned reviews. For most of these, we provided Substantial Assurance. There were, however, 3 areas where we provided only Limited Assurance, namely:

- Clients' Funds / Intermediary Accounts;
- Site Key Control Testing (Head of Muir Primary School); and
- Carbon Management Arrangements².

3.3 As per paragraph 2.1, there were a number of areas where we did not provide an overall assurance (eg, because the area under review remained in development, or where our involvement was on an on-going basis). That said, several of these assignments resulted in recommendations to management, and we will continue to update Members throughout the year on progress with the implementation of all Internal Audit recommendations.

3.4 Internal Audit is considered by Audit Scotland to be a key element of the Council's governance framework. Members should note that Audit Scotland, in their 'Review of Internal Audit 2013/14' considered at the March meeting of Audit Committee, confirmed that they will place formal reliance on work undertaken by Internal Audit in the following areas:

- General Services Capital Programme;
- Debtors;
- Welfare Reform; and
- Strategic Projects.

3.5 Audit Scotland also commented on Internal Audit's existing quality assurance framework, concluding that this is soundly based. One element of this framework continues to be the five Key Performance Indicators set out below.

Key Performance Indicator	2013/14 Performance	2012/13 Performance	2011/12 Performance
1. Complete 85% of agreed audits.	100%	100%	100%
2. Have 90% of recommendations accepted.	100%	99%	99%
3. Spend 75% of time on direct audit work.	76%	78%	77%
4. Issue 75% of draft reports within 3 weeks of completion of fieldwork.	96%	96%	82%
5. Complete (to issue of final report) 75% of main audits within budget.	88%	87%	82%

¹ **NOTE:** As per Appendix 2, four planned reviews were substituted over the course of the year, in agreement with senior management.

² **NOTE:** this review was undertaken by West Lothian Council's Internal Audit and Risk Section

- 3.6 Internal Audit's performance against each indicator has been stable for some years, and this continues to be the case for 2013/14. This reflects the experience, professionalism, and pragmatism of the team.

4. COMPLIANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS

- 4.1 Internal Audit seeks to undertake all work in conformance with the Public Sector Internal Audit Standards. The Standards, which have applied since April 2013, have 4 objectives, namely:

- to define the nature of Internal Auditing within the UK public sector;
- to set basic principles for carrying out Internal Audit in the UK public sector;
- to establish a framework for providing Internal Audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- to establish the basis for the evaluation of Internal Audit performance and to drive improvement planning.

- 4.2 Fundamentally, the Standards seek to ensure that Internal Audit is a value adding activity and compliance, for us, is mandatory.

- 4.3 One of the requirements of the Standards is that the Internal Audit Manager establishes a Quality Assurance and Improvement Programme (QAIP). The aim of the QAIP is to enable evaluation of compliance with the Standards. This comprises an annual self assessment, and five yearly external assessment.

- 4.4 Members will recall my report to the previous meeting of the Committee seeking approval to participate in a 'peer review' External Quality Assessment scheme to be established by the Scottish Local Authorities Chief Internal Auditors' Group. A detailed framework for this is being developed, and we will schedule our external assessment at an appropriate time.

- 4.5 Internal Audit have also, now, completed our first annual self assessment. This proved to be a fairly challenging process but has provided re-assurance that our existing arrangements are broadly in line with the Standards. An Action Plan has been developed to capture all areas of (minor) non-conformance, and I will ensure that these are appropriately addressed.

5. RECOMMENDATIONS

- 5.1 **Members are invited to note that:**

5.1.1 sufficient Internal Audit activity was undertaken to allow a balanced assurance to be provided;

5.1.2 Internal Audit can provide SUBSTANTIAL assurance on the Council's control framework for the year to 31 March 2014;

- 5.1.3 Audit Scotland will place formal reliance on the work of Internal Audit;
- 5.1.4 performance against Key Performance Indicators for the year to 31 March 2014 was as set out at paragraph 3.5; and
- 5.1.5 Quality Assurance and Improvement Programme outputs confirm no material non-conformance with the Public Sector Internal Audit Standards.

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Internal Audit Manager

Date: 06 June 2014

DEFINITION OF INTERNAL AUDIT ASSURANCE CATEGORIES

Level of Assurance	Definition
Substantial assurance	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.
Limited assurance	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.
No assurance	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.

SUMMARY OF 2013-14 INTERNAL AUDIT PROGRAMME

No.	Service/Status	Review / Assignment	Level of Assurance
	<i>Reviews / Assignments Complete</i>		
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	Substantial
8.	Development / Finance	Strategic Projects – Position Statement	N/A ³
9.	All Services	Continuous Auditing	N/A
10.	All Services	Welfare Reform – Position Statement	N/A
11.	Finance	General Services Capital Programme	Substantial
12.	Corporate and Neighbourhood / Finance	Chip and Pin and Paye.Net	Substantial
13.	Education	Site Key Control Testing (Head of Muir Primary School)	Limited
14.	All Services	Premises Managers' Handbook Compliance – Follow Up to Previous Work	N/A
15.	All Services	Business Continuity Planning	Substantial
16.	Finance	Corporate Fraud – Ongoing Workstream	N/A
17.	All Services	Serious Organised Crime – Ongoing Workstream	N/A
18.	Social Work	Self Directed Support – Ongoing Workstream	N/A
19.	All Services	National Fraud Initiative	N/A
20.	Development	Reciprocal Review with West Lothian Council – Falkirk Council Carbon Management Arrangements	Limited
21.	Falkirk Community Trust	Repairs and Maintenance / Library Acquisitions / Payroll	As reported to Trust Board

³ **NOTE:** N/A = Not Applicable

<i>Additional Reviews / Assignments Completed During 2013-14</i>			
22.	Social Work	Deferred Payments	N/A – undertaken as consultancy assignments with recommendations made to managers
23.	Education	Premises Management Arrangements at Larbert High School	
24.	All Services	Agency Worker Arrangements	
25.	Social Work	Joint Loan Equipment Store Purchasing	

<i>2013-14 Reviews / Assignments Not Completed</i>		
1.	Development	Falkirk Townscape Heritage Initiative
2.	Internal Audit	Income Generation
3.	All Services	Data and Information Security – Governance and Practice
4.	Education	Financial Governance and Management

DETAILS OF 2013-14 INTERNAL AUDIT PROGRAMME

Planned Audits Completed During 2013-14		
No.	Audit Area and Service	Assurance and Key Findings
1.	Fleet Management – Operator's Licence Requirements Corporate and Neighbourhood Services	<p>Substantial Assurance</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.	Debtors Finance Services	<p>Substantial Assurance</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.	Records Management Governance	<p>Substantial Assurance</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>

Planned Audits Completed During 2013-14		
No.	Audit Area and Service	Assurance and Key Findings
4.	Clients' Funds / Intermediary Accounts Social Work Services	<p>Limited Assurance 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>Substantial Assurance 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 Services	<p>Substantial Assurance 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>
7.	Corporate Purchasing All Services	<p>Substantial Assurance On a weekly basis Internal Audit reviews a sample of payments to suppliers who have received more than £10,000 in the previous week, 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>Over the course of 2013/14, we found there to be broad compliance with Financial Regulations and Contract Standing Orders when procuring goods and services.</p>

Planned Audits Completed During 2013-14		
No.	Audit Area and Service	Assurance and Key Findings
8.	Strategic Projects – Position Statement Development / Finance Services	<p>Not Applicable – Position Statement</p> <p>Internal Audit maintained an oversight role in relation to strategic projects, focussing on the 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>
9.	Continuous Auditing All Services	<p>Not Applicable – Ongoing Reporting and Assurance</p> <p>Work focussed on:</p> <ul style="list-style-type: none"> • creditors duplicate payments; • supplier database – data cleansing; • overtime payments; • finance system access control; • debtor analysis (feeding into Review of Debtors); • VAT registration number / post code validity; • Scottish Welfare Fund; and • taxi operator licences. <p>Various reports were issued and, in the main, these provided positive assurance on transactional processes. As with previous years, a number of duplicate creditors payments were identified (totalling c£43k for 2013/14) – action has been taken (or is being taken) to recover these amounts (either by credit note or refund).</p>
10.	Welfare Reform – Position Statement Corporate and Neighbourhood / Finance Services	<p>Not Applicable – Position Statement</p> <p>Internal Audit maintained an oversight role in relation to Welfare Reform planning and change management. This included 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 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>

Planned Audits Completed During 2013-14		
No.	Audit Area and Service	Assurance and Key Findings
11.	General Services Capital Programme Finance Services	<p>Substantial Assurance</p> <p>Focussed on roles, responsibilities, policies, and procedures; the efficiency and effectiveness of the capital bid and decision making process; budget monitoring and payment arrangements; and management information.</p> <p>In general, we found that sound systems of control were in place. Capital Section were involved at all stages of the management and co-ordination of the programme, with guidance and a programme timetable in place.</p> <p>There was some scope for improvement in relation to bid sheet completion and submission, agreement of the bid scoring matrix, and the recording and monitoring of expenditure information.</p>
12.	Corporate Payment System – Chip and Pin / Paye.Net Corporate and Neighbourhood / Finance Services	<p>Substantial Assurance</p> <p>Internal Audit reviewed system documentation, training, and guidance; roles and responsibilities; physical and environmental controls; data and information management and security; and business continuity arrangements, in relation to the Chip and Pin / Paye.Net system.</p> <p>Visits were made to seven sites using the Paye.Net system and, at each, good controls were in place. The Paye.Net system replaces the previous 'Streamline' system – we recommended that the exercise to replace all Streamline devices with Paye.Net is completed as soon as possible. We also recommended that a formal and comprehensive business continuity (and recovery) plan is prepared for Paye.Net.</p>
13.	Site Key Control Testing – Head of Muir Primary School Education Services	<p>Limited Assurance</p> <p>Internal Audit visited Head of Muir Primary School to review Premises Management and financial arrangements. This included visitor arrangements, security, fire safety, health and safety, maintenance, inventory, first aid provision, risk management, business continuity, budget monitoring, ordering of and payment for goods and services, and income collection and recording.</p> <p>While we found there to be a number of areas of good practice, we did identify scope for improvement in relation to: visitors; fire alarm arrangements; CCTV; the opening, closing, and inspection of premises; business continuity plan testing; income handling; segregation of duties; and school meals income.</p>

Planned Audits Completed During 2013-14		
No.	Audit Area and Service	Assurance and Key Findings
14.	Premises Managers' Handbook Compliance All Services	<p>Not Applicable – Undertaken as Follow Up to Previous Work This review followed on from an initial audit undertaken in August 2012.</p> <p>Our 2014 work focussed on visits to a sample of seven premises, to assess the extent to which Annual Statement of Assurance (SoA) returns reconciled to actual supporting documentation.</p> <p>In summary, we found there to be discrepancies between the SoA return and actual supporting documentation at six of the seven premises visited.</p>
15.	Business Continuity Planning Development / All Services	<p>Substantial Assurance Focussed on overarching corporate arrangements for establishing business continuity and recovery plans; the adequacy of guidance and training for staff; and arrangements for testing the adequacy and robustness of documented plans.</p> <p>The Council's Business Continuity Management Policy is in the process of being approved. In addition, significant work is ongoing to update Service business continuity plans and to put in place guidance and training for staff. While no testing of updated plans has yet been undertaken, this has been programmed in and will be a key element of the rolling business continuity plan review and update process.</p>
16.	Corporate Fraud Finance Services	<p>Not Applicable – Ongoing Workstream Internal Audit continues to work with colleagues in Finance – Revenues and Benefits to consider and scope out the potential for the establishment of a Corporate Fraud Team.</p> <p>This will, to some extent, depend on the roll out of the DWP Single Fraud Investigation Service, as well as issues arising via other national initiatives such as the formation of the Scottish Government Cross-Sector Counter Fraud Group, guidance from the Police Scotland Public Sector Counter Corruption Unit, and the CIPFA Code of Practice on Managing Fraud and Corruption.</p> <p>This workstream will be rolled forward into the 2014/15 Internal Audit Plan.</p>

Planned Audits Completed During 2013-14		
No.	Audit Area and Service	Assurance and Key Findings
17.	Serious Organised Crime All Services	<p>Not Applicable – Ongoing Workstream</p> <p>The Internal Audit Manager acts as Falkirk Council's Single Point of Contact with Police Scotland in relation to Serious Organised Crime (SOC).</p> <p>Actions undertaken over the course of 2013/14 include:</p> <ul style="list-style-type: none"> • continued involvement with the Divert / Deter sub-Group of the Scottish Government's SOC Taskforce; • co-ordinating the Council's response to Divert / Deter actions delegated to SOLACE within the SOC Taskforce Implementation Plan; • running a SOC related desktop business continuity planning exercise with CMT, in conjunction with Police Scotland; and • delivering a presentation at the national launch of the Police Scotland Public Sector Counter Corruption Unit on our approach to auditing SOC readiness. <p>In addition, the approach developed by Falkirk Council Internal Audit in relation to the risks associated with SOC has been adopted by the SOC Taskforce for roll out across all other Scottish Local Authorities.</p>
18.	Self Directed Support Social Work Services	<p>Not Applicable – Ongoing Workstream</p> <p>Internal Audit maintained an oversight role in relation to the Self Directed Support (SDS) project within Falkirk Council, focussing on arrangements for the planning and implementation of SDS and compliance with the Social Care (Self Directed Support) (Scotland) Act 2013.</p> <p>We found that work towards satisfying the legislative changes was progressing well, with a Project Board, Project Team, Steering Group, and Development Manager in place, supported by various workstreams each with a lead officer and action plan. Monthly Workstream Reports include risk information, although work is required to ensure that risks are considered and mitigated in practice.</p> <p>While there remains a need for significant operational change to deliver SDS outcomes, arrangements established to date appear proportionate and robust. Internal Audit will include ongoing review within our 2014/15 Plan.</p>

Planned Audits Completed During 2013-14		
No.	Audit Area and Service	Assurance and Key Findings
19.	National Fraud Initiative All Services	<p>Not Applicable</p> <p>The 2012/13 NFI exercise is now drawing to a close. The exercise is co-ordinated by Internal Audit, with investigations arising from data matching undertaken by Services.</p> <p>A total of 3,355 matches have now been investigated and closed, with c£22k returned (or in the process of being recovered and returned) to the public purse as a result of those investigations. A number of further investigations are ongoing.</p> <p>In addition, two additional sets of data matches relating to Council Tax have recently been released, with arrangements established to follow up and investigate these.</p> <p>The NFI exercise is cyclical, and the Council will again be required to submit data during 2014/15 generating a further release of matches in early 2015. Provision has been made within the 2014/15 Internal Audit Plan for the co-ordination of this exercise.</p>
20.	Reciprocal Review with West Lothian Council – Falkirk Council's Carbon Management Arrangements Development Services	<p>Limited Assurance</p> <p>This review was undertaken as part of a reciprocal agreement with West Lothian Council's Internal Audit and Risk Section.</p> <p>Work focussed on roles, responsibilities, policies, and procedures; progress with completing and monitoring strategic initiatives, objectives, and actions; and the adequacy of management information.</p> <p>Several areas of concern were identified, as follows:</p> <ul style="list-style-type: none"> • need to review, and to fully and effectively implement and monitor, the Carbon Management Plan; • need to ensure carbon reduction targets are embedded corporately and across all Services; • need to better monitor and report on achievement (or otherwise) of targets.
21.	Repairs and Maintenance / Library Acquisitions / Payroll Falkirk Community Trust	<p>Not Applicable</p> <p>As reported to Falkirk Community Trust Audit and Performance Sub-Group.</p>

Additional Audits Completed During 2013-14		
No.	Audit Area and Service	Assurance and Key Findings
22.	Deferred Payments Social Work Services	<p>Not Applicable – Undertaken as Consultancy with Recommendations to Managers</p> <p>We reviewed Deferred Payment Arrangements, which allow residents to delay the need to sell their own home to meet care home fees. Work focussed on policies and procedures, roles and responsibilities, set up and review arrangements, management information, and recovery of debt due.</p> <p>We found there to be a need for a clear Deferred Payments Policy. In addition, supporting procedural guidance setting out eligibility criteria and responsibilities for recording, monitoring, and recovery of deferred amounts is required. Better management information would help with on-going monitoring.</p>
23.	Premises Management Arrangements at Larbert High School Education Services	<p>Not Applicable – Undertaken as Consultancy with Recommendations to Managers</p> <p>Focussed on compliance with Premises Manager Handbook requirements, and the respective responsibilities of school management, external contracted facilities management staff, and Falkirk Community Trust staff during school lets.</p> <p>Our work highlighted areas where there is scope for improvement. In particular, there is a need to clarify and formalise roles and responsibilities, and to ensure that all individuals with premises management responsibilities have access to all relevant information and provide input to the annual Statement of Assurance process. We noted various instances of operational non or partial compliance with the requirements of the Handbook.</p>
24.	Agency Worker Arrangements All Services	<p>Not Applicable – Undertaken as Consultancy with Recommendations to Managers</p> <p>Focussed on compliance with guidance on the engagement and use of agency workers and, in particular, arrangements for approval, monitoring, record keeping, notification, and procurement.</p> <p>We found there to be scope for improving the framework of control across all Services, particularly around approval; monitoring of engagement periods and notification to HR; and maintenance of an audit trail. There is also a need to ensure that, wherever possible, national framework suppliers are used when sourcing agency staff.</p>
25.	Joint Loan Equipment Store Purchasing Social Work Services	<p>Not Applicable – Undertaken as Consultancy with Recommendations to Managers</p> <p>We reviewed ordering and purchasing arrangements at JLES to assess compliance with Financial Regulations. Based on review of a sample of transactions, we found there to be scope for improving the framework of control. In particular, there was a need to ensure segregation of duties and to develop clear procedural instructions.</p>