

FALKIRK COUNCIL

Subject: INTERNAL AUDIT PROGRESS REPORT
Meeting: AUDIT COMMITTEE
Date: 15 December 2014
Author: INTERNAL AUDIT MANAGER

1. INTRODUCTION

- 1.1 The purpose of this paper is to update Members on progress with completing the agreed 2014/15 Internal Audit Plan (the Plan), and on Services' progress with implementing Internal Audit recommendations.

2. AUDIT PROGRESS

- 2.1 As Members will recall, the 2014/15 Internal Audit Plan was agreed by Audit Committee on 24 March 2014. Progress with completing planned work is summarised in the table below:

Assignment Status	Number	%
Complete to Final Report	9	40%
Complete to Draft Report	3	13%
In Progress	4	17%
Not Started	7	30%
Total	23	100%

- 2.2 The Plan set out 22 assignments to be undertaken over the course of the year. Since then, two additional reviews have been added, namely:

- Planning, Undertaking, Recording, and Reporting of Consultation Exercises; and
- Contact Centre Security.

- 2.3 To facilitate this, the planned review of System Interfaces will not be undertaken. The aim of this work was to identify areas where there might be excessive re-work / duplication at the point of data transfer from one system to another. There are, however, various other workstreams ongoing as part of the Council's continuous improvement programme, so the need for a separate Internal Audit review at this stage has diminished.

- 2.4 As per the table above, a total of 16 reviews have been completed or are underway.

2.5 Further detail on assignments complete and in progress is set out at Appendices 1 to 4, as follows:

- **Appendix 1:** lists each 2014/15 assignment and current status;
- **Appendix 2:** provides definitions of assurance categories used by Internal Audit;
- **Appendix 3:** sets out key findings arising from assignments completed to Final Report stage and previously reported to Committee; and
- **Appendix 4:** does the same for assignments **not** previously reported to Committee.

2.6 In my previous Progress Report I advised that the Section's Internal Audit Assistant had left to take up a post with another Council and that this would, inevitably, result in adjustments to the Plan. While progress at this stage is good, Members should note that adjustments to the Plan may still be required over the coming months.

3. INTERNAL AUDIT PERFORMANCE

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

Key Performance Indicator		2014/15 - to date	2013/14	2012/13
1.	Complete 85% of main audit programme	53%	100%	100%
2.	Have 90% of recommendations accepted	100%	100%	99%
3.	Spend 75% of time on direct audit work	79%	76%	78%
4.	Issue 75% of draft reports within 3 weeks of completion of fieldwork	92%	96%	96%
5.	Complete (to issue of final report) 75% of main audits within budget	100%	88%	87%

3.2 In previous years, performance has tended to exceed each of the KPI targets. While it would be pleasing to continue this trend through 2014/15, the loss of a member of staff means that expectations may require to be tempered, particularly in relation to KPI 1. That said, I remain confident that we will meet, if not exceed, each target.

4. REPORTING OF RECOMMENDATIONS OUTSTANDING

4.1 As at 05 December, a total of 6 recommendations remain outstanding. These are recommendations where the agreed Action Date has lapsed and where no revised (and reasonable) action date has been agreed with managers. These recommendations relate to reviews of:

- Social Work Intermediary Accounts (1 Rec);
- JLES Ordering and Purchasing (1 Rec); and
- Social Work Deferred Payments (4 Recs).

4.2 For information, I have included detail on each of these recommendations at **Appendix 5** to this report.

5. RECOMMENDATIONS

5.1 Members are invited to note:

5.1.1 progress with completing planned 2014/15 Internal Audit work;

5.1.2 Internal Audit performance, as reported at paragraph 3.1; and

5.1.3 the current position in relation to recommendations outstanding.

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Internal Audit Manager

Date: 05 December 2014

INTERNAL AUDIT PLAN 2014/15 – PROGRESS AT 05 DECEMBER 2014

No.	Service/Status	Assignment	Level of Assurance
<i>Final Reports Issued</i>			
1.	Corporate and Neighbourhood	Central Purchasing Unit	Substantial
2.	Corporate and Neighbourhood	Overtime, Allowance, and Payroll Change Administration	Substantial
3.	Corporate and Neighbourhood / Governance / Finance	Council House Buy Back Arrangements	Substantial
4.	All Services	Consultation Exercises ¹	Not Applicable
5.	All Services	Performance Indicator Verification	Substantial
6.	All Services	Continuous Auditing	Not Applicable
7.	All Services	National Fraud Initiative	Not Applicable
8.	All Services	Corporate Purchasing	Substantial ²
9.	Social Work	Criminal Justice Services – Position Statement	Not Applicable
<i>Draft Reports Issued</i>			
10.	Development	Business Gateway Arrangements	TBC
11.	Corporate and Neighbourhood	Contact Centre Security	TBC
12.	Falkirk Community Trust	Inventory Control / Vehicle Management	TBC
<i>Assignments In Progress</i>			
13.	Finance	Corporate Fraud	TBC
14.	Education	Site Key Control Testing – Bankier Primary School	TBC
15.	Social Work	Health and Social Care Integration (in conjunction with Fife, Tayside, and Forth Valley NHS Internal Audit Consortium)	TBC
16.	West Lothian Council – Reciprocal Review	<ul style="list-style-type: none"> WLC IA reviewing Purchase, Storage, and Disposal of Medicines at FC Care Homes. FC IA reviewing WLC Education Services' Records Management Arrangements 	TBC

¹ **NOTE:** additional review, not included in 2014/15 Internal Audit Plan.

² **NOTE:** this is an interim assurance level – further work will be undertaken over the remainder of 2014/15 and a final assurance level applied in April 2015.

	<i>Assignments Not Started</i>		
17.	All Services	Senior Officer Financial Control	TBC
18.	Development / Finance	Strategic Projects	TBC
19.	Education	Devolved School Management	TBC
20.	Education	Community Learning and Development	TBC
21.	Social Work	Self Directed Support	TBC
22.	Finance	Non-Domestic Rates	TBC
23.	Development	Falkirk Townscape Heritage Initiative	TBC
	<i>Assignments Deferred</i>		
24.	All Services	System Interfaces	Not Applicable

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.

FINAL REPORTS ISSUED – SUMMARY OF KEY FINDINGS 2014/15

(Previously Reported to Audit Committee)

No	Assignment Area and Service	Assurance and Key Findings
1.	Central Purchasing Unit Corporate and Neighbourhood Services	<p>Substantial Assurance</p> <p>Internal Audit reviewed strategies, guidance, and training; Central Purchasing Unit (CPU) accountability, roles, and responsibilities; the purchasing and contract management procedures followed in a sample of CPU led procurement exercises; and performance, financial, and management information.</p> <p>We found much evidence of good practice, with a recently approved Procurement Strategy and Procurement Improvement Plan in place. The Procurement Board meets regularly, and considers the procurement governance and internal control framework.</p> <p>The introduction of Commodity Teams (and Commodity Strategies) has been a positive development, and it is important that this approach to delivering savings, benefits, and contract management responsibilities is sustained.</p> <p>We did identify a need for the role, responsibilities, authority, and reporting arrangements of the Procurement Board to be formalised, and for improving arrangements for monitoring and managing strategic procurement risk.</p>
2.	Overtime, Allowance, and Payroll Change Administration Corporate and Neighbourhood Services	<p>Substantial Assurance</p> <p>Covered the adequacy of controls over the authorisation and processing of payroll changes, and the control framework in relation to overtime and allowances. In particular, we reviewed rules and guidance; procedures for checking, approving, processing, and monitoring claims / changes; arrangements for making payments and recovering overpayments; and management information.</p> <p>We found that operational controls around the processing of overtime and allowance payments and payroll related changes were working effectively. All staff were aware of their roles and responsibilities, and key pre-payment checks were being carried out.</p> <p>We did, however, note the need for a standard overtime / allowance claim form, incorporating appropriate claimant and authoriser declarations. There was some scope for improving the monitoring of over and under payments, and we noted a number of discrepancies during our testing of a sample of overtime claim forms.</p> <p>Payroll and HR staff are working to develop the use of employee and manager self service functionality. This will, in time, allow the electronic completion and authorisation of overtime and allowance claim forms, and further improve the framework of control.</p>

No	Assignment Area and Service	Assurance and Key Findings
3.	<p>Council House Buy Back</p> <p>Corporate and Neighbourhood, Governance, and Finance Services</p>	<p>Substantial Assurance</p> <p>Work focussed on roles and responsibilities; policy, procedures, and guidance; operational buy back arrangements; financial governance and control; and management information.</p> <p>We found systems and controls to be generally sound. The Strategy and Private Sector Housing Team (along with Legal and Finance Services) were actively involved in the management and co-ordination of the buy back scheme and there was regular contact with external stakeholders like estate agents and solicitors.</p> <p>While we found processes to be well controlled, we also noted that sustained upturn and demand in the housing market may lead to the risk of sellers not waiting for the Council to undertake its processes to then receive a market valuation offer. Opportunities to further streamline administrative processes should, therefore, continued to be explored.</p> <p>We also found there to be scope for developing better work instructions; improving resilience around the Stage 1 and 2 sign-off process; and the potential for fast-tracking the buy back of high priority properties.</p>
4.	<p>Consultation Exercises</p> <p>All Services</p>	<p>Not Applicable</p> <p>The purpose of this review was to assess the controls in place for planning, undertaking, recording, and reporting on consultation exercises. This included detailed review of a sample of three consultation exercises.</p> <p>In general, we found arrangements to be sound. That said, there was scope for reviewing and updating the Community Participation strategy and supporting guidance / training³. In addition, our review of a sample of consultation exercises highlighted some areas where guidance had not been fully applied.</p>
5.	<p>Performance Indicator Validation</p> <p>All Services</p>	<p>Substantial Assurance</p> <p>Reported on Internal Audit's role in collecting and validating Performance Indicator returns prepared by Services. For each of the Indicators falling within our remit, we found that the information gathered for publication was accurate and complete.</p>

³ **NOTE:** The Participation Strategy, and its implementation, will be reviewed by a recently established Scrutiny Panel.

No	Assignment Area and Service	Assurance and Key Findings
6.	Continuous Auditing All Services	<p>Not Applicable – Ongoing Reporting and Assurance</p> <p>Work has been undertaken on:</p> <ul style="list-style-type: none"> • Creditors Duplicate Payments; • Non-Domestic Rates Refunds; • Civic Licensing; • Payroll Suspense Accounts; • IA Self Assessment Against PSIAs; • Extra Mural Employment / Gifts and Hospitality / Notifiable Associations; and • IT Application Licensing. <p>Reports have been issued on each of the above and, in the main, these provided positive assurance.</p> <p>A number of duplicate creditors payments have been identified (totalling c£46k for 2014/15 to date) – action has been taken (or is being taken) to recover these amounts (either by credit note or refund).</p>

FINAL REPORTS ISSUED – SUMMARY OF KEY FINDINGS 2014/15

(NOT Previously Reported to Audit Committee)

No	Assignment Area and Service	Assurance and Key Findings
1.	National Fraud Initiative All Services	<p>Not Applicable</p> <p>The purpose of the NFI exercise is to review and investigate the outcomes of data matching undertaken by Audit Scotland on behalf of the Audit Commission. Matches cover areas such as Payroll, Pensions, Housing and Council Tax Benefit, and Creditors. Internal Audit are responsible for co-ordinating the process of ensuring that all relevant matches are followed-up.</p> <p>The 2012/13 NFI exercise is now substantively complete, with a total of 3,362 matches investigated and c£62k returned (or in the process of being recovered and returned) to the public purse as a result of successful investigation of errors or discrepancies.</p> <p>The 2014/15 NFI exercise is now underway. All of the required data has been submitted to the Audit Commission, with the resultant matches made available in January 2015, at which point they will be reviewed and investigated by Services.</p>
2.	Corporate Purchasing All Services	<p>Substantial Assurance</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>
3.	Criminal Justice Services – Position Statement Social Work Services	<p>Not Applicable – Position Statement</p> <p>Significant strategic and operational changes will take place across Criminal Justice services in the coming years, with the transition to Community Planning Partnerships (CPP). CPPs will be responsible for the delivery of services locally, with a national joint board established to provide strategic direction.</p> <p>Internal Audit produced a Position Statement considering these changes. As part of this, we confirmed that an Action Plan has been developed by Fife and Forth Valley Criminal Justice Authority to facilitate the transition, and we will maintain an oversight role as implementation of this Action Plan progresses.</p>

INTERNAL AUDIT RECOMMENDATIONS OUTSTANDING

(as at 05 December 2014)

	Target Imp Date	Service	Audit Name	Assurance Level	Recommendation Details	Agreed Management Action	Responsible Officer	Responsible Officer - Service	Revised Imp Date
1.	31 October 2013	Social Work	Social Work Intermediary Accounts	Limited	The issues in relation to Intermediary Account balances should be addressed.	<p>Steps will be taken to remove redundant funds from 'live' accounts. Negative balances will be reviewed and further guidance sought in relation to these accounts.</p> <p>10 September 2013 – Update This work is underway.</p> <p>21 November 2013 – Update Revised staffing arrangements and tasks / functions now in place.</p> <p>24 February 2014 Following significant negotiations, additional bank account agreed and live from January 2014. Programme underway to transfer redundant funds to one centrally managed account.</p> <p>09 September 2014 – Update This is well underway but has been delayed by Annual Leave. To be complete by end September 2014.</p>	Finance Admin Officer	Social Work	30 September 2014
2.	30 April 2014	Social Work	JLES Ordering and Purchasing	N/A	Prior to authorising invoices, the JLES Manager should carry out additional checks to confirm that the goods were required and have been received (for example, sample check that goods have been receipted on Measles, and are in the stores).	JLES are currently transferring over to procurement of products etc via Integra eSeries. This will enable this service to further develop internal processes and document a structured approach of sample checking and documenting results as requested in this report recommendation.	JLES Manager	Social Work	N/A

	Target Imp Date	Service	Audit Name	Assurance Level	Recommendation Details	Agreed Management Action	Responsible Officer	Responsible Officer - Service	Revised Imp Date
3.	11 June 2014	Social Work	Social Work Deferred Payments	N/A	The reporting and management information requirements relating to Deferred Payments should be clarified.	Template to be developed to collate information on Deferred Payments. Information to be collated and submitted to the Community Care Finance Group, Chaired by Head of Service Community Care on a quarterly basis. Community Care Finance Group has representation from Finance Services and Community Care management. Quarterly reporting will include summary template of the deferred payment position as maintained by an Accountancy Assistant. Template will include information on financial assessments completed, number of successful DP applications. Template will be completed by the Team Leader, Community Advice Service. Quarterly reporting with total end of financial year report.	Team Leader, Community Advice Service	Social Work	N/A
4.	31 July 2014	Social Work	Social Work Deferred Payments	N/A	Social Work Management should ensure that the issues identified relating to the role of the Community Advice Service and Senior Clerical Assistants are addressed.	Senior Finance Clericals to meet to develop and agree procedure. Meetings will include representation from Finance Services. The group will confirm procedure in relation to 15.1; 18.1; 18.2 and 18.3. Procedure will be agreed, written and distributed to all Senior Finance Clericals working within the Community Care Teams. This will not include 15.2 which will be considered and progressed with development of Deferred Payment Policy and recommendation to Committee.	Senior Finance Officer	Social Work	N/A
5.	31 July 2014	Social Work	Social Work Deferred Payments	N/A	The final Deferred Payment calculation of total debt due should be approved by management prior to an invoice being raised.	Currently Senior Finance Clerical on the death of the service user confirms all out-standing debt and sends memo to Finance Services who raise invoice. Copy of memo is sent to Paralegal for information in relation to discharge of the Charging Order. A tick reference sheet will be developed (in addition to the memo) to confirm that all relevant Services have been contacted. Currently no one Service holds all the information. Reference sheet and memo will be sent to Finance Services to raise the final invoice. Reference sheet will be developed and included as part of written procedures.	Senior Finance Officer / Accountancy Assistant, Finance Services	Social Work	N/A

Appendix 5

	Target Imp Date	Service	Audit Name	Assurance Level	Recommendation Details	Agreed Management Action	Responsible Officer	Responsible Officer - Service	Revised Imp Date
6.	31 October 2014	Social Work	Social Work Deferred Payments	N/A	A Deferred Payment Policy should be developed by Social Work. The Policy should clarify the areas identified in the report.	A short life working group will be set up to develop the Deferred Payment Policy. The group will have representation from Finance Services, Senior Finance Clerical, Sundry Debtors Review Group, and Community Advice Service (Financial Assessment Team). Group will be chaired by Team Leader, Community Advice Service.	Service Manager / Team Leader Community Advice Service	Social Work	N/A