

FALKIRK COUNCIL

Subject: INTERNAL AUDIT PROGRESS REPORT
Meeting: AUDIT COMMITTEE
Date: 20 April 2015
Author: INTERNAL AUDIT MANAGER

1. INTRODUCTION

1.1 The purpose of this short paper is to update Members on progress with completing the agreed 2014/15 Internal Audit Plan (the Plan).

2. AUDIT PROGRESS

2.1 Progress with completing 2014/15 Internal Audit work is as follows:

Assignment Status	Number	%
Complete	19	90%
In Progress	2	10%
Not Started	0	0%
Total	21	100%

2.2 Details of each assignment are set out at **Appendix 2**, along with the assurance level provided (see **Appendix 1** for definitions). Key findings arising from completed assignments are set out at **Appendix 3** (Previously Reported to Committee) and **Appendix 4** (Not Previously Reported to Committee).

2.3 As normal, my Annual Assurance Report to the June meeting of this Committee will provide an overall opinion on the adequacy of the Council’s risk management, governance, and control arrangements. This will incorporate the findings and conclusions arising from the two assignments referred to above where final reports have yet to be issued.

3. RECOMMENDATION

3.1 **Members are invited to note:**

3.1.1 Progress with, and findings arising from, 2014/15 Internal Audit work.

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Internal Audit Manager

Date: 09 April 2015

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 2014-15 INTERNAL AUDIT PROGRAMME

No.	Service/Status	Assignment	Level of Assurance
<i>Planned Assignments Completed During 2014-15</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	Performance Indicator Verification	Substantial
5.	All Services	Continuous Auditing	Not Applicable
6.	All Services	National Fraud Initiative	Not Applicable
7.	All Services	Corporate Purchasing	Substantial
8.	Social Work	Criminal Justice Services – Position Statement	Not Applicable
9.	Development	Business Gateway Contract Monitoring	Limited
10.	Social Work	Health and Social Care Integration – Ongoing Workstream	Not Applicable
11.	Finance	Corporate Fraud – Ongoing Workstream	Not Applicable
12.	Social Work	Administration of Medicines Across Falkirk Council Care Homes	Not Applicable
13.	All Services	Senior Officer Financial Controls	Not Applicable
14.	Education	Site Key Control Testing – St Bernadette’s Primary School	Substantial
15.	Falkirk Community Trust	Vehicle Management and Inventory Control	Substantial

<i>Additional Assignments Completed During 2014-15</i>			
16.	All Services	Consultation Exercises	Not Applicable
17.	Corporate and Neighbourhood	Contact Centre Security	Substantial
18.	Development	INTERREG Funding – Young SMEs – Spot Check	Not Applicable
19.	Development / Finance / Governance	Cash Spot Checks at Abbotsford House, Callendar Square, and Licensing Section	Substantial

<i>2014-15 Assignments In Progress</i>		
1.	Development	Strategic Projects
2.	Finance	Non-Domestic Rates

<i>2014-15 Assignments Deferred / Not Undertaken</i>		
1.	All Services	System Interfaces
2.	Development	Falkirk Townscape Heritage Initiative
3.	Education	Community Learning and Development
4.	Education	Devolved School Management
5.	Social Work	Self Directed Support

FINAL REPORTS ISSUED – SUMMARY OF KEY FINDINGS 2014/15

(Previously Reported to Audit Committee)

Assignments Completed During 2014-15		
No.	Assignment Area and Service	Assurance and Key Findings
1.	Central Purchasing Unit Corporate and Neighbourhood Services	<p>Substantial Assurance 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 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>

Assignments Completed During 2014-15		
No.	Assignment Area and Service	Assurance and Key Findings
3.	Council House Buy Back Corporate and Neighbourhood, Governance, and Finance Services	<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.	Performance Indicator Validation All Services	<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>
5.	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£70k for 2014/15 to date) – action has been taken (or is being taken) to recover these amounts (either by credit note or refund).</p>

Assignments Completed During 2014-15		
No.	Assignment Area and Service	Assurance and Key Findings
6.	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. Services are in the process of reviewing and investigating these matches.</p>
7.	Corporate Purchasing All Services	<p>Substantial Assurance</p> <p>On a weekly basis Internal Audit reviews a sample of payments to suppliers who have been paid more than £10,000 in the preceding 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 2014/15 we have found there to be broad compliance with Financial Regulations and Contract Standing Orders when procuring goods and services.</p>
8.	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>

FINAL REPORTS ISSUED – SUMMARY OF KEY FINDINGS 2014/15

(NOT Previously Reported to Audit Committee)

Assignments Completed During 2014-15		
No.	Assignment Area and Service	Assurance and Key Findings
1.	Business Gateway Contract Monitoring Development Services	<p>Limited Assurance</p> <p>This assignment focussed on the monitoring of contracts in liaison with external bodies for the provision of support to new and growing businesses in the Forth Valley area, via the Business Gateway contract. We reviewed roles and responsibilities, control, monitoring, and financial governance arrangements, and management information.</p> <p>We found there to be scope to improve the framework of control, including that involving these external bodies (STEP, Ceteris, Stirling and Clackmannanshire Councils). In particular, there is a need to extend existing contract monitoring procedures, conduct additional compliance checks on funding recipients, and verify the delivery of service interactions through liaison with external bodies. There is a need to report annually on contract delivery. Consistent with the outcomes of a national review, it is suggested that the role and remit of Business Gateway groups at Forth Valley level be reviewed to ensure clarity of purpose.</p> <p>The scope to streamline various financial / accounting arrangements should also be considered.</p>
2.	Health and Social Care Integration Social Work Services	<p>Not Applicable – Ongoing Workstream</p> <p>We have worked closely with the Internal Audit teams of NHS Forth Valley and of neighbouring Authorities to consider and develop our approach to delivering Internal Audit services to the Integration Joint Board. The Forth Valley Finance Workstream Group are currently considering this approach.</p>
3.	Corporate Fraud Finance Services	<p>Not Applicable – Ongoing Workstream</p> <p>Internal Audit have worked with the Depute Chief Finance Officer (Revenues and Benefits) to undertake development and scoping work around the establishment of a ‘corporate fraud’ team. This would draw on existing fraud investigation expertise within the Revenues and Benefits Service.</p> <p>To date, this has allowed the team to undertake investigation work arising from an externally facilitated data matching exercise focussing on Council Tax Single Person Discount.</p> <p>The Team will also assist with the sifting and review of 2014/15 National Fraud Initiative (NFI) data matches, referring these to the DWP Single Fraud Investigation Service if appropriate.</p>

Assignments Completed During 2014-15		
No.	Assignment Area and Service	Assurance and Key Findings
4.	Administration of Medicines Across Falkirk Council Care Homes Social Work Services	<p>Not Applicable This review was undertaken by West Lothian Council's Audit and Risk Team as part of our continuing reciprocal arrangement.</p> <p>Internal Audit assessed the adequacy of controls around the storage, administration, and disposal of medicines at a sample of four Care Homes (Cunningham House, Burnbrae, Summerford House, and Torwoodhall).</p> <p>While there was much evidence of good practice, we did note some scope for improving the framework of control, particularly around finalising policy and procedures, incident reporting, risk management, pharmacy audits, and the handover of unused drugs (to pharmacy drivers).</p>
5.	Consultation Exercises All Services	<p>Not Applicable 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 / training. In addition, our review of a sample of consultation exercises highlighted some areas where guidance had not been fully applied.</p>
6.	Contact Centre Security Corporate and Neighbourhood Services	<p>Substantial Assurance We reviewed Contact Centre security policies, procedures, roles, and responsibilities; ICT and physical access security; and business continuity arrangements.</p> <p>We found arrangements to be sound, with a number of areas of good practice, particularly in relation to security roles and responsibilities, monthly security audits, physical security, risk management, staff training, and business continuity.</p>
7.	INTERREG Funding – Young SMEs – Spot Check Development Services	<p>Not Applicable Internal Audit undertook an on the spot check for a sample of expenditure recorded within a previous INTERREG Re-Imbursement Claim Form. The purpose of this was to provide independent assurance to the Chief Finance Officer in his role as First Level Controller.</p> <p>Our work highlighted a small number of anomalies, which will be corrected via future claims. That said, these were not material within the context of the total amounts claimed.</p>

Assignments Completed During 2014-15		
No.	Assignment Area and Service	Assurance and Key Findings
8.	Cash Spot Checks Development, Finance, and Governance Services	Substantial Assurance We visited Abbotsford House, Callendar Square, and Licensing Section to assess whether adequate procedures for cash handling and banking had been established. While we found some scope for improvement at each site, we were generally content that procedures and good practice were being applied.
9.	Senior Officer Financial Controls All Services	Not Applicable Internal Audit undertook preparatory work with Chief Officers in relation to the planned review and update of Falkirk Council's Financial Regulations (as part of our 2015/16 Internal Audit Plan). This involved a series of interviews to discuss specific Chief Officer responsibilities as well as opportunities and themes for improvement and change.
10.	Site Key Control Testing – St Bernadette's Primary School Education Services	Substantial Assurance Internal Audit visited St Bernadette's Primary School to review the local framework of controls. 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. While we found there to be a number of areas of good practice, we did identify scope for improvement in relation to: Premises Manager responsibilities and checks; building security; inventory requirements; risk management; school meals income collection, reconciliation and storage; and business continuity testing.
11.	Vehicle Management and Inventory Control Falkirk Community Trust	Substantial Assurance As reported to Falkirk Community Trust Audit and Performance Sub-Group.