

**FALKIRK COUNCIL**

**Subject: INTERNAL AUDIT PROGRESS REPORT 2015/16**  
**Meeting: AUDIT COMMITTEE**  
**Date: 18 April 2016**  
**Author: INTERNAL AUDIT MANAGER**

**1. INTRODUCTION**

- 1.1 This short paper provides an update on progress with completing our 2015/16 Internal Audit Plan and on Services' progress with implementing Internal Audit recommendations.

**2. AUDIT PROGRESS AND PERFORMANCE**

- 2.1 Progress with completing planned 2015/16 Internal Audit work is as follows:

Assignment Status	Number	%
Complete	17	89%
In Progress	2	11%
Not Started	0	0%
<b>Total</b>	<b>19</b>	<b>100%</b>

- 2.2 The majority of Internal Audit work has been completed, with those assignments that remain 'In Progress' substantively complete and nearing finalisation. A summary of current assignment status is set out at **Appendix 1** along with the assurance level provided. Key findings arising from completed assignments which have not previously been reported to Committee are set out at **Appendix 2**.
- 2.3 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 for 2015/16. This will incorporate the conclusions arising from those assignments where final reports have yet to be issued.

**3. REPORTING OF RECOMMENDATIONS OUTSTANDING**

- 3.1 At the last meeting of Audit Committee in December 2015 only 2 recommendations were reported as being outstanding. These related to school entry security at St Bernadette's Primary School and management checks on the validity and accuracy of reissued payments (made via the Integra finance system). Both of these recommendations have now been implemented in full.
- 3.2 Ongoing engagement with Services, and effective use of the corporate Covalent action tracking system to monitor progress, has meant that the current position in relation to implementation of recommendations remains good.

3.3 At the time of writing this report there were 13 recommendations outstanding beyond their agreed implementation date. These relate to:

- Sundry Debtors (1 Rec);
- Business Gateway (2 Recs);
- Non-Domestic Rates (1 Rec);
- Pensions Administration (1 Rec);
- Employment and Training Unit (3 Recs); and
- Members' Services: Civic Events and Receptions, Training, Allowances and Expenses (5 Recs).

3.4 Details of each of these recommendations are set out at **Appendix 3**.

#### **4. RECOMMENDATIONS**

4.1 **Members are invited to note:**

4.1.1 **progress with completing planned 2015/16 Internal Audit work; and**

4.1.2 **the position in relation to Recommendations Outstanding.**

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**Internal Audit Manager**

**Date: 08 April 2016**

## INTERNAL AUDIT PLAN 2015/16 – PROGRESS AT 08 APRIL 2016

No.	Service/Status	Assignment	Level of Assurance
<b><i>Assignments Complete</i></b>			
1.	Corporate and Housing	Pensions Administration and Pension Fund Governance	Substantial
2.	Corporate and Housing	Integra Supplier Data Management and Payments	Substantial
3.	Corporate and Housing	Investment (non-Pension Fund)	Substantial
4.	All Services	Corporate Purchasing and Contract Monitoring	Substantial
5.	Development	Employment and Training Unit	Substantial
6.	Children's	SEEMIS Security and Management	Substantial
7.	Corporate and Housing	Members' Training, Allowances, Expenses, and Civic Events and Receptions	Substantial / Limited
8.	Corporate and Housing	Revenues IT Systems Security and Management	Substantial
9.	Corporate and Housing	Corporate Risk Management Arrangements (Reciprocal Review with West Lothian Council) <sup>1</sup>	Substantial
10.	All Services	Financial Regulations	Not Applicable
11.	Social Work – Adult Services	Health and Social Care Integration	Not Applicable
12.	All Services	Continuous Auditing	Not Applicable
13.	All Services	National Fraud Initiative	Not Applicable
14.	Corporate and Housing	Corporate Fraud	Not Applicable
15.	Falkirk Community Trust	Chargeable Services Invoice Arrangements	TBC
<b><i>Additional Assignments Completed During 2015/16</i></b>			
1.	Corporate and Housing	Pensions Administration (2015/16 Transactions)	Substantial
2.	All Services	Serious Organised Crime (On-going Workstream)	Not applicable
<b><i>Assignments In Progress</i></b>			
1.	All Services	Data and Information Security – Governance and Practice	TBC
2.	Corporate and Housing	Mobile Device Security	TBC
<b><i>2015/16 Assignments Deferred / Not Undertaken</i></b>			
1.	Corporate and Housing	LEADER Funding	
2.	Internal Audit	External Quality Assessment by South Ayrshire Council	
3.	Children's	Reducing Bureaucracy in Schools	

<sup>1</sup> NOTE – Falkirk Council Internal Audit undertook a review of WLC SEEMIS Security and Management

## Summary Of Key Findings Arising From Assignments Not Previously Reported To Audit Committee

No.	Assignment Area and Service	Assurance and Key Findings
1.	<p>Revenues IT Systems Security and Management</p> <p>Corporate and Housing</p>	<p><b>Substantial Assurance</b></p> <p>We reviewed the roles and responsibilities of those involved with Civica OPEN Revenues security; systems documentation; physical and environmental controls; access management; and arrangements for ensuring the quality and continuity of service provision.</p> <p>We found arrangements to be generally robust and proportionate. All staff were aware of their roles and responsibilities, with training available to ensure awareness of, and compliance with, data protection and information security guidance. Access to the system is controlled via robust password security, with sound backup arrangements in place to minimise the risk of data loss.</p> <p>There is some scope for better embedding risk management, and in particular the further development of formal continuity arrangements (business continuity plan). While there was a System Security Statement, this could be more detailed, and there is a need for an Access Control Policy to clarify arrangements for managing users' access to the system.</p> <p>We also found there to be some improvements required in relation to access to the ICT suite and server room at Municipal Buildings where the Civica servers are located.</p>
2.	<p>Corporate Risk Management Arrangements (Reciprocal Review with West Lothian Council)</p> <p>Corporate and Housing</p>	<p><b>Substantial Assurance</b></p> <p>This review of the Council's risk management arrangements was undertaken by West Lothian Council's Audit and Risk Team.</p> <p>The review was based on a benchmarking exercise against the 'ALARM CIPFA Risk Management Benchmarking Club 2014 – Questionnaire'.</p> <p>While there were a number of areas where the WLC Internal Auditor identified scope for further improvement, it is comforting that they also highlighted the good progress made, and practices in place, at Falkirk.</p> <p>A fuller update on the Council's approach to Risk Management is included elsewhere on the Agenda of this meeting.</p>
3.	<p>Financial Regulations</p> <p>All Services</p>	<p><b>Not Applicable</b></p> <p>An exercise to streamline and modernise Financial Regulations has been undertaken. This has involved a comprehensive review to ensure that the Regulations focus on key controls, and that these are robust yet proportionate. Responsibility for implementing elements of the Regulations has also been clarified.</p> <p>Sitting alongside the full Financial Regulations, a shorter, summarised, 'Financial Regulations Lite' has also been drafted. The purpose of this supplementary document is to provide elected Members and Officers with a summarised version of Financial Regulations, highlighting the more salient roles, responsibilities, and duties.</p> <p>The updated documents are currently undergoing consultation, and will be presented to the June meeting of Audit Committee for consideration.</p>

No.	Assignment Area and Service	Assurance and Key Findings
4.	<p>Health and Social Care Integration</p> <p>Social Work – Adult Services</p>	<p><b>Not Applicable</b></p> <p>Since the last meeting of Audit Committee the Falkirk Integration Joint Board (IJB) has considered a report on Financial Governance. As part of this paper, the IJB agreed that the NHS Forth Valley and Falkirk Council Chief Internal Auditors (CIA) hold that post for the IJB on a three year rotation basis. The NHS Forth Valley CIA will hold this post for the first three years, drawing on resource from both the Council and Health Board Teams.</p> <p>For 2015/16, Internal Audit work has focussed on the requirements of the Integrated Resource Advisory Group (IRAG) guidance on financial assurance, and in particular on the due diligence of the initial sums transferred to the IJB.</p> <p>A separate report on this work, which was undertaken jointly by the Council and NHS Forth Valley teams, is included elsewhere on the Agenda of this meeting. In summary, we were content that our due diligence work confirmed that, in setting the 2015/16 budget for the IJB, the Council has been consistent with the requirements of the guidance</p> <p>An IJB Internal Audit Plan for 2016/17 will be prepared for, and presented to, the June 2016 meeting of the Board.</p>
5.	<p>Continuous Auditing</p> <p>All Services</p>	<p><b>Not Applicable – Ongoing Assurance</b></p> <p>Work continues to focus on Creditors duplicate payments. To date, 62 duplicate payments, with a total value of c<b>£58,000</b> have been identified.</p> <p>All identified duplicate payment amounts have been, or are being, recovered.</p>
6.	<p>National Fraud Initiative</p> <p>All Services</p>	<p><b>Not Applicable</b></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 Cabinet Office. 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 2014/15 NFI exercise is well underway. To date, 1,318 matches have been reviewed and investigated, with no material fraud or error detected (total outcomes of c<b>£6,000</b> to date).</p> <p>In addition to the core NFI exercise, Falkirk Council participates in a related exercise designed to detect wrongly claimed Council Tax Single Person Discount. To date, as a result of participation in this exercise (which matches Council Tax and Electoral Roll data), 191 frauds or errors have been detected, totalling c<b>£122,000</b>, with recovery action taken or underway.</p>

No.	Assignment Area and Service	Assurance and Key Findings
7.	Corporate Fraud  Corporate and Housing	<p><b>Not Applicable</b></p> <p>The Internal Audit Manager has worked with the Depute Chief Finance Officer (Revenues and Benefits) to establish a 'Corporate Fraud' team. This draws on existing fraud investigation expertise formerly responsible for investigating Benefit Fraud work (responsibility for which has now transferred to the Department for Work and Pensions).</p> <p>The team, which falls within the remit of the Internal Audit Manager, are currently developing a 2016/17 workplan. This includes the development of a Corporate Fraud Charter, as well as preventative and proactive workstreams.</p>
8.	Pensions Administration (2015/16 Transactions)  Corporate and Housing	<p><b>Substantial Assurance</b></p> <p>We reviewed a sample of Falkirk Pension Fund Transactions, to ensure that: new member contributions were properly calculated; the correct transfer values of pension rights either into or out of the Pension Fund had been received or paid; and the correct pension payments (including lump sum payments) were paid to retiring Fund members.</p> <p>We found that sound processes were in place. Supporting documentation had been appropriately completed and authorised, calculations were correct, and the Pensions Administration had been accurately updated.</p>
9.	Serious Organised Crime and Corruption (On-going Workstream)  All Services	<p><b>Not Applicable – On-going Workstream</b></p> <p>The Internal Audit Manager acts as Single Point of Contact with Police Scotland in relation to the risks associated with Serious Organised Crime. While this workstream has not resulted in an overarching report, significant work has been undertaken in relation to:</p> <ul style="list-style-type: none"> <li>• Organising a series of 'lunch and learn' sessions for staff on topics such as: Social Media Risks; the Role of the Police Scotland Public Sector Counter Corruption Unit; and the risks associated with Cyber Crime;</li> <li>• Ongoing attendance at, and contribution to, the DETER Sub-Group of the Scottish Government's SOC Taskforce;</li> <li>• Participation in the Forth Valley SOC Partners Group, which was established during 2015; and</li> <li>• Meetings with the Home Office and various English Local Authorities on Internal Audit work undertaken at Falkirk in relation to SOC risks, and delivery of a presentation at the Annual Congress of the Polish Institute of Internal Control.</li> </ul>
10.	Chargeable Services Invoice Arrangements  Falkirk Community Trust	As reported to Falkirk Community Trust Audit and Performance Sub-Group.

## INTERNAL AUDIT – RECOMMENDATIONS OUTSTANDING

No.	Target Imp Date	Service	Audit Name	Assurance Level	Recommendation Details	Responsible Officer	Agreed Management Action	Revised Imp Date	Latest Update Position
1.	31 December 2013	Corporate and Housing	Sundry Debtors	Substantial	A debt recovery policy for Sundry Accounts should be developed.	Depute CFO: Revenues and Benefits	The draft corporate debt policy has been prepared. Once agreed the debt recovery policy for Sundry Accounts will link to this.	31 December 2015	The draft Corporate Debt Policy (covering all debt streams) has not been presented to Members as yet. In October 2015 a Rent Arrears project began to look at improving rent collection rates. A survey has been undertaken and site visits are planned in next few weeks. Given the need to consult with HRA tenants, it would now be advisable to look to include any examples of good practice gained from other Authorities during these visits, before submitting the Policy to Members. In the meantime, sundry accounts collection has improved, primarily due to the more regular use of Sheriff Officers where invoices are not paid.
2.	31 October 2015	Development	Business Gateway	Limited	The Adviser's Guide should be formally agreed and rolled out, and should take into account the recommendations made in this report.	Growth and Investment Manager and Business Gateway Contract Manager	The previous Adviser's Guide was not formally signed-off by providers.  An updated Adviser's Guide will be produced and issued when the existing contract is either extended or renewed October 2015.	01 December 2015	A National Service Specification has been commissioned by Business Gateway National Unit and awarded to EKOS (January 2016). Unable to progress until this is concluded. Stage 2 operational application remains to be approved nationally by Scottish Government. Action cannot be progressed as outwith Falkirk Council control. Anticipate conclusion April 2016.

## Appendix 3

No.	Target Imp Date	Service	Audit Name	Assurance Level	Recommendation Details	Responsible Officer	Agreed Management Action	Revised Imp Date	Latest Update Position
3.	<b>31 October 2015</b>	Development	<b>Business Gateway</b>	Limited	Invoice overhead charge arrangements should be reviewed and streamlined.	Growth and Investment Manager and Business Gateway Contract Manager	An evaluation of the BG service is being carried out and this recommendation will be considered within that context.	<b>30 November 2015</b>	A National Service Specification has been commissioned by Business Gateway National Unit and awarded to EKOS (January 2016). Unable to progress until this is concluded. Stage 2 operational application remains to be approved nationally by Scottish Government. Action cannot be progressed as outwith Falkirk Council control. Anticipate conclusion April 2016.
4.	<b>31 December 2015</b>	Corporate and Housing	<b>Non-Domestic Rates</b>	Substantial	The Council's discretionary policies on NDR should be subject to formal review.	Depute CFO: Revenues and Benefits	It is accepted that discretionary policies require to be updated and to be approved by Members, and work has started on this.  The date proposed is provisional, and may be impacted by the absence of the Depute CFO.	<b>01 April 2016</b>	At present there are significant changes being made by Scottish Government to the Business Rates Scheme (including 8 pieces of legislation last month). These are in addition to the implementation of the Community Empowerment Bill that brought into force the ability of Local Authorities to design local relief schemes to meet local needs (albeit full cost of such schemes must be borne by Local Authority). It is still hoped to bring a revised Policy to members in summer 2016.
5.	<b>31 March 2016</b>	Corporate and Housing	<b>Pensions Administration</b>	Substantial	A Register of Interests should be established to record details of any actual / potential conflicts relating to members of the Committee and the Board. The Register should be published on the Fund's website.	Pensions Manager	Recommendation accepted.	<b>N/A</b>	Not expected to be complete by due date given resource constraint and competing priorities. Priority has been given to investment strategy work; legal work relating to new infrastructure investments; and work on pensioner payroll project.



No.	Target Imp Date	Service	Audit Name	Assurance Level	Recommendation Details	Responsible Officer	Agreed Management Action	Revised Imp Date	Latest Update Position
6.	29 February 2016	Development	Employment and Training Unit	Substantial	Concise and written guidance, incorporating process flowcharts, should be developed for Employment and Training Unit staff. This guidance should take account of the recommendations made in this report.	ETU Manager	Recommendation Accepted. Appropriate processes will be pulled into a Manual. A review of processes will be undertaken and potential changes risk assessed prior to implementation. Written guidance and process flowcharts will clearly articulate all policies and procedures relating to day-to-day operations. Operating rules and compliance documents for external programmes will be referenced as part of written guidance.	N/A	The installation of VISIO (flowcharting software) has been delayed and this action can only now be taken forward. A new end date of 31 May 2016 is proposed.
7.	31 March 2016	Development	Employment and Training Unit	Substantial	A Procurement Strategy for training programmes should be developed and implemented along with a standard checklist of payment evidence requirements. An approved Training Providers Framework should be developed.	ETU Manager	Recommendation Accepted. Employment and Training Unit will take these points forward in partnership with the Corporate Procurement Unit.	N/A	This is ongoing with Procurement Unit and has been linked to budget process and external contracts which has delayed progress.
8.	31 December 2015	Development	Employment and Training Unit	Substantial	A run through of each initial grant start up process should be undertaken prior to commencing the project.	ETU Manager	In advance of the start of the European Social Fund programme in January 2016 a meeting will be held with Scottish Government European auditors.	N/A	Meetings still ongoing with Scottish Government and the timescale is outwith our control, but we are hoping for final clarification by the end of May 2016. The project will be required to start in April 2016 and a full risk assessment will be undertaken accordingly.
9.	31 March 2016	Corporate and Housing	Members' Services: Civic Events and Receptions, Training, Allowances and Expenses	Substantial / Limited	The points relating to procedural guidance should be addressed.	Members' Services Administrator	Develop an action plan and implement the recommendations listed at paragraphs 4.7.1 to 4.7.9. This also accords with the action plan developed following the Best Value Audit of Falkirk Council in 2014/15.	N/A	Work is ongoing.

No.	Target Imp Date	Service	Audit Name	Assurance Level	Recommendation Details	Responsible Officer	Agreed Management Action	Revised Imp Date	Latest Update Position
10.	31 March 2016	Corporate and Housing	<b>Members' Services: Civic Events and Receptions, Training, Allowances and Expenses</b>	Substantial / Limited	The points relating to the content of the mandatory training programme should be addressed.	Members' Services Administrator	Mandatory training is being developed (ie, scrutiny and financial planning). A mandatory training programme for Members will also be considered. Decision will be for Council to take as there is no statutory requirement for mandatory training.	N/A	Work is ongoing.
11.	31 March 2016	Corporate and Housing	<b>Members' Services: Civic Events and Receptions, Training, Allowances and Expenses</b>	Substantial / Limited	Personal Development Plans should be prepared for all Members, with a nil return completed for, and certified by, Members with no identified training needs. In addition, PDPs should include a required action and target completion date for all identified training needs.	Members' Services Administrator	Personal Development Plans (PDPs) are now in place for all Members, as required by the introduction of mandatory training for scrutiny and financial planning. All PDPs will be revisited and completion dates and actions updated.	N/A	Work is ongoing.
12.	31 March 2016	Corporate and Housing	<b>Members' Services: Civic Events and Receptions, Training, Allowances and Expenses</b>	Substantial / Limited	Documentation from all Members' Briefing Sessions should be uploaded to the Members Development Area.	Members' Services Administrator	Retrieve documentation from training events held over financial years 2014/15 and 2015/16 and upload to Members' development area on Underground.	N/A	Work is ongoing.
13.	31 March 2016	Corporate and Housing	<b>Members' Services: Civic Events and Receptions, Training, Allowances and Expenses</b>	Substantial / Limited	The points relating to the content of the Training Programme Evaluation Questionnaire should be addressed.	Members' Services Administrator	Training evaluation form to be revised to incorporate suggestions noted in paragraph 4.21.	N/A	Work is ongoing.