

The background of the slide features a large, light blue watermark of the Coat of Arms of the Isle of Man. The coat of arms consists of a shield divided into four quarters. The top-left quarter shows a ship on waves, the top-right shows a lion passant guardant, the bottom-left shows a ship on waves, and the bottom-right shows a lion passant guardant. Above the shield is a crown with four fleurs-de-lis. A ribbon scrolls across the bottom of the shield with the motto 'ANNE FOR A'.

# **AGENDA ITEM**

**4**

## **INTERNAL AUDIT: ANNUAL ASSURANCE REPORT 2015/16**

## AGENDA ITEM 4

### FALKIRK COUNCIL

**Subject:** INTERNAL AUDIT: ANNUAL ASSURANCE REPORT  
2015/16  
**Meeting:** AUDIT COMMITTEE  
**Date:** 20 June 2016  
**Author:** INTERNAL AUDIT MANAGER

#### 1. INTRODUCTION

- 1.1 This paper reports on 2015/16 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.
- 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 19 main assignments during 2015/16. 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.
- 2.2 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**.
- 2.3 Internal Audit can, therefore, provide **SUBSTANTIAL** assurance in relation to the Council's overall framework of controls for the year to 31 March 2016.

#### 3. OPERATIONAL ACTIVITY DURING 2015/16

- 3.1 Internal Audit's Annual Plan for 2015/16, as presented to Audit Committee on 20 April 2015, consisted of 21 main reviews. Over the course of the year various changes were made to the programme of work, resulting in a total of 19 completed assignments.

- 3.2 Details of these are set out at **Appendix 2**, with a summary of the scope of, and findings arising from, each set out at **Appendix 3**.
- 3.3 Internal Audit also provided a wide range of ad hoc, consultancy, services over the course of the year. This work allowed us to influence, input into, and help improve the Council's control environment and is, therefore, an important strand of work to be considered in reaching the conclusion set out at paragraph 2.3 above. Some examples of consultancy work undertaken during 2015/16 include:
- validation work on Local Government Benchmarking Framework returns;
  - input into the development of various corporate and Service specific guidance and procedures;
  - attended, and contributed to, various corporate groups, such as Corporate Risk Management Group and Print Strategy Group;
  - input into the annual Procurement and Commercial Improvement Programme;
  - provided challenge input to the Council's Business Transformation agenda;
  - attended, contributed to, and hosted meetings of the Scottish Local Authorities Chief Internal Auditors' Group and its Computer Audit Sub-Group; and
  - supported Services in relation to various instances of alleged / reported irregularity.
- 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 'Annual External Audit Plan 2015/16' considered at the April meeting of Audit Committee, confirmed that they will place formal reliance on work undertaken by Internal Audit in the following areas:
- Corporate Risk Management Arrangements;
  - Adult Health and Social Care Integration;
  - Revenues IT Systems Security and Management;
  - Corporate Purchasing and Contract Management; and
  - Financial Regulations.
- 3.5 To allow them to place reliance on Internal Audit work, Audit Scotland undertake an annual assessment of the work of the Section. This assessment allowed Audit Scotland to conclude that Internal Audit operates in accordance with Public Sector Internal Audit Standards (PSIAS) and that our documentation standards and reporting procedures are sound.
- 3.6 As Members are aware, a key element of our reporting framework continues to be the five Key Performance Indicators set out overleaf.

Key Performance Indicator	2015/16 Performance	2014/15 Performance	2013/14 Performance
1. Complete <b>85%</b> of agreed audits.	<b>100%</b>	<b>100%</b>	<b>100%</b>
2. Have <b>90%</b> of recommendations accepted.	<b>100%</b>	<b>100%</b>	<b>100%</b>
3. Spend <b>75%</b> of time on direct audit work.	<b>75%</b>	<b>77%</b>	<b>76%</b>
4. Issue <b>75%</b> of draft reports within 3 weeks of completion of fieldwork.	<b>95%</b>	<b>95%</b>	<b>96%</b>
5. Complete (to issue of final report) <b>75%</b> of main audits within budget.	<b>84%</b>	<b>95%</b>	<b>88%</b>

3.7 Internal Audit's performance against each indicator has been stable for some years, and this continues to be the case for 2015/16.

#### **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 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. Our self assessment confirms that we operate broadly in line with the Standards, and we will be subject to an independent External Quality Assessment by South Ayrshire Council's Audit Services Manager during 2015/16 (with the results reported to Audit Committee in due course).

## **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 2016;**
- 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 2016 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: 8 June 2016 Ref: AAD200616 - IA Annual Assurance**

**Contact: Gordon O'Connor**

**DEFINITION OF INTERNAL AUDIT ASSURANCE CATEGORIES**

<b>Level of Assurance</b>	<b>Definition</b>
<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.

## SUMMARY OF 2015/16 INTERNAL AUDIT PROGRAMME

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.	Corporate and Housing	Members' Training, Allowances, Expenses, and Civic Events and Receptions	Substantial / Limited
7.	Children's	SEEMIS Security and Management	Substantial
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)	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.	Corporate and Housing	Pensions Administration (2015/16 Transactions) <sup>1</sup>	Substantial
16.	All Services	Serious Organised Crime (On-going Workstream) <sup>1</sup>	Not applicable
17.	Corporate and Housing	Mobile Device Security	Substantial / Limited
18.	West Lothian Council	Review of WLC SEEMIS Security and Management	Not Applicable
19.	Falkirk Community Trust	Chargeable Services Invoice Arrangements	Not Applicable

<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	
4.	All Services	Data and Information Security – Governance and Practice	

<sup>1</sup> NOTE – Additional review added to plan during year.

## DETAILS OF 2015/16 INTERNAL AUDIT PROGRAMME

No	Assignment Area and Service	Assurance and Key Findings
1.	<p>Pensions Administration and Pension Fund Governance</p> <p>Corporate and Housing Services</p>	<p><b>Substantial Assurance</b></p> <p>This review focussed on Pension Fund governance, risk management, arrangements for actuarial valuation; guidance, training, roles, and responsibilities; and the testing of a sample of operational transactions.</p> <p>We found that operational controls around the calculation of new member contributions, for paying / receiving transfer values, and for making payments, were well managed and working effectively. Roles and responsibilities were clear.</p> <p>Fund governance arrangements have recently changed and are bedding in. We did note some scope for improving risk management arrangements, and for establishing a Register of Interests for Pension Committee and Board members. In overall terms, however, we found arrangements to be sound.</p>
2.	<p>Integra Supplier Data Management and Payments</p> <p>Corporate and Housing Services</p>	<p><b>Substantial Assurance</b></p> <p>This purpose of this review was to evaluate the controls around management of the Integra supplier database, and the process for making payments.</p> <p>Specifically, we reviewed controls over the on-line input and authorisation of supplier information; the overarching payment processing control framework; arrangements for invoice processing (within Creditors Section); BACS, payable order, and emergency payment processing; fraud control arrangements; and the adequacy of management information.</p> <p>We found that, in general, the framework of control was robust, proportionate, and working well.</p> <p>Staff were clear about their roles and responsibilities, with changes to the supplier database authorised and verified before being processed. There was adequate segregation of duties around the input and authorisation of payment details.</p> <p>We did, however, identify a number of areas where the framework of control could be enhanced. For example, guidance on emergency BACS payments could be improved, and there was some scope for further tightening system access privileges.</p> <p>We recommended that the accuracy of all changes to supplier bank accounts are checked and verified on a daily basis, and there were a number of housekeeping issues around authorisation limits and authorised signatory lists.</p>



No	Assignment Area and Service	Assurance and Key Findings
3.	Investment (non-Pension Fund)  Corporate and Housing Services	<p><b>Substantial Assurance</b></p> <p>We reviewed roles, responsibilities, policies, and practices; key controls around segregation, authorisation, and approval; procurement and contract management arrangements; and management information systems.</p> <p>Sound systems of control were in place, with clear roles and responsibilities and robust policies and procedures. Investment activity is restricted to approved counterparties, with restrictions on the monetary value and maturity of investments. Advice is sought from Treasury Advisers and activity and performance is reported to management and Members.</p>
4.	Corporate Purchasing and Contract Monitoring  All Services	<p><b>Substantial Assurance</b></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>We found there to be compliance with Financial Regulations and Contract Standing Orders when procuring goods and services.</p>
5.	Employment and Training Unit  Development Services	<p><b>Substantial Assurance</b></p> <p>We reviewed the roles and responsibilities of those involved in the provision of training, placement, advice, and aftercare services, and policies and procedures to support this work. We also considered the sourcing of training provision, financial control arrangements, and the accuracy and timeliness of management information.</p> <p>We found that staff were clear on their operational roles and responsibilities, and were aware that the capacity of the Unit to deliver is based on the resources available, including budget, external funding, and staffing levels.</p> <p>Resources are closely monitored (including maintaining management information) to ensure the Unit operates effectively, however, staff spend a significant proportion of time involved in labour intensive, administrative processes. There is scope, therefore, to review processes in place in order to streamline delivery arrangements. This should include changes to the wages process and financial control arrangements.</p>

No	Assignment Area and Service	Assurance and Key Findings
6.	<p>Members' Training, Allowances, Expenses, and Civic Events and Receptions</p> <p>Corporate and Housing Services</p>	<p><b>Training – Substantial Assurance</b>  We reviewed the control framework in relation to training, including the elected Member induction process; procedures for assessing training needs; the programme of training offered to elected Members; budgetary control; and management information.</p> <p>In general, sound systems of control were in place. All elected Members are invited to participate in an induction course when first elected, with a survey of Members also undertaken during their term of office to identify potential development needs. There is mandatory training for Members prior to appointment to several Boards and Committees, and regular Members' briefing sessions are held.</p> <p>We made recommendations relating to the need for a training programme on the Council's decision making structure and Members' roles within that structure; the development of formal role descriptors for Members; the drafting of Personal Development Plans for all elected Members; and the introduction of annual, formal, one to one meetings to discuss past and future training and development needs.</p> <p><b>Allowances and Expenses – Substantial Assurance</b>  We reviewed rules and guidance on claiming and processing; procedures for checking, approving, processing, and monitoring claims and making payments; and management information.</p> <p>All staff were clear about their roles and responsibilities, with elected Members advised of entitlements and the re-imbursement process. There was some scope for improving the level of detail on completed forms.</p> <p><b>Civic Events and Receptions – Limited Assurance</b>  Focussed on policies and procedures; application, assessment, approval, and organisation arrangements; and budgetary and financial controls.</p> <p>There is a need to improve written policies and procedures, particularly in relation to the criteria against which applications are assessed, the factors to be considered when determining the location / format of events and receptions, and the actions to be taken to organise each element of an event or reception.</p> <p>In addition, a clear audit trail should be maintained in relation to the requesting, authorisation, and organisation of civic events and receptions, including the rationale for approving / rejecting requests.</p>

No	Assignment Area and Service	Assurance and Key Findings
7.	SEEMIS Data Security and Management  Children's Services	<p><b>Substantial Assurance</b></p> <p>Work focussed on review of the roles and responsibilities of those accountable for the management of SEEMIS data and security; procedures, guidance, and training; physical and environmental controls; access management arrangements; the quality and continuity of service provision; and contract management and monitoring arrangements.</p> <p>In overall terms we found controls to be sound. User set up and administration controls were working effectively, and there was regular dialogue and close working between Children's Services, the SEEMIS service provider (SEEMIS Group LLP) and the wider SEEMIS community.</p> <p>There was, however, some scope for enhancing the existing framework of control.</p> <p>For example, there is no agreement between the Council and SEEMIS Group LLP in relation to the retention and disposal of the Council's data. In addition, there is a need for a System Security Statement formalising management administration and data security responsibilities, and for an Access Control Policy clarifying and documenting arrangements for managing users' access to the SEEMIS system.</p>
8.	Revenues IT Systems Security and Management  Corporate and Housing Services	<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>

No	Assignment Area and Service	Assurance and Key Findings
9.	<p>Corporate Risk Management Arrangements</p> <p>Corporate and Housing Services</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>
10.	<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 a future meeting of Audit Committee for consideration.</p>
11.	<p>Health and Social Care Integration</p> <p>Social Work – Adult Services</p>	<p><b>Not Applicable</b></p> <p>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 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>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 August 2016 meeting of the Board.</p>

No	Assignment Area and Service	Assurance and Key Findings
12.	Continuous Auditing  All Services	<p><b>Not Applicable – Ongoing Reporting and Assurance</b> Work focussed on Creditors duplicate payments. 62 duplicate payments, with a total value of c£58,000 were identified.</p> <p>All identified duplicate payment amounts have been, or are being, recovered.</p>
13.	National Fraud Initiative  All Services	<p><b>Not Applicable</b> 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. During 2015/16, 1,318 matches were reviewed and investigated, with no material fraud or error detected (total outcomes of c£6,000 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. During 2015/16, as a result of participation in this exercise (which matches Council Tax and Electoral Roll data), 191 frauds or errors were detected, totalling c£122,000, with recovery action taken or underway.</p>
14.	Corporate Fraud  Corporate and Housing Services	<p><b>Not Applicable</b> 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>
15.	Pensions Administration (2015/16 Transactions)  Corporate and Housing Services	<p><b>Substantial Assurance</b> 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>

No	Assignment Area and Service	Assurance and Key Findings
16.	<p>Serious Organised Crime and Corruption (On-going Workstream)</p> <p>All Services</p>	<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>
17.	<p>Mobile Device Security</p> <p>Corporate and Housing Services</p>	<p><b>Substantial / Limited Assurance</b></p> <p>We reviewed policies, procedures, and training for ensuring compliance with Public Services Network requirements; roles and responsibilities relating to the governance of mobile device, data, and information security; and the build and set up process for mobile devices prior to these being passed to users.</p> <p>We found that the PSN submission documentation had been signed off and that the Council had demonstrated compliance with PSN requirements. While there was some scope for improvement, policies and procedures do provide guidance in relation to information security.</p> <p>We did, however, find that there was scope for improving processes relating to the set-up of mobile devices to ensure that the aims and timescales of the wider mobile and flexible working project are not compromised.</p>
18.	<p>SEEMIS Data Security and Management</p> <p>West Lothian Council</p>	<p>As reported to West Lothian Council’s Audit and Governance Committee.</p>
19.	<p>Chargeable Services Invoice Arrangements</p> <p>Falkirk Community Trust</p>	<p>As reported to Falkirk Community Trust Audit and Performance Sub-Group.</p>