

The background of the slide features a large, light blue watermark of the University of Alberta crest. The crest is a shield divided into four quadrants. The top-left quadrant shows a building, the top-right shows a cross with antlers, the bottom-left shows a ship on waves, and the bottom-right shows an eagle. Above the shield is a crown with four maple leaves. Below the shield is a banner with the motto 'ANNE FOR A'.

## **Agenda Item**

**4**

## **Internal Audit Progress Report**

**Falkirk Council**

**Title: Internal Audit Progress Report**

**Meeting: Audit Committee**

**Date: 20 November 2017**

**Submitted By: Internal Audit Manager**

**1. Purpose of Report**

- 1.1 The purpose of this report is to provide an update on progress with completing the 2017/18 Internal Audit Plan.

**2. Recommendation**

- 2.1 **It is recommended that the Committee notes progress being made with completing the 2017/18 Internal Audit Plan.**

**3. Progress With Completing 2017/18 Internal Audit Plan**

- 3.1 The Plan was agreed by Audit Committee on 13 March 2017. It set out a total of 21 assignments to be completed by the team during the year. Two further assignments have since been added at the request of Development Services:

- Carbon Reduction Commitment Energy Efficiency Scheme Audit; and
- LEADER Funding Audit.

- 3.2 The status of each assignment is attached at Appendix 1. Sixteen of the twenty three planned / additional reviews have been started, or have been completed to draft or final report stage.

- 3.3 Summaries of the scope of, and findings arising from, finalised assignments are set out as follows:

- Appendix 2: Assignments complete to final report stage and previously reported to Committee; and
- Appendix 3: Assignments complete to final report stage and NOT previously reported to Committee.

- 3.4 Definitions of the assurance categories used by Internal Audit are set out at Appendix 4.

- 3.5 Internal Audit continues to measure performance against the following 5 Key Performance Indicators.

Key Performance Indicator	2017/18 to date	2016/17 (at same time last year)
Complete <b>85%</b> of main audit programme	<b>39%</b>	42%
Have <b>90%</b> of recommendations accepted	<b>98%</b>	100%
Spend <b>75%</b> of time on direct audit work	<b>75%</b>	76%
Issue <b>75%</b> of draft reports within 3 weeks of completion of fieldwork	<b>100%</b>	100%
Complete (to issue of final report) <b>75%</b> of main audits within budget	<b>60%</b>	80%

- 3.6 Performance is largely consistent with the same point last year. Four assignments have, however, exceeded their initial allocated time budget. This was largely due to more time being required on audit testing than initially anticipated. As a comparison, during 2016/17, a total of five assignments required more time than initially budgeted. I will continue to monitor time allocated to each assignment, with the overarching aim of completing the overall audit programme within budget.

#### 4. Implications

##### Financial

- 4.1 There are no financial implications.

##### Resources

- 4.2 There are no resource implications.

##### Legal

- 4.3 There are no legal implications.

##### Risk

- 4.4 The role of Internal Audit is to provide Committee with assurance on the Council's arrangements for risk management, governance, and control. Recommendations made by Internal Audit aim to reduce or mitigate risk to which the Council may be exposed.

##### Equalities

- 4.5 An equality and poverty impact assessment was not required.

##### Sustainability/Environmental Impact

- 4.6 A sustainability / environmental assessment was not required.

## **5. Conclusions**

- 5.1 The team are making good progress with 2017/18 Internal Audit work. This will contribute to a balanced and evidenced based year end opinion on arrangements for risk management, governance, and control.

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Internal Audit Manager

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**Date:** 03 November 2017

## **APPENDICES**

- Appendix 1: Internal Audit Plan 2017/18 – Progress at October 2017
- Appendix 2: Summary of Findings from Assignments Complete to Final Report – Previously Reported to Committee
- Appendix 3: Summary of Findings from Assignments Complete to Final Report – NOT Previously Reported to Committee
- Appendix 4: Definition of Internal Audit Assurance Categories

### **List of Background Papers:**

**The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act 1973:**

- None.

## INTERNAL AUDIT PLAN 2017/18 – PROGRESS AT OCTOBER 2017

Planned Assignments (as per 2017/18 Internal Audit Plan)			
	Service	Assignment	Status
1.	Corporate and Housing / All Services	Payroll – Transactional Testing	Not Started
2.	Corporate and Housing / All Services	Recruitment and Selection	<b>FINAL REPORT ISSUED</b>
3.	Corporate and Housing	Housing Revenue Account – Key Controls	<b>In Progress</b> – fieldwork underway
4.	All Services	Council of the Future – Assurance Role	<b>In Progress</b> – fieldwork underway
5.	Corporate and Housing / All Services	Sundry Debtors	<b>Draft Report Issued</b>
6.	Corporate and Housing / All Services	Procurement / Contract Monitoring	<b>In Progress</b> – fieldwork underway
7.	Corporate and Housing	Cyber Security	Not Started
8.	Children's / Adult Social Work Services	Public Protection (Children and Adults) - Governance	<b>In Progress</b> – fieldwork underway
9.	Development / Children's / Adult Social Work Services	Social Care and Education Transport	<b>FINAL REPORT ISSUED</b>
10.	All Services	Code of Corporate Governance	<b>In Progress</b> – fieldwork underway
11.	All Services	Welfare Reform	Not Started
12.	Corporate and Housing / Children's / Adult Social Work	Procurement of Services from External Providers of Social Work Services	<b>In Progress</b> – fieldwork underway
13.	All Services	Follow Up of Internal Audit Recommendations	<b>In Progress and Ongoing</b>
14.	All Services	Consultancy Work	<b>In Progress and Ongoing</b>
15.	All Services	National Fraud Initiative	<b>In Progress and Ongoing</b>
16.	All Services	Continuous Auditing	<b>In Progress and Ongoing</b>
17.	To Be Confirmed	Reciprocal Review with West Lothian Council	Not Started

Planned Assignments (as per 2017/18 Internal Audit Plan)			
	Service	Assignment	Status
18.	Internal Audit	External Quality Assessment	Not Started
19.	Falkirk Pension Fund	Governance, Security, and Transactional Testing	Not Started
20.	Falkirk Integration Joint Board	Capacity and Financial Governance	Not Started
21.	Falkirk Community Trust	Site Visits; Cash Counts; Invoicing Arrangements.	<ul style="list-style-type: none"> <li>• <b>FINAL REPORTS ISSUED</b></li> <li>• <b>FINAL REPORTS ISSUED</b></li> <li>• <b>Draft Report Issued</b></li> </ul>

Additional Assignments			
	Service	Assignment	Status
1.	Development Services	CRC Energy Efficiency Audit	<b>FINAL REPORT ISSUED</b>
2.	Development Services	LEADER Audit	<b>FINAL REPORT ISSUED</b>

## Summary Of Key Findings Arising From Assignments Complete to Final Report – Previously Reported to Committee

No.	Assignment Area and Service	Assurance and Key Findings
1.	<p>Recruitment and Selection</p> <p>Corporate and Housing / All Services</p>	<p><b>Substantial / Limited Assurance</b></p> <p>We reviewed the control framework relating to the recruitment and selection of permanent, temporary, and casual staff. We focussed on:</p> <ul style="list-style-type: none"> <li>• policies, procedures, and guidance;</li> <li>• arrangements for the identification and approval of recruitment requests;</li> <li>• advertisement, application, assessment, and approval arrangements, including pre-employment checks;</li> <li>• arrangements for appointing successful candidate; and</li> <li>• procedures for notifying HR, Payroll, and Pensions of the outcome of recruitment exercises.</li> </ul> <p>We were able to provide Substantial Assurance on the adequacy of the Recruitment and Selection Policy, and Limited Assurance on compliance with the Policy at Service level.</p> <p>In general, a clear and robust Policy has been established to control the recruitment and selection process, with adequate training available to recruiting managers. There was some scope for improving the Policy further by clarifying the pre-employment checks required when recruiting internal candidates to a different post.</p> <p>Our work on compliance with the Policy highlighted several instances where temporary posts were filled directly from the casual pool, or by permanent staff on a secondment basis, for periods in excess of four months with no advertisement, application, or interview exercise.</p> <p>We also found instances where the audit trail was incomplete. This included several cases where there was no documentation to confirm why applicants had, and had not, been selected for interview, and that the post was awarded to the most suitable applicant (eg shortlisting and interview scoring matrices not fully completed or certified).</p> <p>Documentation was not always retained to explain why a new start was not placed on the first point of their salary scale, or of the required authorisation for this.</p>

No.	Assignment Area and Service	Assurance and Key Findings
2.	<p>CRC Energy Efficiency Audit</p> <p>Development Services</p>	<p><b>Substantial Assurance</b></p> <p>We reviewed arrangements for ensuring that the Council:</p> <ul style="list-style-type: none"> <li>• is discharging its statutory responsibilities and has effective controls in place to manage the implementation and operation of the scheme;</li> <li>• is able to submit its CO<sub>2</sub> emissions annual report within the permitted tolerance for accuracy and has appropriate processes to collect, collate, and maintain energy consumption data;</li> <li>• has appropriate financial activities, processes, and controls to purchase and surrender allowances in accordance with statutory requirements; and</li> <li>• has sufficient evidence to demonstrate regulatory compliance.</li> </ul> <p>We found that roles and responsibilities were clear, and that procedural instructions had been recently updated. The Annual Report was submitted on time, and was based on 401 electricity and 111 gas supplies. We tested and queried reported data for a number of premises to ensure this reconciled to Systems Link (energy management system) data.</p> <p>The Council must ensure that it has CO<sub>2</sub> allowances at least equal to the quantity of emissions reported. The Council purchased £400k of allowances during 2016/17 and this, along with allowances carried forward from previous years, covered the emissions total in the Annual Report.</p> <p>In overall terms, we were content that the evidence pack maintained by the Council contained all of the mandatory evidence and was appropriately structured.</p>



### Summary Of Key Findings Arising From Assignments Complete to Final Report – NOT Previously Reported to Committee

No.	Assignment Area and Service	Assurance and Key Findings
3.	<p>Social Care and Education Transport</p> <p>Development / Children's / Adult Social Work Services</p>	<p><b>Limited Assurance</b></p> <p>Internal Audit work focussed on arrangements for:</p> <ul style="list-style-type: none"> <li>ensuing that all drivers and transport assistants are vetted under the Protection of Vulnerable Groups scheme;</li> <li>checking driver licensing, vehicle and passenger insurance, and the road worthiness of vehicles. This included arrangements for the reporting of any medical conditions, vehicle accidents, or driving convictions; and</li> <li>ensuring the suitability of volunteer drivers.</li> </ul> <p>The review covered Development Services' Transport Planning Unit (for Council employed drivers and bus and taxi operators), the Social Work Transport Team (for volunteer drivers), and Children's Services (for passenger assistants).</p> <p>We found that a number of drivers, passenger assistants, and volunteer drivers had not been subject to PVG vetting, with reviews for some other drivers and passenger assistants overdue. In addition, discussion requires to be held between the Transport Planning Unit and Human Resources on the completion of Authorisation to Drive forms by drivers of Council vehicles.</p> <p>Not all volunteer drivers were found to hold appropriate insurance cover, and some policies (volunteer driver and external operator) had expired.</p> <p>There was also scope for improving and demonstrating compliance with guidance for ensuring the suitability of volunteer drivers, eg via request for, and retention of, confirmation of fitness to drive and character references, and attendance at induction and child protection training sessions.</p>
4.	<p>Follow Up of Internal Audit Recommendations</p> <p>All Services</p>	<p><b>Not Applicable – Ongoing Monitoring</b></p> <p>The position in relation to Internal Audit recommendations that remain outstanding beyond their agreed implementation date was reported to Audit Committee on 28 September 2017.</p> <p>At that time, 15 recommendations remained outstanding across 8 assignments. Internal Audit will continue to monitor this position, and will provide a further update in early 2018.</p>

No.	Assignment Area and Service	Assurance and Key Findings
5.	Consultancy Work  All Services	<p><b>Not Applicable – Consultancy Work</b></p> <p>The Public Sector Internal Audit Standards are clear that the role of Internal Audit encompasses assurance and consultancy activity. As part of our 2017/18 Internal Audit Plan, time was specifically set aside for undertaking ad hoc and consultancy work (either at the request of Services, or as a result of new or emerging risks). Examples of work that Internal Audit has, to date, input to, or been involved in, include:</p> <ul style="list-style-type: none"> <li>• input to corporate groups, such as Corporate Risk Management Group, CONTEST / Integrity Group;</li> <li>• input and advice in relation to emerging processes and systems, such as off-payroll working (IR35), social work ordering, BACS payment run process;</li> <li>• Bus Service Operator's Grant verification and sign off;</li> <li>• commenting on local and national procedures and policies; and</li> <li>• attendance at, and input to, meetings of the Scottish Local Authorities Chief Internal Auditors' Group and its Computer Audit Sub-Group.</li> </ul>
6.	National Fraud Initiative  All Services	<p><b>Not Applicable – Ongoing Participation</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 relevant matches are followed-up.</p> <p>The 2016/17 NFI exercise is well underway. As part of that, a total of 2,896 'Recommended' matches were released to Falkirk Council for review and investigation (8,366 matches in total). To date, Services have investigated and closed 1,947 matches, with investigation in progress in relation to a further 114. No instances of fraud, and a total of 7 errors, have been identified.</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. Since 01 April 2017, as a result of participation in this exercise (which matches Council Tax and Electoral Roll data), frauds or errors totalling <b>c£40k</b> have been detected, with recovery action taken or underway.</p>
7.	Continuous Auditing  All Services	<p><b>Not Applicable – Ongoing Assurance</b></p> <p>Work has focussed on analysis of payments made via the corporate finance system to identify any potential duplicate payments.</p> <p>To date, we have identified duplicate payments totalling <b>£14.5k</b> and recovery action has been, or is being, taken.</p> <p>In addition, work is ongoing in relation to system access for staff moving to a different post, contract managers' awareness of the use of sub-contractors, and social media privacy settings.</p>

No.	Assignment Area and Service	Assurance and Key Findings
8.	LEADER Audit  Development Services	<p><b>Substantial Assurance</b></p> <p>LEADER is a national programme using European funds to deliver community led local rural development projects. It is delivered via partnerships between the Scottish Government and Local Action Groups (LAG) responsible for developing a Local Development Strategy and for distributing funds against that Strategy.</p> <p>Falkirk Council acts as the 'Accountable Body' for the Kelvin Valley and Falkirk (KVF) 2014-2020 LEADER Programme. As Accountable Body (AB), Falkirk Council has overall responsibility for the delivery and cash flow of the KVF LEADER Programme – a service Level Agreement (SLA) between Falkirk Council and the Scottish Government defines this role.</p> <p>In June 2015 the Scottish Government confirmed an indicative allocation to KVF LEADER of c£2.8m (over the programme life).</p> <p>The SLA requires an annual Internal Audit of the functions and services undertaken by the Accountable Body. Our work covered:</p> <ul style="list-style-type: none"> <li>• arrangements established to comply with SLA terms, the clarity of governance arrangements, the LEADER administration process, and information sharing by the LAG and AB;</li> <li>• LAG processes for considering and administering project and funding applications; and</li> <li>• the LEADER administration grant claim process.</li> </ul> <p>On the basis of our review (including checking of 5 projects' compliance with established procedures) we were able to provide Substantial Assurance in relation to these three areas.</p>
9.	Site Visits / Cash Counts  Falkirk Community Trust	Outcomes from this work will be presented to the Trust Audit and Performance Sub Group on 23 November 2017.

**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.