

**FALKIRK COUNCIL**

**Subject: INTERNAL AUDIT PROGRESS REPORT**  
**Meeting: AUDIT COMMITTEE**  
**Date: 16 November 2009**  
**Author: INTERNAL AUDIT MANAGER**

**1. INTRODUCTION**

- 1.1 The purpose of this paper is to update Members on progress with completing the agreed 2009/10 Internal Audit Plan (the Plan), as presented to the Audit Committee on 03 April 2009. The report also includes information on Services' progress with implementing Internal Audit recommendations, as well as the Internal Audit Section's performance against established performance indicators.

**2. AUDIT PROGRESS**

- 2.1 Progress with completing 2009/10 Internal Audit work is summarised in the tables below, and set out in more detail at Appendix 1.

Status	Number	%
Final Reports Issued	8	34%
Draft Reports Issued	5	22%
Audits In Progress	5	22%
Audits Not Started	5	22%
<b>Total</b>	<b>23</b>	<b>100%</b>

Adjustments to Plan During 2009/10	
Audits Added During Year	1
Audits Deferred During Year	1

- 2.2 There has been one change to the 2009/10 Plan, with a review of Bed and Breakfast Arrangements replacing the planned review of Following the Public Pound. This change was made at the request of the Director of Corporate and Neighbourhood Services, and the review of Following the Public Pound will be included in our Plan for 2010/11.

- 2.3 In general, Internal Audit has been able to provide substantial assurance in relation to arrangements for risk management, governance and control in the areas reviewed.
- 2.4 Where we have identified scope for improvement, in relation to either internal control or best value, action plans have been agreed with management, and we will monitor progress with implementing agreed action on an ongoing basis.
- 2.5 In addition to the 8 audits completed to final report stage, a further 5 reports have been issued in draft and are the subject of discussion with the relevant Services to agree action to address recommendations raised. A summary of key findings arising from these reviews, as well as those where work is in progress or has yet to commence, will be provided to Members at the March meeting of this Committee.

### **3. INTERNAL AUDIT FOLLOW-UP WORK**

- 3.1 Internal Audit continue to follow up recommendations made during 2008/09 and previous years.
- 3.2 In general we have found that Services are making good progress in implementing recommendations, and that action taken to address recommendations has a positive impact on the efficiency and effectiveness of the control framework. I am content that there are no areas where implementation of recommendations has not been given the appropriate priority.
- 3.3 In particular, there has been good progress in implementing recommendations made in relation to Fleet Management and Building Security, two areas where Internal Audit found there to be significant scope for improvement from both a control and best value perspective.
- 3.4 Internal Audit has altered its approach to following up recommendations, with regular progress reports now sought from Services on areas that have been subject to audit. This replaces the more formal and scheduled visits previously undertaken, and allows Internal Audit the flexibility of closing off recommendations as and when action is taken.

### **4. INTERNAL AUDIT PERFORMANCE**

- 4.1 As Members are aware, Internal Audit use a set of 5 Key Performance Indicators to measure and monitor performance. The table below sets out performance to date.

Key Performance Indicator	2009/10 Performance to date <sup>1</sup>	2008/09 Performance
Complete <b>85%</b> of main audit programme:	57%	100%
Have <b>90%</b> of recommendations accepted:	100%	99%
Spend <b>75%</b> of time on direct audit work:	75%	79%
Issue <b>75%</b> of draft reports within 3 weeks of completion of fieldwork:	92%	78%
Complete (to issue of final report) <b>75%</b> of main audits within budget:	88%	70%

4.2 Performance is as expected, and I am content that Internal Audit is on target to meet or exceed all five performance measures.

4.3 As well as monitoring our own performance using the above key performance indicators, Internal Audit strive to work more efficiently through seeking opportunities for joined up or collaborative working. Current examples include:

- Delivery of an audit of the Joint Loan Equipment Service in conjunction with NHS Forth Valley's Internal Auditors (FTF Audit and Management Services). This report, a summary of which is included at Appendix 3, will feed into the annual assurance reports provided to the Audit Committees of Stirling Council and NHS Forth Valley, as well as Falkirk Council;
- Discussions have commenced with the Internal Audit Sections of Stirling and Clackmannanshire Councils and NHS Forth Valley to identify areas of shared interest and where there may be potential for joint working or shared assurance. The results of discussions will feed into future Internal Audit Plans;
- Through the Scottish Local Authority Chief Internal Auditors Group (SLACIAG), the Internal Audit Managers of Falkirk and West Lothian Councils are working to develop an approach to the audit of performance management, with a view to this being adopted by all Scottish Authorities;

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<sup>1</sup> NOTE: performance as at 06 November 2009.

- SLACIAG are also considering a standard approach to the audit of procurement, in light of the recommendation set out in the McClelland Report on Public Procurement in Scotland that Internal Audit consider particular elements of the procurement process on an annual basis. Previous work in this area was undertaken by SLACIAG in 2007, and this earlier work will form the basis of a co-ordinated approach to auditing Procurement as part of Local Authorities' 2010/11 Internal Audit Plans.

4.4 While some of these initiatives remain at an early stage, I will ensure that Members are updated as and when progress is made.

## **5. RECOMMENDATIONS**

**5.1 Members are invited to note that:**

**5.1.1 progress being made in completing planned work is as reported at paragraph 2.1;**

**5.1.2 progress with work on following-up previous year recommendations is as reported at Section 3; and**

**5.1.3 performance against KPIs is as reported at paragraph 4.1.**

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**Internal Audit Manager**

**Date: 06 November 2009**

## 2009/10 Internal Audit Plan – Progress at 06 November 2009

No	Service/Status	Audit	Level of Assurance
<b><i>Final Reports Issued</i></b>			
1.	Law and Administration	Mail Management	Substantial
2.	Community	Land and Asset Disposal	Substantial
3.	Corporate and Neighbourhood	Telecommunications	Substantial
4.	All Services	Statutory Performance Indicators	N/A
5.	Social Work	Joint Loan Equipment Service	Limited
6.	Finance	Treasury Management	Comprehensive
7.	Education	Childcare and Early Years Services	Substantial
8.	Various Services	Cash Spot Checks	N/A
<b><i>Draft Reports Issued</i></b>			
9.	Corporate and Neighbourhood	Bed and Breakfast Arrangements <sup>2</sup>	TBC
10.	Social Work	Fostering	TBC
11.	All Services	Legionella Safety Arrangements	TBC
12.	Finance / All Services	Overtime and Allowance Administration	TBC
13.	Central Scotland Fire Joint Board	Overtime and Allowance Administration	TBC
<b><i>Audits In Progress</i></b>			
14.	Various Services	National Fraud Initiative	TBC
15.	Education	ICT Governance and Security	TBC
16.	Finance	Revenues IT Systems	TBC
17.	Education	Additional Support for Learning	TBC
18.	Development	Sustainability Strategy	TBC

<sup>2</sup> Additional review undertaken at the request of the Director of Corporate and Neighbourhood Services.

	<b><i>Audits Not Started</i></b>		
19.	Community	Community Learning Strategy and Community Education	TBC
20.	Corporate and Neighbourhood	Housing Allocations	TBC
21.	Corporate and Neighbourhood	Energy and Carbon Emissions Management	TBC
22.	Development	Development Management and Enforcement	TBC
23.	Social Work	Direct Payments	TBC
	<b><i>Audits Deferred</i></b>		
24.	Corporate and Neighbourhood	Following the Public Pound Arrangements	N/A

### Definition of Audit Assurance Categories

Level of Assurance	Definition
<b>Comprehensive assurance</b>	Sound systems for risk, control and governance are in place and should be effective in mitigating risks to the achievement of business and control objectives. Some improvements to existing controls in a few, relatively minor, areas may be required.
<b>Substantial assurance</b>	The systems for risk, control and governance are largely satisfactory, but there is some scope for improvement as the present arrangements could undermine the achievement of business and/or control objectives and/or leave them vulnerable to some risk of error/abuse.
<b>Limited assurance</b>	The systems for risk, control and governance have some satisfactory aspects, but contain a number of significant weaknesses that are likely to undermine the achievement of business and/or control objectives and leave them vulnerable to an unacceptable risk of error/abuse.
<b>No assurance</b>	The systems for risk, control and governance are ineffectively designed and/or are operated ineffectively such that business and/or control objectives are not being achieved and the risk of serious error/abuse is unacceptable. Significant improvements are required.

## Final Reports Issued - Summary of Key Findings 2009/10

No	Audit Area and Service	Assurance and Key Findings
1.	Mail Management  Law and Administration	<p><b>Substantial Assurance</b></p> <p>Covered roles and responsibilities, arrangements for the secure opening, storage, and onward distribution of mail, the use of external couriers, and contingency arrangements.</p> <p>Arrangements were generally sound. Roles, responsibilities and objectives were clear, with various initiatives in place to secure best value. There were issues relating to the opening / storage of mail, and a need for an approved courier list.</p>
2.	Land and Asset Disposal  Community	<p><b>Substantial Assurance</b></p> <p>Covered the disposal decision making process, roles and responsibilities, policies and procedures, collection of income, and management information.</p> <p>In general sound systems were in place, although there was some scope for improving the accuracy of the Land Register maintained by the Asset Management Unit, and the transparency of the internal asset valuation review process.</p>
3.	Telecommunications  Corporate and Neighbourhood	<p><b>Substantial Assurance</b></p> <p>Covered policies, procedures, roles and responsibilities relating to fixed and mobile telephony, purchasing and contract management arrangements, budgetary and financial controls, usage monitoring, fault reporting and contingency arrangements, and management information.</p> <p>In general, sound systems of control were in place. Roles and responsibilities were clear, with up to date policies and business continuity arrangements in place.</p> <p>There was, however, a need to ensure that potential savings through smarter use of existing and new telephony are highlighted to Services, and to agree management information requirements.</p>



No	Audit Area and Service	Assurance and Key Findings
4.	Statutory Performance Indicators  Various Services	Reported on Internal Audit's role in collecting and validating SPI information and returns prepared by Services. For each of the SPIs falling within Internal Audit's remit, we found that the information gathered for publication was accurate and complete.
5.	Joint Loan Equipment Service  Social Work	<p><b>Limited Assurance</b></p> <p>Undertaken jointly with FTF Audit and Management Services. Covered governance arrangements, financial and operational controls, arrangements for securing and demonstrating best value, and the adequacy and accuracy of management information.</p> <p>There was scope for improving governance arrangements, including a need to review the Consortium Agreement, document roles and responsibilities, and develop risk management systems.</p> <p>There were also weaknesses in financial and operational controls. In particular, there was a need to improve stock management controls, including the development of a formal Stock Control Policy, and to agree management information requirements.</p>
6.	Treasury Management  Finance	<p><b>Comprehensive Assurance</b></p> <p>Covered borrowing and investment roles, responsibilities, policies and practices, including risk management and compliance with the CIPFA Code of Practice for Treasury Management. Also covered broker and adviser procurement and contract management arrangements, and the reliability and flexibility of management information.</p> <p>Sound systems of control were in place, in compliance with the CIPFA Code of Practice for Treasury Management.</p>

No	Audit Area and Service	Assurance and Key Findings
7.	<p>Childcare and Early Years Services</p> <p>Education</p>	<p><b>Substantial Assurance</b></p> <p>Covered arrangements for ensuring compliance with legislation, strategy and guidance, the development and delivery of childcare services, the monitoring of childcare provision and associated training, budgetary and financial controls, and management information.</p> <p>Robust arrangements were in place for the development, delivery and monitoring of childcare services, within the context of relevant legislation and local implementation of relevant policies and procedures.</p> <p>There was, however, scope for improving the process for commissioning private partners, and for re-imbursing partners and parents with nursery education costs.</p>
8.	<p>Cash Spot Checks</p> <p>Various Services</p>	<p><b>Substantial Assurance</b></p> <p>Internal Audit visited a number of locations to review local cash handling and administrative arrangements. In general we found arrangements to be sound.</p>