

FALKIRK COUNCIL

Subject: INTERNAL AUDIT PROGRESS REPORT
Meeting: AUDIT COMMITTEE
Date: 15 November 2010
Author: INTERNAL AUDIT MANAGER

1. INTRODUCTION

- 1.1 The purpose of this paper is to update Members on progress with completing the agreed 2010/11 Internal Audit Plan (the Plan), as presented to the Audit Committee on 22 March 2010. The report also includes information on recent Internal Audit developments, Services' progress with implementing recommendations, and the Internal Audit Section's performance against established performance indicators.

2. AUDIT PROGRESS

- 2.1 Progress with completing 2010/11 Internal Audit work is summarised in the table below, and set out in more detail at **Appendix 1**.

Status	Number	%
Final Reports Issued	6	24%
Draft Reports Issued	3	12%
Audits In Progress	6	24%
Audits Not Started	10	40%
Total	25	100%

- 2.2 Members should note that more than half of the planned audit reviews have now been completed or are in progress. To date, there have been no significant adjustments to our Plan, and I am content that sufficient progress has been made to suggest that we will once again be in a position to complete all planned work for 2010/11.
- 2.3 As normal, for each of the reviews completed to draft or final report stage, Internal Audit has provided an assurance in respect of arrangements for risk management, governance and control and, in general, we have been able to provide Substantial Assurance (see **Appendix 2** for definitions).

- 2.4 We have, however, identified areas where there is scope for improvement. In particular, we found there to be a need for better control over Travel and Subsistence Expenses and Allowances and administrative arrangements at the Tremanna Residential Unit. Members should note that these reports have been discussed with management and that action plans to address the weaknesses identified have been agreed. It is now management's responsibility to ensure that agreed actions are implemented, although Internal Audit will retain a watching brief with a view to bringing any significant concerns relating to the implementation of recommendations to this Committee.
- 2.5 A summary of the findings arising from these and other reviews completed to final report stage is set out at **Appendix 3**.
- 2.6 In addition to the 6 audits completed to final report stage, a further 3 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, will be included in my Progress Report to Members at the March meeting of this Committee.

3. RECENT INTERNAL AUDIT DEVELOPMENTS

- 3.1 As Members are aware, Internal Audit use a risk based approach to planning and undertaking our work. While this approach allows me to provide an annual report to Members providing an opinion on the Council's overall arrangements for risk management, governance and control, there remains a need for Internal Audit to give the appropriate priority and consideration to reviewing the Council's key financial controls.
- 3.2 In recent years Internal Audit has undertaken reviews of IFRS Implementation, Overtime, Travel and Subsistence Arrangements, Treasury Management, Revenues IT Systems, General Services Capital Programme, Integra Supplier Management and Payments, Insurance Arrangements, Council Tax Arrangements and ResourceLink Management and Security. In addition, a review of Senior Officer Financial Controls is currently underway, and financial risks are considered at the planning stage of each and every review undertaken by Internal Audit.
- 3.3 I am content, therefore, that our approach to reviewing key financial controls is robust, and that Audit Scotland have relied on the work we have undertaken in these areas.

- 3.4 Nevertheless, given the prevailing financial climate and budgetary pressures, and the need to ensure that Internal Audit continues to operate in the most efficient and effective way, some re-structuring of the Section has recently taken place to allow for the ‘continuous’ auditing of financial transactions and controls.
- 3.5 In practice, this means that a proportion of the time of an existing member of the Internal Audit team will be spent reviewing the accuracy and validity of a sample of creditors payments on a weekly basis with a view to ensuring that these have been appropriately checked and authorised and that they offer best value. It is my intention that, in time, consideration is given to extending this sample testing to other transactional areas such as payroll and rent / Council Tax arrears.
- 3.6 These ‘continuous’ auditing arrangements have been put in place on a pilot basis and I will be in a position to report to Members on both the findings arising from this work, as well as the breadth and value of the assurance it is likely to provide, at the March meeting of this Committee.
- 3.7 As well as reviewing and developing the structure and operation of the Section, work continues to be undertaken to seek and act upon opportunities to work jointly with other organisations.
- 3.8 Our work in relation to Serious Organised Crime is a particularly successful example of collaboration, with national issues highlighted in our report being taken forward by the Scottish Crime and Drug Enforcement Agency in conjunction with the Scottish Government.
- 3.9 In addition, discussions have been undertaken with Clackmannanshire and West Lothian Councils, as well as the Fife, Tayside and Forth Valley NHS Internal Audit consortium in relation to sharing best practice. Continued membership of the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) allows wider discussion on national issues, and I have attached a copy of the 2009/10 SLACIAG Annual Report at **Appendix 4** for information.

4. INTERNAL AUDIT FOLLOW-UP WORK

- 4.1 Internal Audit continue to follow-up recommendations made in previous years and, in overall terms, I am content that appropriate action is being taken by Services to address issues raised.
- 4.2 There are no areas of particular concern that I would wish to bring to Members’ attention, with the follow-up of recommendations now understood by Services as an integral part of the Internal Audit process.

4.3 Recent follow-up work has highlighted a number of areas where there have been significant improvements in the framework of control and / or best value as a result of implementing recommendations made by Internal Audit. Some examples include:

- reduction in overtime expenditure as a result of better control over checking and authorisation of claim forms and detailed scrutiny of spend by Services;
- reduction in rent loss due to void properties as a result of preparation and implementation of formal voids management procedure incorporating flowcharts and clear roles and responsibilities;
- improved security of the Council's IT network and data as a result of the implementation of complex passwords requiring periodic change;
- reduced telephony spend as a result of review of no / low use mobile phones and other telephony.

4.4 It is my intention to provide a fuller report to Members on the impact of implementation of Internal Audit recommendations at the March 2011 meeting of this Committee.

5. INTERNAL AUDIT PERFORMANCE

5.1 Internal Audit continues to monitor its performance against a set of 5 Key Performance Indicators. The table below sets out performance to date.

Key Performance Indicator	2010/11 Performance to 05 November 2010	2009/10 Performance
Complete 85% of main audit programme	36%	100%
Have 90% of recommendations accepted	100%	100%
Spend 75% of time on direct audit work	79%	76%
Issue 75% of draft reports within 3 weeks of completion of fieldwork	78%	87%
Complete (to issue of final report) 75% of main audits within budget	83%	74%

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

6. RECOMMENDATIONS

6.1 Members are invited to note that:

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

6.1.2 recent Internal Audit developments are as set out at Section 3;

6.1.3 progress with work on following-up previous recommendations is as reported at Section 4;

6.1.4 a report on the impact of implementing Internal Audit recommendations will be provided to the March 2011 meeting of the Audit Committee; and

6.1.5 performance against KPIs is as reported at paragraph 5.1.

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Internal Audit Manager

Date: 05 November 2010

2010/11 INTERNAL AUDIT PLAN – PROGRESS AT NOVEMBER 2010

No.	Service/Status	Audit	Level of Assurance
	<i>Final Reports Issued</i>		
1.	Chief Executive Office - Governance	Printworks Falkirk	Substantial
2.	All Services	Travel and Subsistence Expenses and Allowances	Limited
3.	All Services	Serious Organised Crime	Substantial
4.	All Services	Statutory Performance Indicators	N/A
5.	Chief Executive Office - Finance	International Financial Reporting Standards Implementation and Application	Substantial
6.	Social Work	Tremanna Residential Unit	Limited
	<i>Draft Reports Issued</i>		
7.	Community	Cash and Income Collection Across Community Services	Substantial
8.	Education	School Fund Accounts	Limited
9.	Community	Helix Governance and Finance Arrangements	Substantial
	<i>Audits In Progress</i>		
10.	Social Work	Budgetary and Financial Control	TBC
11.	Education	PPP/NPDO School Maintenance	TBC
12.	All Services	Senior Officer Financial Controls	TBC
13.	All Services	Taxi Contracts	TBC
14.	Various Services	Cash Spot Checks	TBC
15.	Central Scotland Fire and Rescue Service	Approval and Payment of Invoices	TBC
	<i>Audits Not Started</i>		
16.	Corporate and Neighbourhood	Corporate / Service Planning and Performance Management	TBC
17.	Corporate and Neighbourhood	External Funding Unit and FPP	TBC
18.	Corporate and Neighbourhood	Procurement	TBC
19.	Corporate and Neighbourhood	Housing Allocations	TBC

No.	Service/Status	Audit	Level of Assurance
20.	Corporate and Neighbourhood	Customer First – Contact Centre	TBC
21.	Development	Building Design (DDA Compliance)	TBC
22.	Development	IT Contract Management	TBC
23.	Social Work	Forth Valley Sensory Centre	TBC
24.	Social Work	Falkirk CHP Governance, Risk and Performance Management	TBC
25.	Social Work	Child Protection – Key Processes	TBC

DEFINITION OF INTERNAL AUDIT ASSURANCE CATEGORIES

Level of Assurance	Definition
Comprehensive assurance	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.
Substantial assurance	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.
Limited assurance	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.
No assurance	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 2010/11

No	Audit Area and Service	Assurance and Key Findings
1.	Printworks Falkirk Chief Executive Office - Governance	<p>Substantial Assurance</p> <p>Covered roles, responsibilities and accountability, financial and operational control, arrangements for securing and demonstrating best value, and the adequacy of management information.</p> <p>Arrangements were generally sound, with adequate budget monitoring arrangements in place and the implementation of measures to help ensure best value. There was some scope for improving performance monitoring and risk management, and to put in place formal contracts with all external clients.</p>
2.	Travel and Subsistence Expenses and Allowances All Services	<p>Limited Assurance</p> <p>Covered rules and guidance, arrangements within Services for checking and approving claims, and the adequacy of management information.</p> <p>There was significant scope for improvement, particularly in relation to corporate guidance and the checking of claims by Services prior to approval. There was a need for all Services to review their spend on these allowances and expenses, and for a wider review of allowances and expenses within the context of best value.</p>

No	Audit Area and Service	Assurance and Key Findings
3.	<p>Serious Organised Crime (SOC)</p> <p>All Services</p>	<p>Substantial Assurance</p> <p>Based on an approach developed in conjunction with the Scottish Crime and Drug Enforcement Agency (SCDEA). Covered awareness and communication of SOC risks, liaison with local and national law enforcement agencies, the recruitment of staff with reference to SOC risks, and the consideration of SOC risks within a number of operational areas.</p> <p>We found that, in general, SOC risks and national strategies had been communicated and that there was a willingness to change existing processes and procedures as necessary although this will, to some extent, be dependent on national developments.</p> <p>There were a number of areas where improvements could be made. These related to information sharing, the formalisation of anti-money laundering arrangements, the transparency of the civic licensing process, and the embedding of SOC risks and issues in corporate strategies and policies.</p> <p>We also identified a number of national issues that are to be taken forward by the SCDEA in conjunction with the Scottish Government. These related to disclosure checking, the assessment of information received from civic licensing applicants, and the private landlord registration process.</p>
4.	<p>Statutory Performance Indicators</p> <p>All Services</p>	<p>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.</p>

No	Audit Area and Service	Assurance and Key Findings
5.	<p>International Financial Reporting Standards Implementation and Application</p> <p>Chief Executive Office - Finance</p>	<p>Substantial Assurance</p> <p>Covered roles and responsibilities, project and implementation management arrangements, the use of external advice, and contingency arrangements.</p> <p>Project management arrangements were sound, with an implementation action plan in place against which progress is monitored. There is some scope for improving risk management, and year end processes and data sources require to be reviewed and amended.</p>
6.	<p>Tremanna Residential Unit</p> <p>Social Work</p>	<p>Limited Assurance</p> <p>Covered arrangements for budget monitoring, payroll, petty cash, residents' monies, the ordering and receipt of goods and services, inventory management, risk management, business continuity and general building security.</p> <p>While adequate staff, information, and building security arrangements were in place, there was scope for improving budget monitoring, petty cash administration, procurement and inventory management procedures, risk management, and business continuity.</p>



ANNUAL REPORT FROM THE CHAIRMAN – 2009-2010

The production of an Annual Report on the work of SLACIAG was identified as an improvement action which would allow the Group to communicate more effectively the workings of the Group. This first Annual Report has been prepared to inform relevant stakeholders and other interested parties of the work carried out by SLACIAG during the year to 31 May 2010.

Purpose

The purpose of SLACIAG is to develop and improve the practice of Internal Audit in Scottish Local Authorities, Police, Fire and Public Transport bodies by providing a forum for Chief Internal Auditors to meet and discuss issues of common concern. The Group seeks to further this objective by a range of activities including inviting external speakers to attend meetings of the Group, commissioning work to develop audit approaches and methodologies on new and emerging issues, facilitating the sharing of good practice, working in partnership with other professions / governing bodies and promoting SLACIAG more generally as the representative body for Internal Audit in Scottish public authorities.

Membership

The membership of SLACIAG comprises the Chief Internal Auditor from each Scottish Council, together with Chief Internal Auditors from Strathclyde Police and Strathclyde Partnership for Transport. A management committee is elected every two years comprising four office bearers and a number of ordinary committee members. The committee membership during the year comprised Ken Adamson, North Lanarkshire Council (Chair), Kenneth Ribbons, West Lothian Council (Vice Chair), Jill Stacey, Scottish Borders Council (Secretary) and Hugh McLaughlin, South Ayrshire Council (Treasurer) and six appointed others.

Meetings

SLACIAG held four formal meetings during the year to 31 May 2010 at various venues hosted by its members. Meetings are generally well-attended (see below) but attendance does fluctuate and the Committee will continue to actively seek members' views to ensure that the frequency, structure and content of future meetings meet members' needs. Members of SLACIAG are reminded that they may nominate a substitute attendee for any meeting of the Group who may act in decisions at that meeting as if they were a full member and I would encourage members to do so where this is practical.

The attendance at the SLACIAG meetings throughout the year to 31 May 2010 was as follows:

Meeting	14/15 May 2009	11 September 2009	04 December 2009	26 March 2010
Venue	Conference, Bridge of Allan	SPT, Glasgow	Edinburgh Council	Stirling Council
No. of Attendees	23	24	20	15

One of the meetings (04 December 2009) also served the purpose of the Annual General Meeting to approve the accounts and appoint the following year's auditor.

A key part of every meeting is the opportunity provided by the attendance of a range of external speakers to present on subjects of interest and relevance to Chief Internal Auditors. The following table summarises the presentations that have been made at meetings for the purpose of discussing issues of common interest and sharing good practice:

Presenter	Date	Topic
Don Peebles, CIPFA Scotland	May 2009 (Conference)	Providing assurance on performance management arrangements, the challenge of aligning resources to outcomes and Internal Audit's role in reviewing performance management alongside stewardship of public finances.
Facilitated group workshop	May 2009 (Conference)	Internal Audit's role and the efficiency agenda: How should Internal Audit respond to Annual Efficiency Statements, the increased financial and budgetary pressures and Best Value 2.
Facilitated group workshop	May 2009 (Conference)	How should Internal Audit best relate to Single Outcome Agreements and the Community Planning agenda?
Joanne McWilliams, PricewaterhouseCoopers	May 2009 (Conference)	How should Internal Audit respond to the continuous improvement agenda?
Mark McAteer, The Improvement Service	May 2009 (Conference)	The development of the Public Services Improvement Framework (PSIF) and what it might mean for Internal Audit.
Gavin Whitefield, Chief Executive, North Lanarkshire Council on behalf of SOLACE	May 2009 (Conference)	A Chief Executive's perspective on the key challenges facing local government and what these might mean for Internal Audit.
Chief Supt Alan Moffat, Scottish Crime and Drug Enforcement Agency (SCDEA)	September 2009	The role of SCDEA and the need to raise awareness via Internal Audit of the risks presented by serious crime to functions in Local Authorities.
Dave Reynolds, Current Chair of the Institute of Internal Auditors (IIA) in Scotland	September 2009	IIA services, aims and current developments including building relationships with relevant bodies, chartered status and raising the profile and standing of Internal Audit.
Nikki Bridle, Audit Scotland	December 2009	Outline of proposed streamlined audit, inspection and scrutiny arrangements including the role of Local Area Network and Shared Risk Assessment processes, feedback from BV2 pathfinders and the use of authorities' self-evaluation by the LAN.
Ken Adamson, North Lanarkshire Council	December 2009	Key themes from CIPFA publication "Perceptions of Audit Quality", results and improvements since previous study and suggested actions arising to drive improvement agendas for Internal Audit.
Jill Stacey, Scottish Borders Council	December 2009	Discussion of pros and cons, key risk areas operational challenges and potential benefits of potential shared service delivery models for Internal Audit including outsourcing, in-house provision, mixed models and formal collaboration between Local Authorities.
Philip Atkinson, Atkinson Consulting	March 2010	Key elements of personal and organisational brands; personality types with the purpose of increasing Chief Internal Auditors self awareness and influencing skills.
Gillian Battison, Audit Scotland	March 2010	Key messages arising from the Accounts Commission Overview of Local Government in Scotland 2009 report including discussion of key issues highlighted in the report and in the key questions for elected members contained within the report.

Collaboration

The following table summarises the areas in which the Group are working in partnership with other professions / governing bodies and promoting SLACIAG as the representative body for Internal Audit in Scottish public authorities:

Organisation	Topic
Institute of Internal Auditors (IIA)	The Group are seeking to further develop relations with IIA. The Group has recently asked IIA to design and deliver bespoke training modules for SLACIAG on Leadership, Performance and Quality in an Internal Audit context. The aim is to develop and deliver a cost-effective training toolkit for current and prospective Chief Internal Auditors which will assist employing organisations by enabling staff to better respond to the challenges facing Internal Audit in Local Authorities.
Chartered Institute of Public Finance and Accountancy (CIPFA)	Represented on the CIPFA Procurement and Contract Audit Forum which is seeking to improve the auditing of this increasingly complex and challenging topic.
	Responding to consultations on relevant publications, eg the role of the Head of Internal Audit in Local Government.

Training and Development

The Group commissioned training provider Phil Griffiths from 'Business Risk Management Ltd' to deliver a high quality and practitioner based Audit Report Writing course to 28 delegates from 25 authorities in Spring 2009 in Edinburgh at discounted rates to the Group. Feedback from those attending was extremely positive and a number of Chief Internal Auditors have indicated that their approach to reporting the results of Internal Audit's work has improved since the course was held.

Sub Groups and Working Groups

SLACIAG has a well established Computer Audit sub-group which operates as a specialist group with membership of computer auditors or their equivalent across the SLACIAG Authorities. This sub-group has developed computer audit programmes common to SLACIAG and recently completed a project to identify common computer applications used for key financial systems. ICT security issues have also figured prominently in the recent work of the sub-group.

SLACIAG has also established a series of short-life working groups (see table below) during the year to develop ideas and produce materials for the benefit of the wider membership. Participation in working groups is voluntary but there is an expectation that all members will contribute in turn to this.

Participants	Topic
Lead Officer Kenneth Ribbons (West Lothian Council) in collaboration with Gordon O'Connor (Falkirk Council)	Development of Internal Audit programme on Performance Measurement and Management – Complete December 2009 and toolkit published on the SLACIAG website.
Lead Officer Joan Allan (South Lanarkshire Council)	Development of audit methodology and Internal Audit programme on Single Outcome Agreements – planned completion June 2010.
Lead Officer Kevin Geraghty (Dumfries and Galloway Council)	Development of Internal Audit programme on Community Planning Partnerships – planned completion September 2010.

Summary

This report summarises the work carried out by SLACIAG during the year to 31 May 2010. I hope that it has provided a useful overview of the work of the Group and that those who attend meetings and actively participate continue to enjoy real benefit from the work of the Group.

Finally I would like to take this opportunity on behalf of the Group to thank all those who commit time and effort to the various activities of the Group. At a time when we are all facing increased pressures on time and budgets, I consider that it would be a real loss were the opportunities of networking and collaborative working provided by the Group to diminish. I am confident, however, that this will not be the case and that the challenge facing Internal Audit in the next few years in responding to the changing environment in which we all work will strengthen the need to work jointly to ensure that Internal Audit is able to respond effectively.

Ken Adamson (Internal Audit Manager, North Lanarkshire Council)
Chairman of SLACIAG
31 May 2010