FALKIRK COUNCIL

Subject:	**INTERNAL AUDIT PROGRESS REPORT**
Meeting:	**AUDIT COMMITTEE**
Date:	**21 March 2011**
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 Continuous Auditing work, the impact of implementing Internal Audit recommendations, and the Section's performance against established performance indicators.

2.   AUDIT PROGRESS

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

Status	Number	%
Final Reports Issued	15	63%
Draft Reports Issued	5	21%
Audits In Progress	4	16%
Audits Not Started	0	0%
Total	**24**	**100%**

Adjustments to Plan During 2010/11	
Audits Added During Year	1
Audits Deferred During Year	2

2.2   Members should note that the reviews of Forth Valley Sensory Centre and Falkirk CHP Governance, Risk and Performance Management will not be completed as planned, primarily to facilitate the commencement of the Continuous Auditing covered in more detail later in this paper.   Both of these reviews were to be undertaken jointly with Fife, Tayside and Forth Valley NHS Internal Audit consortium, and we will continue to explore the possibility for future joint working.

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 and **Appendix 3** for key findings arising from each review completed to final report stage).

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 15 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, will be included in my Annual Assurance Report to Members at the May meeting of this Committee.

3. CONTINUOUS AUDITING: ASSURANCE AND EMERGING FINDINGS

3.1 Members will recall that, in my November 2010 Progress Report to this Committee, I advised that a proportion of the time of an existing member of the Internal Audit team would be allocated to the 'continuous auditing' of transactional systems.

3.2 It was my intention that, initially, the focus would be on reviewing the accuracy and validity of a sample of creditors payments on a weekly basis to ensure that these had been appropriately checked and authorised. To date almost 500 payments relating to the period October to December 2010 have been reviewed, and this work has provided assurance that controls are, in general, operating as intended.

3.3 As well as this work on invoice checking and approval, analysis has been undertaken to identify any potential duplicate creditors payments. Payments made during the period April 2007 to January 2011 have been analysed, using our audit interrogation software, to seek matches within data downloaded from Integra.

3.4 To date, eight potential duplicate payments have been identified, totalling c£32k, with details passed to Creditors Section to allow the appropriate recovery action to be taken. Following detailed examination, refunds / credit notes have been received in respect of six duplicates, amounting to c£18k. A further invoice, amounting to c£13k, is considered to be a duplicate and Creditors Section are currently awaiting confirmation from the supplier. The eighth potential duplicate was found to be a valid charge.

3.5 Given that the Council processes c200k creditors invoices totalling c£218m annually, the relatively small number and low value of potential duplicate payments identified for the period April 2007 to January 2011 provides substantial assurance that reasonable and proportionate controls are in place to identify and prevent such payments from occurring.

3.6 I am content that the continuous auditing arrangements, initially established on a pilot basis, are providing sufficient output, both in terms of key financial control assurance and potential financial savings, to merit continuation. As such, work on reviewing invoice checking and approval arrangements, and the analysis of financial data to identify any potential duplicate payments, will continue.

3.7 In addition, we have recently expanded the role to cover the analysis of overtime, travel, and subsistence claims and payments, and I will provide an update on that work to Members at an appropriate future meeting of this Committee.

4. IMPACT OF IMPLEMENTING INTERNAL AUDIT RECOMMENDATIONS

4.1 In my November 2010 Progress Report to this Committee I provided some examples of how the implementation of Internal Audit recommendations had led to improvement in the Council's framework of control and / or best value.

4.2 In that report I also committed to providing fuller information to Members on the impact of Internal Audit recommendations at this meeting. As such I have attached, at **Appendix 4**, a table setting out information relating to examples of positive outcomes realised, wholly or in part, as a result of the implementation of Internal Audit recommendations.

4.3 It is my intention to periodically refresh this information and to present it as part of my Progress Report to Members.

5. INTERNAL AUDIT PERFORMANCE

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

Key Performance Indicator	2010/11 Performance to March 2011	2009/10 Performance
Complete **85%** of main audit programme	83%	100%
Have **90%** of recommendations accepted	100%	100%
Spend **75%** of time on direct audit work	77%	76%
Issue **75%** of draft reports within 3 weeks of completion of fieldwork	85%	87%
Complete (to issue of final report) **75%** of main audits within budget	87%	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 work in relation to Continuous Auditing is as set out at Section 3;

6.1.3 a summary of the impact of the implementation of Internal Audit recommendations is as reported at Section 4; and

6.1.4 performance against KPIs is as reported at paragraph 5.1.

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Internal Audit Manager

Date: 10 March 2011

2010/11 INTERNAL AUDIT PLAN – PROGRESS AT MARCH 2011

No.	Service/Status	Audit	Level of Assurance
	Final Reports Issued		
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	Substantial
5.	Chief Executive Office - Finance	IFRS Implementation and Application	Substantial
6.	Social Work	Tremanna Residential Unit	Limited
7.	Education	School Fund Accounts	Limited
8.	Community	Cash and Income Collection Across Community Services	Substantial
9.	Community	Helix Governance and Finance Arrangements	Substantial
10.	Education	NPDO/PPP School Maintenance	Substantial
11.	Social Work	Child Protection – Key Processes	N/A - Consultancy
12.	Corporate and Neighbourhood	Corporate / Service Planning and Performance Management	Substantial
13.	All Services	Continuous Auditing	N/A – Ongoing Reporting
14.	Various Services	Cash Spot Checks	Substantial
15.	Central Scotland Fire and Rescue Service	Approval and Payment of Invoices	N/A
	Draft Reports Issued		
16.	Social Work	Budgetary and Financial Control	TBC
17.	All Services	Senior Officer Financial Controls	TBC
18.	All Services	Taxi Contracts	TBC
19.	Development	IT Contract Management	TBC
20.	Corporate and Neighbourhood	Customer First – Contact Centre	TBC

	Audits In Progress		
21.	Corporate and Neighbourhood	External Funding Unit and FPP	TBC
22.	Corporate and Neighbourhood	Procurement	TBC
23.	Development	Building Design (DDA / EA Compliance)	TBC
24.	Corporate and Neighbourhood	Housing Allocations	TBC
	Audits Added		
25.	All Services	Continuous Auditing	N/A – Ongoing Reporting
	Audits Deferred		
26.	Social Work	Forth Valley Sensory Centre	N/A
27.	Social Work	Falkirk CHP Governance, Risk and Performance Management	N/A

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	**Substantial Assurance** Covered roles, responsibilities and accountability, financial and operational control, arrangements for securing and demonstrating best value, and the adequacy of management information. 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.
2.	Travel and Subsistence Expenses and Allowances All Services	**Limited Assurance** Covered rules and guidance, arrangements within Services for checking and approving claims, and the adequacy of management information. 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.

No	Audit Area and Service	Assurance and Key Findings
3.	Serious Organised Crime (SOC) All Services	**Substantial Assurance** 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. 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. 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. 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.
4.	Statutory Performance Indicators All Services	**Substantial Assurance** 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.

No	Audit Area and Service	Assurance and Key Findings
5.	International Financial Reporting Standards Implementation and Application Chief Executive Office - Finance	**Substantial Assurance** Covered roles and responsibilities, project and implementation management arrangements, the use of external advice, and contingency arrangements. 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.
6.	Tremanna Residential Unit Social Work Services	**Limited Assurance** 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. 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.
7.	School Fund Accounts Education Services	**Limited Assurance** Covered roles, responsibilities, policies and procedures, systems for supporting schools, including monitoring and reporting, and financial and operational controls. While there was a general awareness of the risks associated with School Funds there was scope for improving the content and availability of procedures, the consistent application of procedures, the reporting of transaction activity and arrangements relating to VAT.

No	Audit Area and Service	Assurance and Key Findings
8.	Cash and Income Collection Community Services	**Substantial Assurance** Covered roles, responsibilities, policies and procedures, income handling, storage, transfer, banking and recording, and security and contingency arrangements. In general, sound systems of control were in place, with clear roles and responsibilities and income held securely and banked regularly. There was some scope for improving management checks and for reviewing Security Patrol / Courier duties.
9.	Helix Governance and Finance Arrangements Community Services	**Substantial Assurance** Covered roles, responsibilities and accountability, partnership agreement commitment monitoring, funding and project management arrangements, and progress reporting. Arrangements were generally sound. There was, however, some scope for more frequent review of the Governance and Fundraising Strategies.
10.	NPDO/PPP School Maintenance Education Services	**Substantial Assurance** Covered contractual maintenance requirements, the identification, prioritisation and commissioning of work, the monitoring of progress and quality, and budgetary and financial controls. Sound systems of control were in place, with good working relationships and clarity of roles and responsibilities between maintenance service providers and Council Officers. We did, however, note some inconsistencies across maintenance schedules and a need for formal confirmation from service providers that statutory maintenance requirements were being met.

No	Audit Area and Service	Assurance and Key Findings
11.	Child Protection – Key Processes Social Work Services	**N/A – Undertaken as Consultancy** Ahead of a planned HMIE inspection, Internal Audit reviewed the Service's compliance with policies and procedures, particularly in relation to Case Conferences, Reviews and Core Groups, recording of decisions and outcomes, and child plan monitoring. The outputs from the audit will be used by Social Work Services management to further improve the framework of control and the practical application of existing policies and procedures
12.	Corporate and Service Planning Corporate and Neighbourhood Services	**Substantial Assurance** Covered roles and responsibilities, arrangements for identifying and agreeing Corporate and Service Plan objectives, consultation, communication and monitoring arrangements, and the production of management information. In general we found arrangements to be robust, although there is scope for better integrating risk management into the Service planning process, and for ensuring consistency in the Service Plan reporting framework.
13.	Continuous Auditing	**N/A – Ongoing Reporting and Assurance** Work has focussed on identifying potential duplicate creditors payments and on reviewing the accuracy, validity, checking and authorisation of a sample of creditors payments. We have been able to provide assurance that controls around the checking and authorisation of invoices are, in general, operating effectively. Details of any potential duplicate payments are passed to Creditors Section as a matter of course.

No	Audit Area and Service	Assurance and Key Findings
14.	Cash Counts Various Services	**Substantial Assurance** Internal Audit reviewed cash and general administration arrangements at Camelon One Stop Shop, Licensing Section at Municipal Buildings, and at the Social Work Leaving Care Team. We made a number of recommendations relating to local arrangements, but in general found controls to be reasonable and proportionate.
15.	Approval and Payment of Invoices Central Scotland Fire and Rescue Service	As discussed and agreed with CSFRS management and presented to CSFRS Best Value and Scrutiny Committee.

IMPACT OF IMPLEMENTING INTERNAL AUDIT RECOMMENDATIONS

No.	Audit	Year	Service	Key Improvements to Control Environment / Best Value as a Result of Internal Audit Recommendations
1.	Fleet Management	2007/08 and 2008/09	Corporate and Neighbourhood / All Services	Improved operational guidance on vehicle usage, with clearer responsibility for fleet matters within Services and better management information to those Service contacts. Better scrutiny of Short Term Hires, with a reduction in monthly expenditure from c£49k at January 2008 to c£34k at February 2011.
2.	ICT Governance and Security	2007/08	Corporate and Neighbourhood	Ownership of Information Security Policy, and responsibility for monitoring its implementation, has been allocated to the ICT Strategy Group. This responsibility will be formalised in the next version of the ICT Strategy.
3.	Integra Supplier Management and Payments	2008/09	Chief Executive Office - Finance	Reduced risk of erroneous payment as a result of better maintenance of supplier database and checking of bank account change requests. Improved system resilience via formalisation of business continuity arrangements.
4.	Building Security	2008/09	Various Services	Reduced risk of unauthorised access to key Council buildings (and therefore staff, information and assets) through better access control, and through action to address building specific security weaknesses.
5.	Email and Internet Security	2008/09	Corporate and Neighbourhood	Improved information and data security through implementation of complex passwords with the requirement for periodic change. Better filtering of spam email as a result of review of filtering software security settings.
6.	Voids Management	2008/09	Corporate and Neighbourhood	Formal voids management procedure established and operating. Reduced rent loss due to voids: 2007/08 = £592,316 (1.5% of rent due); 2009/10 = £420,755 (1% of rent due).
7.	Supply Teacher Provision	2008/09	Education	Electronic timesheets introduced for Supply staff, and clearer financial reporting of the reasons for Supply need.

No.	Audit	Year	Service	Key Improvements to Control Environment / Best Value as a Result of Internal Audit Recommendations
8.	Social Work Information Systems	2008/09	Social Work	Reduced risk of loss or compromise of sensitive and confidential client data as a result of improved system security, particularly in relation to the administration of user access privileges.
9.	Telecommunications	2009/10	Corporate and Neighbourhood / All Services	Highlighted potential savings relating to low and no use land and mobile lines, and calls to unknown numbers. Identified matters to be considered when re-tendering for telecommunications services.
10.	Joint Loan Equipment Service	2009/10	Social Work	Successful joint exercise with Fife, Tayside and Forth Valley NHS Internal Audit consortium. Internal Audit work has resulted in improved governance arrangements and has acted as a catalyst for better cross-partner working.
11.	Legionella Management	2009/10	Corporate and Neighbourhood / All Services	Significantly improved control framework and reduced risk of incident / outbreak. Raised profile of Legionella risks and resulted in better enforcement of robust checking regime in line with legislative requirements.
12.	Childcare and Early Years Education	2009/10	Education	Better arrangements for commissioning, monitoring, and vetting of private partners, improving the consistency of arrangements across Council and private establishments.
13.	Fostering	2009/10	Social Work	Better control over payments in respect of external placements, and list of essential items established. Improved assessment and scrutiny of potential foster carer applications.
14.	Overtime and Allowances	2009/10	All Services	Re-designed standard claim forms, incorporating guidance and declarations, to be rolled out across the Council. Better scrutiny of Overtime claims by Services. Overtime and Allowance expenditure April 2009 to January 2010 = c£6.5m, compared to expenditure April 2010 to January 2011 of c£5.5m.