

FALKIRK COUNCIL

Subject: INTERNAL AUDIT PLAN 2011/12
Meeting: AUDIT COMMITTEE
Date: 21 March 2011
Author: INTERNAL AUDIT MANAGER

1. INTRODUCTION

- 1.1 The CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 (the Code) requires the Internal Audit Manager, on an annual basis, to prepare a risk based Internal Audit Plan, taking account of the Council's risk management, performance management, and other assurance processes. In line with this requirement I attach, at **Appendix 1**, a copy of the proposed Plan for 2011/12.
- 1.2 As part of their responsibilities under CIPFA's guidance on Audit Committee principles, Members are required to consider the Internal Audit Plan. This report, therefore, provides details of the resources available to Internal Audit, the basis of the preparation of the Plan, and the mechanism for reporting on findings arising from Internal Audit work.

2. INTERNAL AUDIT RESOURCES

- 2.1 The Code states that Internal Audit should be adequately resourced to meet its objectives, with the appropriate mix of experience, qualifications and personal attributes. I am content that this remains the case¹, although Members should note the following changes, each of which has some impact on the structure and operation of the Internal Audit Section:
- one of our Internal Auditors is now focussing on 'Continuous Auditing' (see paragraph 4.1.3 later in this report);
 - one of our Internal Audit Assistants has moved to a post in Accountancy Services, initially on secondment, but with a view to making this permanent; and
 - our other Internal Audit Assistant has successfully attained the Institute of Internal Auditors (IIA) Diploma, meaning that all Internal Audit staff now hold a relevant professional qualification.

¹ See Organisational Chart at **Appendix 2**.

- 2.2 While the changes outlined above have resulted in a reduction in time available for direct Internal Audit activity, the continued focus on high risk auditable areas and the additional assurance provided via Continuous Auditing, combined with the experience and competence of the remaining team members, mean that there will be no material impact on the breadth (or quality) of assurance that Internal Audit will be able to provide.
- 2.3 The Internal Audit Plan for 2011/12 has been developed on the assumption that the Section will be fully staffed throughout the year. On this basis, and taking account of time spent on indirect activities such as leave, training, and development, the resources available for Direct Internal Audit Activity are as follows:

Activity	Planned Days
Direct Internal Audit Time	780
Ad Hoc Work / Contingency	60
Follow up 2010/11 Recommendations	60
Total Direct Internal Audit Activity	900

- 2.4 As with previous years, the Plan contains some allowance to accommodate any unforeseen or ad hoc work, and time has also been included for following-up recommendations made during 2010/11 and previous years.

3. DEVELOPMENT OF THE INTERNAL AUDIT PLAN

- 3.1 In line with the Code, preparation of the Internal Audit Plan has taken account of the outcomes of the Council's risk management processes, as well as Internal Audit's own assessment of risk analysed via our Audit Needs Assessment model.
- 3.2 Consideration of the outcomes of the Council's risk management processes included review of the Corporate Risk Register and other documentation such as subsidiary Service Risk Management Plans and Service Performance Plans, as well as discussion with senior staff.
- 3.3 Internal Audit will continue to review, on an ongoing basis, emerging and developing risks, and these will be built into our Audit Needs Assessment for consideration in future Internal Audit Plans. Where appropriate, and in consultation with senior management, changes may be made to the 2011/12 Plan to take account of emerging risks or changing circumstances. Any changes to the Plan will be reported to Members at the earliest opportunity.

4. PLANNED INTERNAL AUDIT COVERAGE

- 4.1 As per paragraph 1.1 above, planned 2011/12 Internal Audit coverage is set out at **Appendix 1**. With regard to the detail of the Plan, Members may wish to note the following:

- 4.1.1 The review of Corporate Data Security and Transfer (**Audit A5**) will build on previous work undertaken by the Council's ICT Strategy Group and on last year's Internal Audit review of Serious Organised Crime arrangements. The emphasis will be on ensuring that all internal and external transfers of data are identified, and that protocols are in place to allow the legal and proper sharing of data. This work will be done in parallel with the related review of Payment Card Industry Data Security Standards (**Audit A16**);
 - 4.1.2 The reviews of the Integra Finance System (**Audit A6**), Integrated Housing Management System (**Audit A7**) and Procon Costing System (**Audit A10**) will focus on security at the operating system, database and application levels. We will also review system and database administrator privileges, security configurations, and business continuity arrangements;
 - 4.1.3 Internal Audit will continue to undertake the Continuous Auditing (**Audit A18**) of key transactional systems. Arrangements in relation to the ongoing review of creditors payments are now embedded and, during 2011/12, we will extend our work into other transactional areas. In particular, arrangements will be established to review transactions flowing through the Payroll section in respect of overtime and travel and subsistence claims and payments;
 - 4.1.4 The IIA International Standards state that an external assessment (of an IA Section's compliance with those Standards) must be conducted at least once every five years by a qualified, independent, reviewer from outside the organisation. This builds on the requirements of the CIPFA Code. It has been agreed with West Lothian Council's Internal Audit Manager that a reciprocal peer review will be undertaken during 2011/12, with findings reported to respective Audit Committees (**Audit A19**).
- 4.2 Subject to Members' comments on the Plan, we will develop full terms of reference for all planned reviews following preliminary visits to discuss the risks and controls present, prior to the start of each audit. Before then, Directors will be consulted about the broad timetable for audit reviews in their areas.

5. REPORTING ARRANGEMENTS

- 5.1 Matters arising from each Internal Audit exercise will be communicated to management in the form of a draft report. Each audit report will provide a statement on the level of assurance that can be provided on the systems of risk management, governance and control, as well as an action plan setting out specific audit recommendations. The overall assurance will be provided in line with the definitions set out at **Appendix 3**, and management will be expected to provide responses to each recommendation in line with timeframes agreed at the outset of the review. The report and completed action plan will form the final record of each audit, and the basis for subsequent follow-up work.

- 5.2 Reports will be provided to the Audit Committee in November and March detailing progress in completing the 2011/12 Internal Audit Plan and highlighting any key findings or themes emerging from work carried out.
- 5.3 Finally, Internal Audit will produce an Annual Assurance Report providing an opinion on the overall adequacy and effectiveness of the Council's control environment. This report will include a summary of work undertaken and a comparison of work completed against work planned.

6. RECOMMENDATIONS

6.1 Members are invited to:

6.1.1 agree planned Internal Audit coverage for 2011/12;

6.1.2 note the resources available to Internal Audit; and

6.1.3 note that progress against the Plan will be reported to the Audit Committee in November and March, and summarised in an Annual Assurance Report.

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Internal Audit Manager

Date : 10 March 2011

AUDITS PLANNED FOR PERIOD APRIL 2011 – MARCH 2012

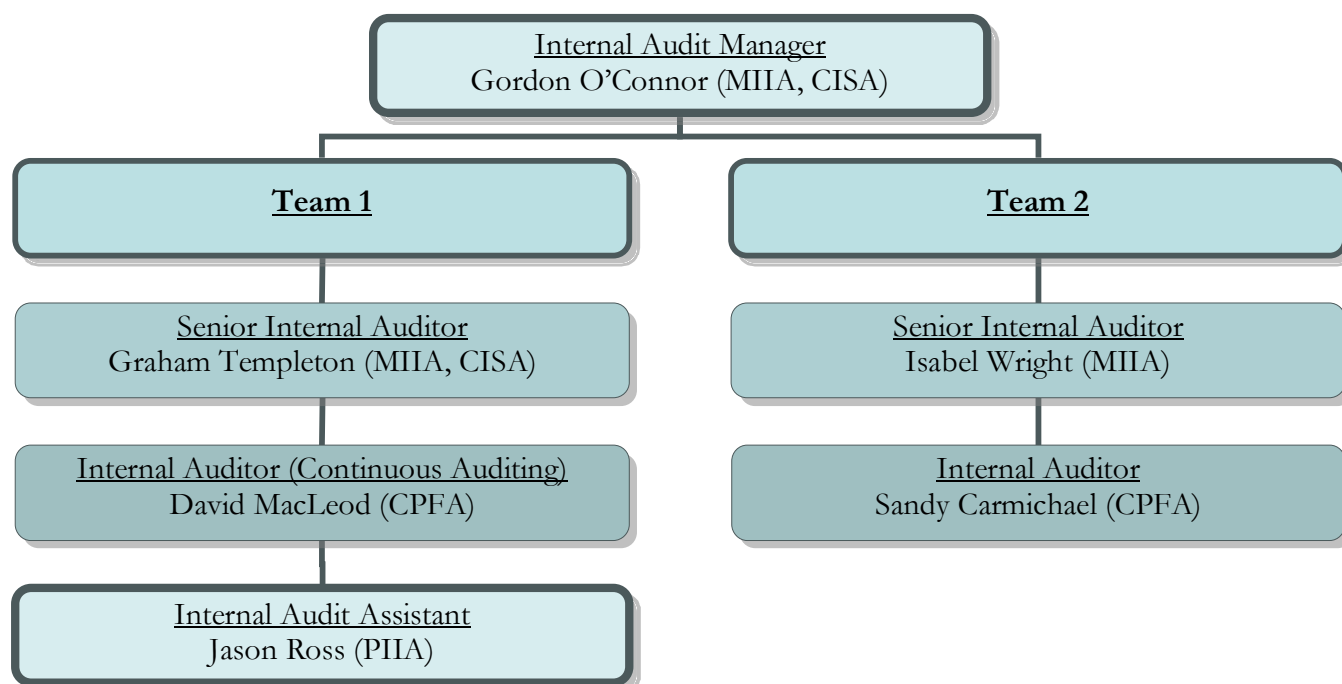
Audit No.	Service	Purpose and Scope of Audit
A1	All Services	Corporate Risk Management Arrangements Internal Audit will review the efficiency and effectiveness of arrangements established to facilitate the management of risk at a corporate level. This will include consideration of the Risk Management Strategy and Policy, the role of the Corporate Risk Management Group, and, in particular, the arrangements for embedding risk management at all levels within the Council.
A2	Development Services	Tax Incremental Finance (TIF) Scheme Internal Audit will review arrangements for assessing and managing TIF related risks, including those relating to governance, planning, financing, procurement, and partnership working.
A3	Chief Executive Office - Finance	Pension Administration and Pension Fund Internal Audit will review all aspects of the Council's administration of the Local Government Pension Scheme, and management of the Pension Fund.
A4	Social Work Services	Social Work Charging Policy (Community Care) Internal Audit will review the implementation and operation of charging arrangements. Areas of potential coverage include: <ul style="list-style-type: none"> • plans, policies, procedures, roles and responsibilities; • communication and client interaction; • financial controls, including invoicing and income collection; and • management information and reporting.
A5	All Services	Corporate Data Security and Transfer Internal Audit will review controls established to manage the risks to the efficient and secure storage and transfer of confidential or sensitive electronic and paper based data. This will include data shared within the Council and between the Council and external organisations, and the adequacy of protocols established to facilitate that sharing.

Audit No.	Service	Purpose and Scope of Audit
A6	Chief Executive Office - Finance	<p>Integra Finance System: Security and Management</p> <p>Internal Audit will review controls established to manage the risks to the effective and efficient management and security of the Integra system. Areas of potential coverage include:</p> <ul style="list-style-type: none"> • compliance with ICT security standards, to minimise the risk of potential system vulnerability; • access control arrangements at operating system (UNIX), database (Oracle) and application levels; • change control and business continuity procedures; and • the adequacy of established support and system administration arrangements.
A7	Corporate and Neighbourhood Services	<p>Integrated Housing Management System: Security and Management</p> <p>As per Audit A6 above.</p>
A8	Corporate and Neighbourhood Services / Chief Executive Office - Finance	<p>Redundancy and Severance Arrangements</p> <p>Internal Audit will review arrangements established to ensure compliance with the agreed Policy. Areas of potential coverage include:</p> <ul style="list-style-type: none"> • policy, procedures, roles and responsibilities; • application, assessment and approval processes; • accuracy and consistency of benefit calculation; • arrangements for payment of entitlements; and • management reporting and information.
A9	Development Services	<p>Roads Maintenance</p> <p>Internal Audit will review controls established to manage the risks to the effectiveness and efficiency of the roads maintenance programme. Areas of potential coverage include:</p> <ul style="list-style-type: none"> • arrangements for preparing the Council's Road Asset Management Plan; • identification and prioritisation of required repairs; • routine and emergency maintenance arrangements; • progress monitoring and quality management; and • budgetary and financial controls, and management information.

Audit No.	Service	Purpose and Scope of Audit
A10	Corporate and Neighbourhood Services	Costing System (Procon) Internal Audit will review system security (as per Audit A6 above) and the arrangements for ensuring the security and integrity of interfaces with other Council systems.
A11	All Services	IT Contract Management Internal Audit will review arrangements for ensuring best value through the procurement and use of IT applications and systems. Areas of potential coverage include: <ul style="list-style-type: none"> • roles and responsibilities; • documented contract management arrangements; • financial control and risk management; and • contingency arrangements.
A12	Education Services / Development Services	School Build, Upgrade, and Maintenance Tendering Process Internal Audit will review arrangements for ensuring the efficiency and effectiveness of the design, specification, and tender stages, and the respective responsibilities of Education and Development Services.
A13	Development Services	Food Hygiene and Safety Internal Audit will review the efficiency and effectiveness of the food hygiene and safety inspection regime. Areas of potential coverage include: <ul style="list-style-type: none"> • policies, procedure, roles and responsibilities; • arrangements for planning and undertaking statutory food hygiene and standards inspections; • activity reporting; and • arrangements for enforcing the smoking ban in public places.
A14	All Services	National Fraud Initiative The Internal Audit Manager, in his capacity as Key Contact for Falkirk Council, is responsible for co-ordinating and monitoring progress in investigating and reporting on data match information provided by the Audit Commission based on its interrogation of Falkirk Council data files.

Audit No.	Service	Purpose and Scope of Audit
A15	All Services	Statutory Performance Indicators Internal Audit has a role in assisting with the collation and validation of Statutory Performance Indicator information provided by Services. Internal Audit will primarily focus on the validation of financial indicators.
A16	Chief Executive Office - Finance	Payment Card Industry Data Security Standards Internal Audit will review arrangements for compliance and assessment with the PCI DSS. This will include visits to sites where card payments are received and processed to review local arrangements.
A17	All Services	Cash Spot Checks Internal Audit will undertake a programme of visits to cash-handling sites across Council Services to ensure that systems are in place to protect Council and client cash /valuables, and the staff responsible for handling any such cash/valuables.
A18	All Services	Continuous Auditing Internal Audit will consider, review and test transactional systems (eg Creditors and Payroll) on an ongoing basis. This work will provide broad assurance as to the adequacy of a number of key financial controls.
A19	Joint Working	Liaison With West Lothian Council Internal Audit Falkirk and West Lothian Councils' Internal Audit sections will undertake a reciprocal peer review to measure respective compliance against the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and the IIA International Standards. In addition to the peer review process, West Lothian Council Internal Audit will undertake an audit of an agreed Falkirk Council system, and vice versa.
A20	Falkirk Community Trust	Falkirk Community Trust Internal Audit coverage will be agreed in discussion with Trust Members and management.
A21	Central Scotland Fire and Rescue Service	Central Scotland Fire and Rescue Service Internal Audit coverage will be agreed in discussion with CSFRS Members and management.

INTERNAL AUDIT ORGANISATIONAL CHART 2011/12



Responsible for providing Internal Audit coverage to the following Services:

- Corporate and Neighbourhood Services;
- Education Services;
- Community Services;
- Chief Executive Office – Finance;
- Falkirk Community Trust.

Responsible for providing Internal Audit coverage to the following Services:

- Chief Executive Office - Governance;
- Development Services;
- Social Work Services;
- Central Scotland Fire and Rescue Service.

DEFINITION OF 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.