

**FALKIRK COUNCIL**

**Subject: INTERNAL AUDIT: ANNUAL ASSURANCE REPORT  
2010/11**  
**Meeting: AUDIT COMMITTEE**  
**Date: 16 May 2011**  
**Author: INTERNAL AUDIT MANAGER**

**1. INTRODUCTION**

1.1 The purpose of this paper is to report on Internal Audit work undertaken during 2010/11, and to provide an overall assurance on the Council's arrangements for risk management, governance and control based on that work. The report also includes, as an appendix, a summary of the outcomes of individual Internal Audit reviews.

1.2 It is the responsibility of Falkirk Council's senior management to establish and maintain robust and effective risk management, governance and control arrangements. The CIPFA Code of Practice for Internal Audit in Local Government 2006 (the Code) requires that the Internal Audit Manager provides an Annual Assurance Report that includes:

- a statement on the overall adequacy of the Council's control environment, along with any qualifications to that opinion;
- a summary of audit work undertaken during the year, including a comparison of work undertaken to work planned; and
- comment on Internal Audit's compliance with the Code.

1.3 This report has been prepared in line with the above requirements.

**2. OVERALL OPINION**

2.1 Internal Audit's work is designed to provide a reasonable opinion on the adequacy of arrangements for risk management, governance and control. This opinion is a key element of the process to support the Chief Executive and Leader of the Council in signing the Annual Governance Statement, which is published in the Council's Annual Accounts.

2.2 As reported in more detail in Section 3 below, Internal Audit completed 24 main audits during 2010/11, exceeding the target of completing 85% of the agreed Internal Audit Plan. I am, therefore, content that the breadth and depth of coverage is sufficient to allow me to provide a balanced opinion on the overall adequacy of the Council's control environment.

2.3 As Members are aware, Internal Audit uses a set of Assurance Categories to provide an opinion on the level of assurance that can be placed on the adequacy

of arrangements for risk management, governance and control. A summary of these is set out at **Appendix 1**.

- 2.4 On this basis, Internal Audit is able to provide **SUBSTANTIAL** assurance in respect of Falkirk Council's overall framework of controls for the year to 31 March 2011. Members should note that we did identify a number of issues that may impact on the achievement of business objectives, with action to address recommendations agreed with the relevant managers. Further details of findings emerging from Internal Audit work are set out in the next section of this report.

### **3. OPERATIONAL ACTIVITY DURING 2010/11**

- 3.1 Internal Audit's Annual Plan for 2010/11 consisted of 25 main audit reviews.
- 3.2 The commencement of Continuous Auditing work in October 2010 meant that two planned reviews, namely Forth Valley Sensory Centre and Falkirk CHP Governance, Risk and Performance Management were not completed as planned. As I reported in my March 2011 Progress Report to this Committee, 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. Taking account of these mid-year adjustments, activity for the year was as per the following table.

<b>Audits</b>	<b>Number</b>
Planned Audits	25
<b>PLUS</b> Audits Added to Plan	1
<b>LESS</b> Audits Deferred	2
<b>TOTAL AGREED AUDITS</b>	<b>24</b>

- 3.3 Details of all Internal Audit Activity undertaken during 2010/11 are set out at **Appendix 2**, with a summary of the scope of, and findings arising from, each review set out at **Appendix 3**.
- 3.4 Internal Audit were, for the majority of audits, able to provide Substantial Assurance on the adequacy of arrangements for risk management, governance and control.
- 3.5 There were, however, areas where we were able to provide only Limited Assurance, namely:
- Travel and Subsistence Expenses and Allowances;
  - Tremanna Residential Unit;
  - School Fund Accounts;
  - Customer First Contact Centre;
  - Social Work Budgetary and Financial Control;
  - Procurement; and
  - External Funding and Following the Public Pound.

- 3.6 In each of these areas the need for improvement has been discussed and agreed with the relevant managers, with action plans in place formalising responses to each of the recommendations made by Internal Audit.
- 3.7 Given the diversity of the areas set out at paragraph 3.5 above, it is difficult to reach any meaningful conclusion as to consistent themes across issues identified and findings reported. In all of the areas where we have provided Limited Assurance there was, however, a general need to consider the adequacy of existing policies and procedures, and to ensure the practical application of policies and procedures. Fundamentally, there was a need to ensure that proper arrangements were in place to protect Council staff, data, assets, and resources, and to ensure that all practical steps are taken to demonstrate and ensure Best Value.
- 3.8 Internal Audit is considered by Audit Scotland to be a key element of Falkirk Council's governance framework. Members should note that Audit Scotland, in their role as External Auditor to the Council, have confirmed in their 2010/11 Annual Audit Plan that they will place formal reliance on work undertaken by Internal Audit in the following areas:
- Travel and Subsistence Expenses and Allowances;
  - Statutory Performance Indicators;
  - IFRS Implementation and Application;
  - Cash and Income Collection Across Community Services;
  - Corporate and Service Planning;
  - Senior Officer Financial Controls;
  - Social Work Services Budgetary and Financial Control;
  - Procurement;
  - External Funding Unit and Following the Public Pound; and
  - Cash Spot Checks.
- 3.9 Internal Audit continues to work closely with Audit Scotland to ensure that coverage is complimentary and that the audit burden on Council staff is minimised. The sharing of plans and outputs has become routine practice and regular discussion takes place on a formal and informal basis between the Internal and External Audit teams.
- 3.10 Members will be aware that Internal Audit measures its performance against a set of five Key Performance Indicators (KPI). Performance against each of these for 2010/11 (along with 2009/10 comparator figures) is set out in the table below:

Key Performance Indicator	2010/11 Performance	2009/10 Performance
Complete <b>85%</b> of agreed audits:	100%	100%
Have <b>90%</b> of audit recommendations accepted:	100%	100%
Spend <b>75%</b> of time on direct audit work:	78%	76%

<b>Key Performance Indicator</b>	<b>2010/11 Performance</b>	<b>2009/10 Performance</b>
Issue <b>75%</b> of draft reports within 3 weeks of completion of fieldwork:	88%	87%
Complete (to issue of final report) <b>75%</b> of main audits within budget:	88%	74%

- 3.11 As can be seen, Internal Audit has exceeded targeted performance across all five KPIs, with all showing parity with, or improvement on, 2009/10 figures.
- 3.12 I am particularly pleased that 88% of planned main audits have been completed within budget (against the target of 75%), as this is the first time the Section has met or exceed this target since the KPIs were introduced in 2007/08.
- 3.13 In addition, Members should note that the Internal Audit Section's work on our review of Serious Organised Crime has been Highly Commended by the judging panel of the CIPFA Cliff Nicholson Award, which seeks to identify and reward innovation and excellence in public sector audit. As this is a UK-wide award, I am particularly pleased that our submission was deemed to be one of the top three received by the panel, and we are actively liaising with neighbouring Authorities with a view to passing on the good practice developed by Falkirk to Internal Audit colleagues in those Authorities.
- 3.14 In the Internal Audit Plan for 2011/12, presented to this Committee in March 2011, I provided an update on the resources available to Internal Audit. In particular, I reported that one of our Internal Audit Assistants was working within Accountancy Services on a secondment basis, with a view to making that move permanent. This change has now been actioned, and the appropriate steps will be taken to delete the vacant Internal Audit Assistant post.

#### **4. INTERNAL AUDIT COMPLIANCE WITH CIPFA CODE**

- 4.1 All Local Authority Internal Audit Sections are required to operate in accordance with the CIPFA Code, which formalises standards to be achieved in relation to, for example, independence, staffing and training, audit strategy and planning, reporting and performance, and quality and effectiveness.
- 4.2 As part of their external audit work, Audit Scotland annually review Internal Audit's compliance with the CIPFA Code and, for 2010/11, Audit Scotland have concluded that Internal Audit operates in accordance with the Code.

#### **5. RECOMMENDATIONS**

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

- 5.1.1 sufficient Internal Audit activity was undertaken to allow a balanced assurance to be provided;**

- 5.1.2 Internal Audit is able to provide **SUBSTANTIAL** assurance in respect of Falkirk Council's arrangements for risk management, governance and control for the year to 31 March 2011;
- 5.1.3 Audit Scotland will place formal reliance on, and obtain assurances from, the work of Internal Audit;
- 5.1.4 performance against Internal Audit Key Performance Indicators for the year to 31 March 2011 was as set out at paragraph 3.10;
- 5.1.5 Internal Audit operates in compliance with the CIPFA Code.

.....

**Internal Audit Manager**

**Date: 06 May 2011**

## DEFINITION OF INTERNAL 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.

## SUMMARY OF 2010/11 INTERNAL AUDIT PROGRAMME

<b>Planned 2010/11 Audits Completed During Year to 31 March 2011</b>		
<b>Service</b>	<b>Audit Area</b>	<b>Level of Assurance</b>
Chief Executive Office - Governance	Printworks Falkirk	Substantial
All Services	Travel and Subsistence Expenses and Allowances	Limited
All Services	Serious Organised Crime	Substantial
All Services	Statutory Performance Indicators	Substantial
Chief Executive Office - Finance	IFRS Implementation and Application	Substantial
Social Work	Tremanna Residential Unit	Limited
Education	School Fund Accounts	Limited
Community	Cash and Income Collection Across Community Services	Substantial
Community	Helix Governance and Finance Arrangements	Substantial
Education	NPDO/PPP School Maintenance	Substantial
Social Work	Child Protection – Key Processes	N/A - Consultancy
Corporate and Neighbourhood	Corporate / Service Planning	Substantial
All Services	Senior Officer Financial Controls	N/A - Consultancy
Corporate and Neighbourhood	Customer First – Contact Centre	Limited
Social Work	Budgetary and Financial Control	Limited
Development	IT Contract Management	N/A - Consultancy
All Services	Taxi Contracts	Substantial
Development	Building Design (DDA / EA Compliance)	Substantial
Corporate and Neighbourhood	Procurement	Limited
Corporate and Neighbourhood	External Funding Unit and FPP	Limited
Corporate and Neighbourhood	Housing Allocations	Substantial
Various Services	Cash Spot Checks	Substantial
Central Scotland Fire and Rescue Service	Approval and Payment of Invoices	N/A

<b>Additional 2010/11 Audits Completed During Year to 31 March 2011</b>
---

## Appendix 2

Service	Audit Area	Level of Assurance
All Services	Continuous Auditing	N/A – Ongoing Reporting

Planned 2010/11 Audits Deferred		
Service	Audit Area	Level of Assurance
Social Work	Forth Valley Sensory Centre	N/A
Social Work	Falkirk CHP Governance, Risk and Performance Management	N/A

## DETAILS OF 2010/11 INTERNAL AUDIT PROGRAMME

Planned 2010/11 Audits Completed During Year to 31 March 2011	
Audit Area	Scope and Outcome
Printworks Falkirk Chief Executive Office - Governance	<p><b>Substantial Assurance</b></p> <p>Covered roles, responsibilities and accountability, financial and operational control, arrangements for securing best value, and the adequacy of management information.</p> <p>Arrangements were generally sound, with adequate budget monitoring 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>
Travel and Subsistence Expenses and Allowances  All Services	<p><b>Limited Assurance</b></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>

Planned 2010/11 Audits Completed During Year to 31 March 2011	
Audit Area	Scope and Outcome
Serious Organised Crime (SOC)  All Services	<p><b>Substantial Assurance</b></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>
Statutory Performance Indicators  All Services	<p><b>Substantial Assurance</b></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>
International Financial Reporting Standards Implementation and Application  Chief Executive Office - Finance	<p><b>Substantial Assurance</b></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 was some scope for improving risk management, and year end processes and data sources require to be reviewed and amended.</p>

Planned 2010/11 Audits Completed During Year to 31 March 2011	
Audit Area	Scope and Outcome
Tremanna Residential Unit Social Work Services	<p><b>Limited Assurance</b> 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>
School Fund Accounts Education Services	<p><b>Limited Assurance</b> Covered roles, responsibilities, policies and procedures, systems for supporting schools, including monitoring and reporting, and financial and operational controls.</p> <p>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.</p>
Cash and Income Collection Community Services	<p><b>Substantial Assurance</b> Covered roles, responsibilities, policies and procedures, income handling, storage, transfer, banking and recording, and security and contingency arrangements.</p> <p>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.</p>
Helix Governance and Finance Arrangements Community Services	<p><b>Substantial Assurance</b> Covered roles, responsibilities and accountability, partnership agreement commitment monitoring, funding and project management arrangements, and progress reporting.</p> <p>Arrangements were generally sound. There was, however, some scope for more frequent review of the Governance and Fundraising Strategies.</p>

Planned 2010/11 Audits Completed During Year to 31 March 2011	
Audit Area	Scope and Outcome
NPDO/PPP School Maintenance  Education Services	<p><b>Substantial Assurance</b></p> <p>Covered contractual maintenance requirements, the identification, prioritisation and commissioning of work, the monitoring of progress and quality, and budgetary and financial controls.</p> <p>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.</p>
Child Protection – Key Processes  Social Work Services	<p><b>N/A – Undertaken as Consultancy</b></p> <p>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.</p> <p>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.</p>
Corporate and Service Planning  Corporate and Neighbourhood Services	<p><b>Substantial Assurance</b></p> <p>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.</p> <p>In general, we found arrangements to be robust, although there was scope for better integrating risk management into the Service planning process, and for ensuring consistency in the Service Plan reporting framework.</p>

Planned 2010/11 Audits Completed During Year to 31 March 2011	
Audit Area	Scope and Outcome
Senior Officer Financial Controls  All Services	<p><b>N/A – Undertaken as Consultancy</b></p> <p>Focussed on the framework of financial control as it applies to Officers at Head of Service grade and above. In particular, we reviewed policies, procedures and guidance, arrangements for controlling and monitoring authority to commit and incur expenditure, access to corporate payment systems, the adequacy of financial training and development, and systems of accountability, scrutiny, and management information.</p> <p>We made recommendations relating to better integrating the update and review of Financial Regulations and Contract Standing Orders, the routine consideration of risk management in the drafting of reports for Members, the reinforcement of the existing Scheme of Delegation process, better control over Senior Officer requests for payment, and better and more focussed management information for Senior Officers.</p>
Customer First Contact Centre  Corporate and Neighbourhood Services	<p><b>Limited Assurance</b></p> <p>Focussed on risks relating to the secure and efficient operation of the Contact Centre. In particular, we reviewed security related policies, pre-employment checks, ICT and physical access controls, performance monitoring and management, and Business Continuity Arrangements.</p> <p>We found there to be a number of areas where there was scope for improving existing controls. In particular, there was a need to further embed risk management, and to improve security related policies and procedures. There was also a need to review and restrict the use of devices capable of capturing and removing confidential information (for example usb flash drives, external webmail, phones with camera technology), and to strengthen the password security and management of IT applications used by Contact Centre staff.</p>

Planned 2010/11 Audits Completed During Year to 31 March 2011	
Audit Area	Scope and Outcome
Budgetary and Financial Control  Social Work Services	<p><b>Limited Assurance</b></p> <p>Covered roles and responsibilities, arrangements for setting budgets, systems of delegated authority, the adequacy of local procedures and compliance with Financial Regulations, the adequacy of budgetary control training, and the robustness of financial management information.</p> <p>We acknowledge that Social Work management are aware of, and are implementing measures to control, overspends within the Children and Families and Community Care Services. These include the establishment of the Children and Families Placement Group and Community Care Central Matching Team, as well as the implementation of a formal charging policy for some Community Care services.</p> <p>We did, however, find there to be areas where significant improvement is still required. In particular, there is a need to consider the Social Work budget setting process, and to ensure that those responsible for managing budgets have been properly trained, have access to written procedures, and are held to account for the budgets they own. In addition, a formal Children and Families Transport Policy is required, as is better control over the referral of care packages to the appropriate Panel for approval (this applies to Children and Families and Community Care).</p>
IT Contract Management  Development Services	<p><b>N/A – Undertaken as Consultancy</b></p> <p>Focussed on the controls established to ensure the efficient and effective management of Development Services' (DS) IT system and application contracts, including roles and responsibilities, staff access to Service specific IT systems (with the emphasis on ensuring best value), and contingency arrangements.</p> <p>There was some scope for improving existing controls. In particular, there was a need to clearly allocate responsibility for managing IT contracts, to review the role and remit of the DS IT Working Group, to formalise the respective responsibilities of corporate ICT and DS (including the collation of a complete inventory of DS systems), and to clarify ownership of the Service's ICT budgets.</p>

Planned 2010/11 Audits Completed During Year to 31 March 2011	
Audit Area	Scope and Outcome
Taxi Contracts  Social Work, Education and Development Services	<p><b>Substantial Assurance</b></p> <p>Covered overarching arrangements for establishing and monitoring taxi contracts, actual taxi usage by Services, ensuring best value, billing and invoice validation / approval, and the adequacy of management information.</p> <p>We found that, in general, efficient and effective arrangements were in place. There was, however, some scope for improving the existing framework of control. In particular, we found there to be scope for better integrating tendering arrangements and for improving systems of budgetary and financial control (with, for example, the verification of invoice accuracy prior to payment, and more consistent charging to Integra detail heads).</p>
Building Design (Disability Discrimination and Equalities Acts Compliance)  Development Services	<p><b>Substantial Assurance</b></p> <p>Covered roles, responsibilities, policies and procedures, the development, checking, approval and monitoring of building designs for new operational buildings, alterations and upgrades, and management information.</p> <p>In general, robust systems of control were in place, with staff clear about their roles and responsibilities and guidance in place. There was some scope for establishing Service Level Agreements between Building Design Unit and clients and for improving the accuracy of information held in respect of existing operational buildings.</p>
Procurement  Corporate and Neighbourhood Services	<p><b>Limited Assurance</b></p> <p>Focussed on the Council's capacity to achieve Improved Procurement Performance, as defined within the 2006 McClelland report on Public Procurement in Scotland. In particular, Internal Audit reviewed the adequacy of strategies, policies and training for staff, the clarity of accountability arrangements, the overall framework of procurement controls, and the adequacy of management information.</p> <p>While we noted much evidence of good practice, there were elements of the corporate procurement and procurement governance frameworks that require to be improved. In particular, there is a need to bring Contract Standing Orders into line with Procurement Scotland's Procurement Journey guidance, and for the Procurement Board to prepare, and take ownership of, a formal Improvement Plan setting out the actions, responsibilities and timescales necessary to move towards Improved Performance.</p>

Planned 2010/11 Audits Completed During Year to 31 March 2011	
Audit Area	Scope and Outcome
External Funding Unit and Following the Public Pound  Corporate and Neighbourhood Services	<p><b>Limited Assurance</b></p> <p>Covered roles, responsibilities, policy and guidance, the application, assessment and approval process, budgetary and financial controls, outcome monitoring and the provision of management information, and arrangements for reporting on activity to elected Members.</p> <p>We found that there was scope for improving existing controls. In particular, there was a need to review the roles and responsibilities of Service Monitoring Officers, confirm the assessment and review process within the context of current financial pressures, and to highlight the importance of risk assessing organisations which receive funding on an annual basis.</p>
Housing Allocations  Corporate and Neighbourhood Services	<p><b>Substantial Assurance</b></p> <p>Covered roles, responsibilities, policy and guidance, the registration, verification, assessment and prioritisation of applications, advertising and bidding arrangements, the appeals process, and management information.</p> <p>In general, sound systems of control were in place, with clarity of roles and responsibilities between Central Allocations Team, ARC, and Neighbourhood Office staff. We made recommendations relating to enhancing verification checks on new tenants, improving aspects of the application, registration, and assessment process, and implementing appropriate levels of management checking.</p>
Cash Counts  Various Services	<p><b>Substantial Assurance</b></p> <p>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.</p> <p>We made a number of recommendations relating to local arrangements, but in general found controls to be reasonable and proportionate.</p>
Approval and Payment of Invoices  CSFRS	As discussed and agreed with CSFRS management and presented to CSFRS Best Value and Scrutiny Committee.

Additional 2010/11 Audits Completed During Year to 31 March 2011	
Audit Area	Scope and Outcome
Continuous Auditing	<p><b>N/A – Ongoing Reporting and Assurance</b></p> <p>Work focussed on identifying potential duplicate creditors payments and on reviewing the accuracy, validity, checking and authorisation of a sample of creditors payments.</p> <p>We have been able to provide assurance that invoice checking and authorisation controls are, generally, effective. Details of any potential duplicate payments are passed to Finance: Creditors as a matter of course.</p>