FALKIRK COUNCIL

Subject:	**INTERNAL AUDIT PROGRESS REPORT**
Meeting:	**AUDIT COMMITTEE**
Date:	**12 March 2012**
Author:	**INTERNAL AUDIT MANAGER**

1.   INTRODUCTION

1.1   The purpose of this paper is to update Members on progress with completing the agreed 2011/12 Internal Audit Plan (the Plan), as presented to Audit Committee in March 2011. The report also includes information on the Section's performance against established performance indicators.

2.   AUDIT PROGRESS

2.1   Progress with completing 2011/12 Internal Audit work is summarised in the tables below, and set out in more detail at **Appendix 1**.

Status	Number	%
Final Reports Issued	12	55%
Draft Reports Issued	2	9%
In Progress	8	36%
Total	**22** [1]	**100%**

Adjustments to Plan During 2011/12	
Audits Added During Year	3
Audits Deferred During Year	2

2.2   I have previously advised Members of the three reviews added to our Plan for 2011/12. These relate to the Validation of Service Performance Measures, One Stop Shop Administrative Procedures, and Senior Officer Management Information. All three have been added to the Plan at the request of, or in agreement with, senior managers.

2.3   To accommodate these reviews, as well as additional work Internal Audit has undertaken as part of the Corporate Procurement Review [2], two audits have been deferred into 2012/13, namely those on Corporate Risk Management Arrangements and on the Tax Incremental Finance Scheme.

---

[1] Note this does not include Continuous Auditing work, which is reported on an on-going basis.
[2] As per Corporate Procurement Review report considered by Best Value Forum on 02 February 2012.

2.4 As normal, for each finalised review Internal Audit has provided an assurance in respect of arrangements for risk management, governance, and control (see **Appendix 2** for definitions). Details of key findings arising from reviews completed to final report stage and included in previous Progress Reports to Audit Committee are set out at **Appendix 3**. Reviews finalised since my last Progress Report are set out separately at **Appendix 4**.

2.5 As well as the 12 audits completed to final report stage, a further 2 reports have been issued in draft and are the subject of discussion with management to agree action to address recommendations raised. A summary of key findings arising from these reviews, as well as those where work is on-going, will be included in my Annual Assurance Report to Members.

3. INTERNAL AUDIT PERFORMANCE

3.1 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	2011/12 - to March 2012	2010/11	2009/10
Complete **85%** of main audit programme	64%	100%	100%
Have **90%** of recommendations accepted	98%	100%	100%
Spend **75%** of time on direct audit work	77%	78%	76%
Issue **75%** of draft reports within 3 weeks of completion of fieldwork	79%	88%	87%
Complete (to issue of final report) **75%** of main audits within budget	83%	88%	74%

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

4. RECOMMENDATIONS

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

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

    4.1.2 performance against KPIs is as reported at paragraph 3.1.

….............................
Internal Audit Manager
Date: 02 March 2012

2011/12 INTERNAL AUDIT PLAN – PROGRESS AT MARCH 2012

No.	Service/Status	Audit	Level of Assurance
	Final Reports Issued		
1.	Development	Food Hygiene and Safety Inspection Arrangements	Comprehensive
2.	All Services	Payment Card Industry Data Security Standards	Limited
3.	Finance	Pension Fund – Governance Compliance Statement	Substantial
4.	Finance	Integra System Management and Security	Substantial
5.	All Services	Statutory Performance Indicators	Substantial
6.	All Services	Corporate Data Security and Transfer	Limited
7.	Corporate and Neighbourhood	IT Contract Management	Substantial
8.	Education	Carrongrange School (Administrative Procedures and Cash Count)	Substantial
9.	Finance	One Stop Shop Visits (Administrative Procedures and Cash Count) [3]	N/A
10.	Social Work	Non-Residential Social Care Services Charging Policy – Post Implementation Review	N/A
11.	All Services	Validation of Service Performance Measures [3]	Substantial
12.	CSFRS	Property Maintenance and Business Continuity Management Arrangements	N/A [4]
	Draft Reports Issued		
13.	Education / Development	Commissioning and Monitoring of Major School Improvement Projects	TBC
14.	Corporate and Neighbourhood	Procon System Security and Management	TBC
	Audits In Progress		
15.	All Services	National Fraud Initiative	TBC
16.	All Services	Senior Officer Management Information [3]	TBC
17.	Development	Roads Maintenance	TBC
18.	Finance	Redundancy and Severance Arrangements	TBC
19.	Corporate and Neighbourhood	IHMS System Management and Security	TBC
20.	West Lothian Council	Peer Review of Internal Audit Section	TBC

---

[3] Additional Audits – undertaken at the request of, or in agreement with, senior managers.
[4] Reported separately to CSFRS Best Value and Scrutiny Committee.

No.	Service/Status	Audit	Level of Assurance
21.	West Lothian Council	Reciprocal Audit Review	TBC
22.	Falkirk Community Trust	Service Level Agreements and Premises Visits	TBC
	Continuous Auditing		
23.	All Services	Complete: Overtime, Duplicate Payments, Car Park Income, Car Leases, Roads Inspections	N/A
24.	All Services	On-going: Duplicate Payments, Weekly Payments, Travel Expenses	N/A
	Audits Deferred		
25.	Development	Corporate Risk Management Arrangements	TBC
26.	Development	Tax Incremental Finance Scheme	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 2011/12

(Previously Reported to Audit Committee)

No	Audit Area and Service	Assurance and Key Findings
1.	Food Hygiene and Safety Inspection Arrangements Development	**Comprehensive Assurance** Covered roles, responsibilities, policies, guidance, and training, systems for planning and undertaking inspections, enforcement arrangements, and the adequacy of management information. Sound systems of control were in place, with staff clear about their roles and responsibilities. A robust inspection programme had been established, with regular audits undertaken by the Food Standards Agency. Some scope for improving food sampling arrangements.
2.	Payment Card Industry Data Security Standards All Services	**Limited Assurance** Internal Audit visited a sample of sites where card payments are received and processed to determine local compliance with the PCI DSS. We found in all areas visited that there was scope for improving arrangements, particularly in relation to the receipts produced by point of sale terminals. The implementation of the Corporate Payments Strategy will ensure that no cardholder data is held by the Council (and, therefore, compliance with the PCI DSS).

No	Audit Area and Service	Assurance and Key Findings
3.	Pension Fund – Governance Compliance Statement Finance	**Substantial Assurance** Internal Audit reviewed and validated the information set out in the Compliance Statement to confirm whether the reported status was accurate and appropriate. We concluded that the Statement had been prepared in line with the relevant Scottish Public Pensions Agency guidance. We did, however, make recommendations relating to the content and structure of the Governance Framework Document, in particular relating to the documentation of pension fund risks and the inclusion of details relating to the roles and responsibilities of Pension Fund stakeholders.
4.	Integra System Management and Security Finance	**Substantial Assurance** Covered security roles and responsibilities, systems documentation, physical and environmental controls, access management at operating system, database, and application levels, and arrangements for ensuring the continuity of service provision. In general, we found controls to be sound, with clarity around roles and responsibilities and close working between the relevant Officers in Accountancy and ICT. We did, however identify areas for improvement, particularly around the need for a System Security Statement and Access Control Policy. There was also scope for improving elements of operational system security, and for enhancing business continuity planning arrangements.
5.	Statutory Performance Indicators All Services	**Substantial Assurance** Reported on Internal Audit's role in collecting and validating SPI 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
6.	Corporate Data Security and Transfer All Services	**Limited Assurance** Covered roles and responsibilities, compliance with the Council's Information Security Policy, arrangements for documenting the type and volume of data held, and for the identification and documentation of internal and external data flows and transfers. We found there to be scope for improving information management arrangements. The exercise to create Data Handling Registers has yet to be completed, and governance and accountability arrangements relating to responsibilities for overseeing corporate information security management require to be clarified. In addition, further consideration requires to be given to the need for information sharing protocols for each separate data sharing instance (building on the existing Forth Valley ISP).
7.	IT Contract Management Corporate and Neighbourhood	**Substantial Assurance** Covered roles and responsibilities, documented contract management arrangements, financial control and risk management, and contingency arrangements. We found that, in general, sound systems of control were in place, with the need to properly and actively manage IT contracts well understood. There was, however, scope for improving consistency in the management of corporate systems, for example by ensuring that a System Security Statement, Access Control Policy, and Contract Monitoring Form is in place for each. There was also some scope for further improving license monitoring and business continuity planning arrangements.

No	Audit Area and Service	Assurance and Key Findings
8.	Administrative Procedures and Cash Count – Carrongrange School Education	**Substantial Assurance** Internal Audit reviewed cash and general administration arrangements at Carrongrange School. We made a number of recommendations relating to local arrangements but, in general, found controls to be reasonable and proportionate.
9.	Administrative Procedures and Cash Count – One Stop Shops Finance	Internal Audit reviewed cash and general administration arrangements at Bo'ness, Bonnybridge, Callendar Square, Camelon, Denny, Grangemouth, and Stenhousemuir One Stop Shops, and the Dawson Centre Cash Office. While arrangements were generally sound, there was scope for improving arrangements across all One Stop Shops, particularly in relation to security and record keeping.
10.	Property Maintenance and Business Continuity Management Arrangements Central Scotland Fire and Rescue Service	As discussed and agreed with CSFRS management and presented to CSFRS Best Value and Scrutiny Committee.

No	Audit Area and Service	Assurance and Key Findings
11.	Continuous Auditing All Services	**N/A – Ongoing Reporting and Assurance** Work has focussed on: • duplicate payments; • overtime; • travel expenses; • car leases; • roads inspections; • car park income; • urgent and weekly payments. We can provide reasonable assurance that: • the Council's car lease scheme is being properly controlled and applied; • security and administrative arrangements around the collection of car park income are robust; • urgent / weekly payments are approved by an authorised signatory (in compliance with delegated limits) with payments matched to supporting documentation. We have identified a limited number of duplicate payments, with subsequent recovery action taken in every case. There remains a need to ensure the more rigorous application of controls in relation to the checking and authorisation of overtime and travel claims, with some evidence of erroneous payments. Finally, we found some scope for improving the extent to which roads inspections are undertaken in line with the agreed schedule.

FINAL REPORTS ISSUED - SUMMARY OF KEY FINDINGS 2011/12

(Not Previously Reported to Audit Committee)

No	Audit Area and Service	Assurance and Key Findings
1.	Validation of Service Performance Measures All Services	**Substantial Assurance** Reviewed a sample of performance information reported by Services to ensure this was consistent with source data and information. The sample included data reported via the Performance Zone of the Council's website and Service reports to Best Value Forum. Internal Audit were able to validate all performance information falling within our sample.
2.	Non-Residential Social Care Services Charging Policy – Post Implementation Review Social Work	**N/A – Post-Implementation Review** Undertook a post-implementation review of the controls established to manage the risks relating to the efficiency and effectiveness of the Policy. Focussed on plans, policies, roles and responsibilities, communication and client interaction, financial controls, and management information. Roles and responsibilities were clear, with appropriate recourse to guidance when developing the Policy and extensive interaction with users during development and implementation. There was some scope for improving systems for the identification of service user charges, and for assessing service user affordability (initially and on an on-going basis). There was also scope for improving operational guidance for staff, and for better performance monitoring and management.