FALKIRK COUNCIL

Subject:	**INTERNAL AUDIT: ANNUAL ASSURANCE REPORT 2011/12**
Meeting:	**SPECIAL AUDIT COMMITTEE**
Date:	**24 September 2012**
Author:	**INTERNAL AUDIT MANAGER**

1. INTRODUCTION

1.1 The purpose of this paper is to report on 2011/12 Internal Audit work and to provide an overall assurance on the Council's arrangements for risk management, governance, and control based on that work.

1.2 Senior managers are responsible for establishing and maintaining robust and effective risk management, governance, and control arrangements. The CIPFA Code of Practice for Internal Audit in Local Government 2006 (the Code) requires the Internal Audit Manager to provide 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 Internal 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 meets those requirements.

2. OVERALL OPINION

2.1 Internal Audit completed 22 main audits during 2011/12, exceeding our target of completing 85% of the agreed Internal Audit Plan. I am content, therefore, 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.

2.2 As Members are aware, Internal Audit use a set of Assurance Categories to provide an opinion on the adequacy of arrangements for risk management, governance, and control. A summary of these is set out at **Appendix 1** (note that these have been re-worded to aid clarity).

2.3 On this basis, Internal Audit can provide **SUBSTANTIAL** assurance on the Council's overall framework of controls for the year to 31 March 2012.

3. OPERATIONAL ACTIVITY DURING 2011/12

3.1 Internal Audit's Annual Plan for 2011/12 consisted of 22 main audit reviews, with two audits deferred and two audits added over the course of the year.

Audits	Number
Planned Audits	22
PLUS Audits Added to Plan	2
LESS Audits Not Completed	2
TOTAL AGREED AUDITS	**22**

3.2 Details of all Internal Audit Activity undertaken during 2011/12 are set out at **Appendix 2**, with a summary of the scope of, and findings arising from, each review set out at **Appendix 3**.

3.3 In the majority of cases, Internal Audit were able to provide Comprehensive or Substantial Assurance. There were, however, areas where we were able to provide only Limited (or split) Assurance, namely:

- Payment Card Industry Data Security Standards;
- Corporate Date Security and Transfer;
- Commissioning and Monitoring of Major School Improvement Projects;
- Severance Arrangements; and
- Integrated Housing Management System – Project Management.

3.4 It is re-assuring to note that, in each of these areas, management have accepted Internal Audit's recommendations and are working towards their implementation. In line with our revised follow-up approach, details of all outstanding Internal Audit recommendations will, in future, be reported to Audit Committee Members. This will allow Members to better monitor the implementation of recommendations particularly in areas, like those above, where we have provided Limited Assurance.

3.5 As Members are aware, the recent rotation of External Audit appointments by the Accounts Commission has meant that a new team of External Auditors is in place (albeit this remains an Audit Scotland team). It is in both Internal and External Audit's interest to work closely, and to ensure that coverage is complimentary. Already, the good relationship between Internal and External Audit has borne fruit through, for example, Internal Audit's follow-up work on External Audit's 'Maintaining Scotland's Roads' report. The sharing of plans and outputs remains routine practice and regular discussion takes place on a formal and informal basis between the two teams.

3.6 Internal Audit is considered by Audit Scotland to be a key element of the Council's governance framework. Members should note that Audit Scotland have confirmed in their 2011/12 Annual Audit Plan that they will place formal reliance on work undertaken by Internal Audit in the following areas:

- Severance Arrangements;
- Continuous Auditing;
- Carrongrange School and One Stop Shop Administrative Procedures and Cash Counts;
- Corporate Data Security and Transfer;
- Integra System Management and Security;
- Procon System Management and Security;
- Payment Card Industry Data Security standards; and
- Statutory Performance Indicators.

3.7 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 2011/12 (along with previous year comparator figures) is set out in the table below:

Key Performance Indicator	2011/12 Performance	2010/11 Performance	2009/10 Performance
1. Complete **85%** of agreed audits.	**100%**	100%	100%
2. Have **90%** of audit recommendations accepted.	**99%**	100%	100%
3. Spend **75%** of time on direct audit work.	**77%**	78%	76%
4. Issue **75%** of draft reports within 3 weeks of completion of fieldwork.	**82%**	88%	87%
5. Complete (to issue of final report) **75%** of main audits within budget.	**82%**	88%	74%

3.8 Internal Audit has again exceeded each of our 5 KPIs, although significant additional ad hoc work on purchasing undertaken as a matter of priority over the winter months has led to a slight drop in outcome against Indicators 4 and 5. Despite this additional work, I am pleased that our approach allowed us to be flexible while maintaining progress with completing planned work.

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 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 2011/12, Audit Scotland have again concluded that Internal Audit operates in accordance with the Code.

4.3 In addition, as part of joint working arrangements, an independent assessment of Internal Audit's compliance with the Code was undertaken by West Lothian Council's Audit and Risk Manager. In his report, the Audit and Risk Manager concluded that there was a high level of compliance.

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 on Falkirk Council's arrangements for risk management, governance, and control for the year to 31 March 2012;

  5.1.3 Audit Scotland will place formal reliance on the work of Internal Audit;

  5.1.4 performance against Internal Audit Key Performance Indicators for the year to 31 March 2012 was as set out at paragraph 3.7;

  5.1.5 Internal Audit operates in compliance with the CIPFA Code.

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Internal Audit Manager

Date: 13 September 2012

DEFINITION OF INTERNAL AUDIT ASSURANCE CATEGORIES

Level of Assurance	Definition
Comprehensive assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or abuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or abuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or abuse is unacceptable. Significant improvements are required.

SUMMARY OF 2011/12 INTERNAL AUDIT PROGRAMME

No.	Service/Status	Audit	Level of Assurance
	Planned 2011/12 Audits Completed During Year to 31 March 2012		
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.	Social Work	Non-Residential Social Care Services Charging Policy – Post Implementation Review	N/A
10.	Education / Development	Commissioning and Monitoring of Major School Improvement Projects	Limited
11.	Corporate and Neighbourhood	Procon Security and Management	Substantial
12.	Development	Roads Maintenance	Substantial
13.	All Services	Severance Arrangements	Substantial / Limited
14.	Corporate and Neighbourhood	Integrated Housing Management System – Project Management	Limited
15.	West Lothian Council	Peer Review of Falkirk Council Internal Audit Section	Substantial
16.	West Lothian Council	Reciprocal Review – Workplace Transport, in conjunction with Falkirk Council Health, Safety, and Care Team	Substantial
17.	All Services	National Fraud Initiative	N/A
18.	All Services	Continuous Auditing: Duplicate Payments; Overtime and Travel Expenses; Roads Inspections; Car Park Income; Car Leases.	N/A
19.	Falkirk Community Trust	Service Level Agreements and Premises Visits	N/A[1]
20.	CSFRS	Property Maintenance and Business Continuity Management Arrangements	N/A[2]

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[1] Reported separately to FCT Performance and Audit Sub-Group

[2] Reported separately to CSFRS Best Value and Scrutiny Committee

Additional 2011/12 Audits Completed During Year to 31 March 2012			
No.	**Service/Status**	**Audit**	**Level of Assurance**
21.	Finance	One Stop Shop Visits (Administrative Procedures and Cash Count)	N/A
22.	All Services	Validation of Performance Measures	Substantial

2011/12 Audits Deferred			
No.	**Service/Status**	**Audit**	**Level of Assurance**
23.	Development	Corporate Risk Management Arrangements[3]	N/A
24.	Development	Tax Incremental Finance Scheme[3]	N/A

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[3] Included in 2012/13 Internal Audit Plan.

DETAILS OF 2011/12 INTERNAL AUDIT PROGRAMME

	Planned 2011/12 Audits Completed During Year to 31 March 2012	
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 in place, with staff clear about their roles and responsibilities. Robust inspection programme established, and 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** Visited a sample of sites where card payments are received and processed to determine local compliance with the PCI DSS. In all areas visited 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).
3.	Pension Fund – Governance Compliance Statement Finance	**Substantial Assurance** 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 business continuity. 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 business continuity planning.

	Planned 2011/12 Audits Completed During Year to 31 March 2012	
No.	**Audit Area and Service**	**Assurance and Key Findings**
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 our remit, we found that the information gathered for publication was accurate and complete.
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. There was 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 clarification. In addition, further consideration needs to be given to 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. In general, sound systems of control were in place, with the need to properly and actively manage IT contracts well understood. There was 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 scope for further improving license monitoring and business continuity planning arrangements.
8.	Administrative Procedures and Cash Count – Carrongrange School Education	**Substantial Assurance** We reviewed cash and general administration arrangements at Carrongrange School and made a number of recommendations relating to local arrangements. In general, however, we found controls to be reasonable and proportionate.

	Planned 2011/12 Audits Completed During Year to 31 March 2012	
No.	**Audit Area and Service**	**Assurance and Key Findings**
9.	Non-Residential Social Care Services Charging Policy – Post Implementation Review Social Work	**N/A – Post-Implementation Review** Reviewed 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.
10.	Commissioning and Monitoring of Major School Improvement Projects Education / Development	**Limited Assurance** Reviewed roles, responsibilities, and accountabilities within, and between, Education and Development Services; the planning, commissioning, and monitoring of work; budgetary and financial control; and management information. There were a number of areas where improvements in the framework of control were required. In particular, the Service Level Agreement required updating to better reflect respective roles and responsibilities, and there was scope for improving financial monitoring systems. In addition, there was some scope for better change control and post-project evaluation.
11.	Procon Security and Management Corporate and Neighbourhood	**Substantial Assurance** Covered roles and responsibilities; systems documentation; physical and environmental controls; access management at operating system, database, and application levels; and business continuity. In general, robust controls were in place. There was, however, some scope for improving the existing security framework via preparation of a System Security Statement and Access Control Policy. Business continuity and user administration management could also be improved.

	Planned 2011/12 Audits Completed During Year to 31 March 2012	
No.	**Audit Area and Service**	**Assurance and Key Findings**
12.	Roads Maintenance Development	**Substantial Assurance** Reviewed arrangements for preparing and approving the Roads Asset Management Plan; identifying, prioritising, and undertaking work; monitoring progress and quality; and budgetary and financial controls. We also followed up recommendations made by Audit Scotland in their 2011 'Maintaining Scotland's Roads' report. In general, sound controls were in place. Staff were clear about their roles and responsibilities, with work underway to refine the electronically held road network asset records, including area, value, and condition. We found that progress had been made with implementing 'Maintaining Scotland's Roads' recommendations. There was scope for improving various administrative controls, including the process for preparing the annual maintenance programme. In addition, there remains a need to apply robust performance measures.
13.	Severance Arrangements All Services	**Substantial / Limited Assurance** Covered policies, procedures, roles, and responsibilities within HR, Payroll, and Pensions sections; application, assessment, and approval arrangements; the accuracy and consistency of entitlement calculations; payment of entitlements; and management information. In general, we found the policy to be clear, with adequate segregation in place between the calculation and offer stages. The severance lump sum calculations tested had been properly checked, with offers properly authorised. There was, however, scope for Services to better record the operational and financial reasons for offering severance, and for better monitoring of actual savings realised.
14.	Integrated Housing Management System – Project Management Corporate and Neighbourhood	**Limited Assurance** We reviewed high level project management arrangements, and concluded that there were significant weaknesses that could leave the project vulnerable to unacceptable levels of risk. Our recommendations are relevant to all future corporate ICT projects. These focussed on the need for a detailed business case, formal consideration of risk over the project lifecycle, and the production of project status reports. While a Project Board is in place, it has no formal terms of reference, minutes / action points are not formally recorded, and there was no evidence of the Board receiving updates on risks and issues, milestones and status, or spend against budget.

	Planned 2011/12 Audits Completed During Year to 31 March 2012	
No.	Audit Area and Service	Assurance and Key Findings
15.	Peer Review of Falkirk Council Internal Audit Section (undertaken by West Lothian Council Audit and Risk Management Unit) Finance	**Substantial Assurance** West Lothian Council's Audit and Risk Manager undertook a review of Falkirk Council Internal Audit Section's compliance with the CIPFA Code of Practice for Internal Audit in Local Government 2006. The Code consists of eleven standards made up of a total of 192 requirements, covering areas such as independence; audit planning, fieldwork, and reporting; performance, quality, and effectiveness. The Audit and Risk Manager concluded that Falkirk Council Internal Audit Section demonstrate a high level of compliance with the Code.
16.	Workplace Transport (undertaken by West Lothian Council Audit and Risk Management Unit) All Services	**Substantial Assurance** Falkirk Council's Health, Safety, and Care Team worked jointly with West Lothian Council's Audit and Risk Management Unit. The review covered compliance with corporate policies and statutory requirements. Improved management procedures were in place, although there remained some variability across Services in areas such as gate checks, Premises / Depot Manager checks, and the issue of policies to staff.
17.	National Fraud Initiative All Services	**N/A** The purpose of the NFI exercise is to review and investigate the outcomes of data matching undertaken by Audit Scotland on behalf of the Audit Commission. Matches cover areas such as Payroll, Pensions, Housing and Council Tax Benefit, and Creditors. Internal Audit are responsible for co-ordinating the process of ensuring that all relevant matches are followed-up. Good progress has been made with investigating matches, with positive outcomes and recovery (where appropriate) across Housing Benefit, Payroll, and Pensions matches. The Council will participate in the 2012/13 NFI exercise, with data to be submitted in October 2012 and matches available for investigation in January 2013.

	Planned 2011/12 Audits Completed During Year to 31 March 2012	
No.	**Audit Area and Service**	**Assurance and Key Findings**
18.	Continuous Auditing All Services	**N/A – Ongoing Reporting and Assurance** Work focussed on: • duplicate payments; • roads inspections; • urgent and weekly • overtime and travel payments; expenses; • car leases; • car park income. We identified a limited number of duplicate payments, with subsequent recovery action taken in every case. In addition, there remains a need to ensure the rigorous checking and authorisation of overtime and travel claims (by the authorising officer), with some evidence of erroneous payments. We were able to 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. There was some scope for improving the extent to which roads inspections are undertaken in line with the agreed schedule.
19.	Service Level Agreements and Premises Visits Falkirk Community Trust	As discussed and agreed with Trust management and presented to Performance and Audit Sub Group.
20.	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.

Additional 2011/12 Audits Completed During Year to 31 March 2012		
No	**Audit Area and Service**	**Assurance and Key Findings**
21.	Administrative Procedures and Cash Count – One Stop Shops Finance	We 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 controls across all One Stop Shops, particularly in relation to security and record keeping.
22.	Validation of Service Performance Measures All Services	**Substantial Assurance** We reviewed a sample of performance information reported by Services to ensure this was consistent with source data. 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.