

**FALKIRK COUNCIL**

**Subject: INTERNAL AUDIT PROGRESS REPORT**  
**Meeting: AUDIT COMMITTEE**  
**Date: 25 March 2013**  
**Author: INTERNAL AUDIT MANAGER**

**1. INTRODUCTION**

- 1.1 The purpose of this paper is to update Members on progress with completing the agreed 2012/13 Internal Audit Plan (the Plan), as presented to Audit Committee in March 2012.

**2. AUDIT PROGRESS**

- 2.1 Progress with completing 2012/13 Internal Audit work is summarised in the table below, and set out in more detail at **Appendix 1**.

Status	Number	%
Final Reports Issued	14	61%
Draft Reports Issued	1	4%
In Progress	7	31%
Not Started	1	4%
<b>Total</b>	<b>23</b>	<b>100%</b>

- 2.2 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). In addition:

- **Appendix 3** details key findings arising from reviews completed to final report stage and included in previous Progress Reports to Audit Committee;
- **Appendix 4** details key findings arising from reviews finalised since my last Progress Report.

- 2.3 As well as the 14 audits completed to final report stage, a further 8 reports have either been issued in draft or are in progress. Findings and conclusions arising from these reviews will be included in my Annual Assurance report, which will be presented to the summer meeting of this Committee.

### 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	2012/13 - to date	2011/12	2010/11
Complete <b>85%</b> of main audit programme	61%	100%	100%
Have <b>90%</b> of recommendations accepted	100%	99%	100%
Spend <b>75%</b> of time on direct audit work	77%	77%	78%
Issue <b>75%</b> of draft reports within 3 weeks of completion of fieldwork	100%	82%	88%
Complete (to issue of final report) <b>75%</b> of main audits within budget	93%	82%	88%

- 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.

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Internal Audit Manager

Date: 15 March 2013

## 2012/13 INTERNAL AUDIT PLAN – PROGRESS AT MARCH 2013

No.	Service/Status	Audit	Level of Assurance
<b><i>Final Reports Issued – Previously Reported to Committee</i></b>			
1.	Finance	Pensions – Transactional Systems	Substantial
2.	Finance	Payroll	Substantial
3.	All Services	Statutory Performance Indicator Validation	Substantial
4.	Social Work / Governance	Administrative Procedures and Cash Counts	Substantial
5.	All Services	Premises Managers' Handbook Compliance	Limited
6.	All Services	Continuous Auditing	N/A
<b><i>Final Reports Issued – NOT Previously Reported to Committee</i></b>			
7.	All Services	Appointment of Consultants	Limited
8.	Development	Corporate Risk Management Arrangements	Limited
9.	Corporate and Neighbourhood	Recruitment and Selection	Substantial / Limited
10.	All Services	Corporate Purchasing and Contract Management	N/A
11.	Corporate and Neighbourhood	Council Housing – Construction <sup>1</sup>	Substantial
12.	Corporate and Neighbourhood	Council Housing – Maintenance <sup>1</sup>	Substantial
13.	All Services	National Fraud Initiative	N/A
14.	CSFRS	Payroll	N/A
<b><i>Draft Reports Issued</i></b>			
15.	Finance	Integra Supplier Management and Payments	Substantial
<b><i>Audits In Progress</i></b>			
16.	Corporate and Neighbourhood	Refuse Collection Improvement / Procurement Process	N/A
17.	Development	Development Management and Enforcement	N/A
18.	All Services	Corporate Gas Safety (jointly with WLC)	N/A
19.	Social Work	Modernising Technology in Homecare Project Assurance <sup>2</sup>	N/A

<sup>1</sup> **NOTE** – although undertaken as two separate reviews, these were reported together.

<sup>2</sup> **NOTE** – additional review added to 2012/13 Plan.

## Appendix 1

No.	Service/Status	Audit	Level of Assurance
20.	Finance	Benefits – Corporate Fraud Team Scoping Study	N/A
21.	West Lothian Council	WLC Risk Management Arrangements	N/A
22.	Falkirk Community Trust	Approval and Payment of Invoices and Business Continuity Planning	N/A
	<b><i>Audits Not Started</i></b>		
23.	Development	Tax Incremental Finance Scheme	N/A
	<b><i>Audits Deferred</i></b>		
24.	Social Work	Central Matching Team	N/A

## DEFINITION OF INTERNAL AUDIT ASSURANCE CATEGORIES

Level of Assurance	Definition
<b>Comprehensive assurance</b>	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.
<b>Substantial assurance</b>	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.
<b>Limited assurance</b>	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.
<b>No assurance</b>	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.

## FINAL REPORTS ISSUED - SUMMARY OF KEY FINDINGS 2012/13

(Previously Reported to Audit Committee)

No	Audit Area and Service	Assurance and Key Findings
1.	Pensions – Transactional Systems  Finance	<p><b>Substantial Assurance</b> Covered governance and operational roles and responsibilities; admission of new members; calculation and collection of contributions; payment and receipt of transfer values; payments; and arrangements for actuarial valuations.</p> <p>In general, sound controls were in place. Operational controls around the calculation and collection of contributions, transfer values, and payments were well managed and working effectively. Roles and responsibilities were clear and well understood, with comprehensive procedural instructions in place.</p> <p>There was some scope for improving risk management, and for formalising Standards of Service for Scheduled and Admissions bodies.</p>
2.	Payroll  Finance	<p><b>Substantial Assurance</b> Reviewed policies, procedures, roles, and responsibilities; administrative and operational controls; service standards and performance monitoring; and the security of payroll related data and administration.</p> <p>Operational controls relating to new starts, leavers, and other changes were working effectively, and roles and responsibilities were clear.</p> <p>There was scope for better monitoring of under and overpayments, and the Payroll Data Handling Register required to be finalised.</p>
3.	Statutory Performance Indicator Validation  All Services	<p><b>Substantial Assurance</b> 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.</p>
4.	Administrative Procedures and Cash Count  Social Work / Governance	<p><b>Substantial Assurance</b> We reviewed cash and general administration arrangements at ASSET, Criminal Justice, Rowan Short Breaks, SW Business Support, Laurieston SW Office, and Bo'ness Registration Office.</p> <p>Arrangements were generally sound, although we made a number of recommendations relating to security, cash handling, and record keeping.</p>

No	Audit Area and Service	Assurance and Key Findings
5.	Premises Managers' Handbook Compliance  All Services	<p><b>Limited Assurance</b></p> <p>Focussed on the allocation of Premises Manager (PM) responsibilities; the availability of guidance and training; compliance with Handbook requirements; arrangements for identifying and addressing non-compliance; and the annual Statement of Assurance process.</p> <p>There was significant scope for improvement. More robust systems for identifying changes to operational premises and PMs were required, as was better training.</p> <p>We were unable to confirm compliance with the Handbook in a number of areas, with numerous instances where the frequency of checking was not in line with guidance. There was a need to better document checking undertaken.</p> <p>There was also scope for improving the annual Statement of Assurance process.</p>
6.	Continuous Auditing  All Services	<p><b>N/A – Ongoing Reporting and Assurance</b></p> <p>Work has focussed on:</p> <ul style="list-style-type: none"> <li>• creditors duplicate payments;</li> <li>• creditor payment analysis;</li> <li>• overtime payments;</li> <li>• contract expenditure;</li> <li>• system access control.</li> </ul> <p>While various improvement actions have been identified, in overall terms, continuous auditing work has provided positive assurance on the adequacy of financial controls. Payment analysis has identified a number of duplicates, with c£30k recovered by the Council during 2012/13 (c£105k since continuous audit work commenced in October 2010).</p>

## FINAL REPORTS ISSUED - SUMMARY OF KEY FINDINGS 2012/13

**(NOT Previously Reported to Audit Committee)**

No	Audit Area and Service	Assurance and Key Findings
1.	Appointment of Consultants  All Services	<p><b>Limited Assurance</b> Focussed on roles and responsibilities; policies, procedures, and training; selection and engagement arrangements; and management information and reporting.</p> <p>There was a need to review and update the Protocol for the Appointment of Consultants, and to improve appointment, approval, and administrative arrangements. There was, however, adequate segregation of duties in relation to the selection and engagement of, and payment for, consultants.</p>
2.	Corporate Risk Management Arrangements  Development	<p><b>Limited Assurance</b> Reviewed the overall framework at a corporate level; risk management policy and strategy; accountability, roles, and responsibilities; links to business planning; procedures, training, and guidance.</p> <p>There was a need to review and update the Risk Management Policy and Strategy, and for better embedding of risk management across all Services. The role and remit of the Corporate Risk Management Group requires to be reviewed, and there was a need to ensure that risk management links more clearly with business planning.</p>
3.	Recruitment and Selection  Corporate and Neighbourhood	<p><b>Substantial / Limited Assurance</b> Covered preparation, approval, and dissemination of Recruitment and Selection Policy; roles and responsibilities; application, assessment, and approval arrangements; and management information.</p> <p>A robust Policy was in place and roles and responsibilities were clear. There was scope for improving compliance with the Policy, and in particular the retention of documentation to support the recruitment process.</p>
4.	Corporate Purchasing and Contract Management  All Services	<p><b>N/A – Ongoing Reporting and Assurance</b> Internal Audit reviews a sample of payments on a weekly basis to assess compliance with Financial Regulations and Contract Standing Orders. This includes checks to ensure that a contracted supplier has been used. Where this is not the case, Internal Audit contact the invoice authorising officer to establish whether the appropriate quotation / tendering exercise was undertaken to select the supplier used.</p> <p>In general, across the sample of payments examined, we have found there to be broad compliance with Financial Regulations and Contract Standing Orders.</p>



No	Audit Area and Service	Assurance and Key Findings
5.	Council Housing – Construction and Maintenance Programmes  Corporate and Neighbourhood	<p><b>Substantial Assurance</b></p> <p><u>Construction</u>: reviewed BMD’s arrangements for planning, undertaking, monitoring, and reporting on certified capital improvement and new build work; quality assurance and management; and budgetary and financial control.</p> <p>Capital investment and new build projects were generally well controlled and managed, with sound quality assurance and performance monitoring arrangements. Roles and responsibilities were clear, with guidance and procedures in place. There was some scope for improving sub-contracting arrangements.</p> <p><u>Maintenance</u>: reviewed roles and responsibilities; arrangements for identifying, prioritising, costing, undertaking, monitoring, and reporting on planned and reactive maintenance; quality assurance and management; and budgetary and financial control.</p> <p>Maintenance arrangements were generally sound, although there was some scope for improving the operational approval and processing of job lines.</p>
6.	National Fraud Initiative  All Services	<p><b>N/A</b></p> <p>The 2010/11 NFI exercise is now largely complete. NFI is co-ordinated by Internal Audit, with investigations arising from the Accounts Commission’s data matching undertaken by Services.</p> <p>A total of 2,726 matches have been investigated as part of NFI 2010/11, with c£246k returned (or in the process of being recovered and returned) to the public purse as a result of successful investigation of errors or discrepancies.</p> <p>The 2012/13 NFI exercise is now underway. All of the required data has been submitted to the Accounts Commission, with the resultant matches made available in January / February. These are now being reviewed and investigated by Services.</p>
7.	Payroll  Central Scotland Fire and Rescue Service	<p><b>N/A</b></p> <p>As reported to CSFRS Best Value and Scrutiny Committee.</p>