FALKIRK COUNCIL

MINUTE of MEETING of the AUDIT COMMITTEE held in the MUNICIPAL BUILDINGS, FALKIRK on MONDAY 22 MARCH 2010 at 10.00 a.m.

PRESENT:	Councillors C Martin, Blackwood, Coleman, Lemetti, Patrick and Kenna.
CONVENER:	Councillor C Martin.
ATTENDING:	Chief Executive; Directors of Community Services, of Corporate and Neighbourhood Services, of Education Services and of Finance; Internal Audit Manager; Democratic Services Manager.
ALSO ATTENDING:	Assistant Director, Audit Scotland (M Taylor) and Senior Auditor, Audit Scotland (G McCreadie).
DECLARATIONS OF INTEREST:	None.

AC25. MINUTE

There was submitted (circulated) and **APPROVED** Minute of Meeting of the Audit Committee held on 16 November 2009.

AC26. AUDIT COMMITTEE – ROLE OF INTERNAL AUDIT

Gordon O'Connor, Internal Audit Manager, gave a presentation on the role of Internal Audit (IA) and the IA arrangements within Falkirk Council.

The presentation focussed on:-

- the role of Internal Audit (IA)
- how IA plans and undertakes its work
- the structure of IA within Falkirk Council.

Discussion focussed on:-

- the audit planning process
- the audit process
- the mechanisms by which issues can be referred to IA for review
- the need for IA to be flexible and to be able to address issues outwith its Annual Audit Plan
- the relationship between IA and elected members and with senior officials within the Council

- the nature of 'ad hoc' consultancy work undertaken by IA and their benefits to the IA team and to the Council in general
- the need for IA to not be influenced by management or by political considerations.

NOTED.

AC27. INTERNAL AUDIT PROGRESS REPORT

With reference to the minute of the meeting held on 3 April 2009 (Paragraph AC4 refers), there was submitted Report (circulated) dated 15 March 2010 by the Internal Audit Manager (a) summarising progress made towards the completion of the 2009/10 Internal Audit Plan, (b) providing an update on Services' progress in implementing Internal Audit recommendations and (c) summarising the performance of Internal Audit as measured against its 5 key Performance Indicators.

Discussion focussed on:-

- the nature of the collaboration between IA and the Scottish Crime and Drug Enforcement Agency (SCDEA)
- the background to the replacement of programmed reviews with other, unplanned, reviews of Bed and Breakfast Arrangements, Building Maintenance Division Hired Small Plant, and of Social Work Intermediary Bank Accounts
- those audits where no or limited assurance had been identified and the reasons for this

NOTED.

AC28. INTERNAL AUDIT PLAN 2010/11

There was submitted Report (circulated) dated 15 March 2010 by the Internal Audit Manager presenting the proposed Internal Audit Plan 2010/11 and detailing (a) the proposed Direct Audit Activity 2010/11, (b) the development of the proposed Audit Plan and (c) the planned Internal Audit coverage 2010/2011.

Discussion focussed on:-

- the background to the proposed audit of NPDO/PPP School Maintenance
- the advantage of collaborative work with partner agencies and in sharing expertise and experience with partner agencies
- the need for Internal Audit to maintain a focus between its own workload and other audit areas.

NOTED:-

(1) the proposed Internal Audit coverage for 2010/11;

(2) the resources available to Internal Audit; and

(3) that progress against the Internal Audit Plan will be reported to the Audit Committee in November 2010 and March 2011, and summarised in an Annual Assurance Report.

AC29. ANNUAL AUDIT PLAN

There was submitted Report on the Annual Audit Plan 2009/10 (circulated) by Audit Scotland setting out an overview of the planned audit activity for 2009/10; including (a) an audit of the Council's financial statements; (b) reporting on the outcome of a shared risk assessment process; (c) a review of the Council's governance and performance arrangements and (d) an opinion on a number of grant claims and returns. The Report also presented (i) a Summary Assurance Action Plan; (ii) a Financial Statements audit timetable and (iii) details about the Audit team.

Discussion focussed on:-

- the planned audit action and assurance in relation to the move to International Financial Reporting Systems in 2010/11
- the audit of Common Good Assets and the identified risk
- the identified risk in relation to the overspend in the 09/10 budget and work to be undertaken in this area and in regards to Equal Pay

NOTED.

AC30. AUDIT COMMITTEE – AUDIT SCOTLAND RECOMMENDATION AND APPOINTMENT OF LAY MEMBER

With reference to the minute of meeting held on 16 November 2009 (paragraph AC 17 refers), there was submitted Report (circulated) dated 15 March 2010 by Chief Executive providing further information on (a) the chairing arrangements for Audit Committees in other Scottish Local Authorities and (b) the extent to which other Scottish Local Authorities had co-opted external members to their Audit Committee and, where this has been implemented, the nature of the appointments.

Discussion focussed on:-

- the need to address both the issues of the chair of the Committee and the advantages/disadvantages of co-opting external members to the Committee
- the mechanism by which the Report would be considered by full Council.

AGREED to refer the Report to Council on 28 April 2010for consideration.

FALKIRK COUNCIL

Subject:	**ANNUAL GOVERNANCE STATEMENT**
Meeting:	**AUDIT COMMITTEE**
Date:	**31 May 2010**
Author:	**CHIEF EXECUTIVE**

1. INTRODUCTION

1.1   The purpose of this paper is to advise Members of processes for reporting on governance arrangements for the year ended 31 March 2010, and to seek comments on, and approval of, a draft Annual Governance Statement for inclusion in the Council's 2009/10 Annual Accounts.

2. GOVERNANCE ARRANGEMENTS AND GUIDANCE

2.1   In 2007, the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) jointly issued guidance entitled 'Delivering Good Governance in Local Government'. This guidance defines the principles that should underpin the governance of each local government body and provides a structure to assist Authorities with the development and consolidation of their own approach to governance.

2.2   The guidance recommends that Authorities review and assess their own arrangements and prepare an Annual Governance Statement (the Statement) to report on the adequacy of those arrangements. This guidance is mandatory in England and is viewed as good practice in Scotland, where publication of the Statement satisfies the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.

2.3   An Annual Governance Statement was included in Falkirk Council's Annual Accounts for the first time for 2008/09, and preparation of the Statement was commended by Audit Scotland. The Annual Governance Statement replaces the Statement on the System of Internal Financial Control previously included in the Council's Accounts.

2.4   A draft Annual Governance Statement for the year to 31 March 2010 is attached at Appendix 1.

2.5   The Statement, following consideration by Committee, requires to be signed by the Leader of the Council and Chief Executive, and will be published with the Council's 2009/10 Annual Accounts.

3.   RECOMMENDATIONS

3.1   Members are invited to:

       3.1.1   note the report on the Council's governance arrangements;

       3.1.2   review and comment as appropriate on the draft Annual Governance Statement; and

       3.1.3   note that the annual Governance Statement will be published with, and form part of, the Council's Annual Accounts.

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Chief Executive

Date: 21 May 2010

Falkirk Council

Annual Governance Statement – 2009/2010

Introduction

1.   Falkirk Council has a duty under the Local Government in Scotland Act 2003 to make arrangements to secure best value and ensure continuous improvement in the Services it delivers. The Council must ensure that public money is used economically, efficiently, and effectively, and that this responsibility is undertaken with due regard to the achievement of sustainability.

2.   To help ensure that these responsibilities are met, the Council must put in place comprehensive and robust governance arrangements, and must ensure that these arrangements are properly applied. This must be done within the context of the Single Outcome Agreement 2009-11 which sets out the improvements the Council, its Community Planning Partners, and the Scottish Government want to make in the Falkirk Council area.

3.   Responsibility for ensuring good governance is shared by all Falkirk Council employees and elected Members, and must be part of the culture of the organisation. To demonstrate Falkirk Council's commitment to ensuring good governance, this Statement has been prepared on the basis of the principles set out in the CIPFA/SOLACE Framework '*Delivering Good Governance in Local Government*' to highlight established and developing good practice as well as areas for further improvement. It should be noted that any review of governance arrangements can provide reasonable but not absolute assurance that policies, aims, and objectives are being applied and implemented as intended.

4.   The CIPFA/SOLACE Framework defines governance as being the arrangements that ensure Authorities are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. In practice, this comprises the systems, processes, cultures and values by which the Council is directed and controlled and through which it engages with the community.

5.   Preparation of this Annual Governance Statement meets the requirements of Chapter 8 of the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice.

Falkirk Council's Governance Framework

6.   The following sections summarise the key elements of Falkirk Council's governance framework, set out within the context of the six Principles of Good Governance defined within the CIPFA/SOLACE Framework.

Principle 1 - Focusing on the purpose of the Authority and on outcomes for the community, and creating and implementing a vision for the local area.

7.   This principle is about developing and communicating the Council's vision, purpose, and intended outcomes for citizens and service users.

8.   The Council has a well established business planning process, with clear links between the Single Outcome Agreement 2009-11, Community / Corporate Plans, and operational priorities set out in Service Plans. Performance at all levels is subject to rigorous Officer and Member review via, for example, Single Outcome Agreement Monitoring Statement scrutiny by Council and regular Service performance reporting to the Best Value Forum. The Council has implemented an electronic performance management system to allow the timely and reliable recording and reporting of performance related information.

9.   Service Performance continues to be made publicly available via the 'Performance Zone' area of the Council's website. This includes performance against targets set out in Service Plans, as well as against the Accounts Commission's suite of Statutory Performance Indicators.

10.   The Business Improvement Team was set up in May 2008 to lead on projects designed to improve the efficiency and effectiveness of systems and processes. A key element of the Business Improvement Team's

work relates to the implementation of the Public Sector Improvement Framework (PSIF) / REFLECT initiative within Falkirk Council, and an initial programme of self assessment reviews using this methodology has been agreed and is underway.

11. Feedback from stakeholders on the delivery of services is sought through a variety of means, for example customer surveys, and a Customer First Team (contact centre) and formal complaints procedure have been established.

Principle 2 - Members and Officers working together to achieve a common purpose with clearly defined functions and roles.

12. This principle is about ensuring effective leadership and that roles and responsibilities are clear and consistent.

13. The Council has well established Standing Orders that regulate the operation of Council Committee meetings. These Standing Orders, which were reviewed and updated during 2009/10, are supported by a Scheme of Delegation to Committees, Contract Standing Orders, and Financial Regulations. A review of the Council's Financial Regulations was also undertaken during 2009/10, with an updated version approved by Council in December 2009.

14. The Chief Executive, Directors, Heads of Service and all other Council employees have job descriptions, and the roll-out of a formal Achievement and Personal Development Scheme is well underway. In addition, a Continuing Professional Development Framework, incorporating Personal Development Plans, has been developed and rolled out to elected Members on a pilot basis.

15. In February 2010, a revised Service Structure was agreed by Council, and the implementation of agreed changes is currently underway. Working arrangements and job descriptions will be kept under review within the context of these changes.

Principle 3 - Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.

16. All Members and Officers are expected to demonstrate leadership through high standards of conduct and behaviour. The Council has a Code of Conduct for Members and Officers. This provides guidance on how high ethical standards are to be maintained and includes Protocols for Member / Officer Relations and Officer / Convener Relationships.

17. In addition, all Services are required to comply with the Council's Guidelines on Extra-Mural Employment, and registers of gifts and hospitality are maintained. Guidance on Extra-Mural Employment and Gifts and Hospitality is included in the Employee Handbook, available to all staff on the Council's Intranet and provided to staff as part of the induction process.

18. During 2009/10, the Council's Corporate Risk Management Group commenced and progressed an exercise to establish and maintain a corporate record of Officers who have responsibilities with external organisations. This record will be used to ensure that Officers with such responsibilities receive the appropriate training to allow them to properly discharge their role with the external organisation, and that all have been made fully aware of their legal obligations.

19. The Council has a Confidential Reporting Policy and Procedure, supported by an Anti-Fraud and Corruption Strategy.

Principle 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

20. The decision making and scrutiny framework within Falkirk Council encompasses self evaluation as well as internal and external inspection.

21.   As mentioned above, the Council has a Business Improvement Team with lead responsibility for implementing the PSIF / REFLECT initiative within Falkirk Council. As well as forming the basis for service specific reviews, the PSIF framework was used by Corporate Management Team to undertake a corporate self assessment. As a result of this self assessment, an improvement plan has been put in place to allow implementation of actions arising from this exercise to be managed and monitored.

22.   Corporate Management Team also rely on advice and guidance from Officer led groups responsible for the consideration of, for example, sustainability, best value, ICT Strategy, and risk management, to drive and direct the decision making process.

23.   Risk management arrangements were further developed during 2009/10, with a revised risk register presented to, and approved by, the Audit Committee in November. The Corporate Risk Management Group continues to have responsibility for overseeing the implementation of the Council's Risk Management Policy and Strategy, with reporting lines to both Corporate Management Team and the Audit Committee.

24.   The Audit Committee itself is now well established, and a programme of training has been put in place to ensure that Members remain well versed in their role and the role of the Committee.

Principle 5 - Developing the capacity and capability of Officers and Members to be effective.

25.   This principle is about ensuring that Officers and Members have the appropriate knowledge and skills to allow them to effectively fulfil their roles and responsibilities.

26.   Falkirk Council has adopted a corporate induction process which is presented on-line. All new employees are required to undertake this induction. Arrangements for local induction are put in place and delivered by individual Services. A Member induction process is also in place.

27.   The Council remains committed to developing its workforce through the provision of a corporate 'Learning Zone' and through the support of individual Services towards achieving Investors in People status. The Achievement and Personal Development Scheme for Officers and Personal Development Plans for Members help ensure that training and development needs are documented and managed in a structured and planned way.

Principle 6 - Engaging with local people and other stakeholders to ensure robust public accountability.

28.   The Council interacts and engages with stakeholders on a number of levels.

29.   Publication of annual accounts and statutory performance information, as well as Service performance information and the results of customer surveys, is done via the 'Performance Zone' on the Council's website. The Council's Customer Service Charter is also available by accessing the 'Performance Zone'.

30.   In addition, communications are maintained through the local press, the publication of Falkirk Council News, and through Officer and / or Member representation at public meetings.

31.   The Council remains committed to developing systems to allow stakeholders to engage electronically. Contact can also be made through the Customer First Team, by email, or at contact points such as One Stop Shops.

32.   Meetings of Falkirk Council and its Committees are open to the public, and agendas and papers are published on the Council's internet site.

33.   The Council continues to review its approach to community engagement, and a formal Community Engagement Strategy is in preparation which will be subject to Member consideration and approval during 2010/11. Robust community engagement is, however, already embedded practice, for example in relation to the Council's Parks Strategy, school catchment areas, and the accessibility / content of the Council's website.

34.   Arrangements and protocols have been established to meet requests under the Freedom of Information Act within the required timescales.

Monitoring and Review of Governance Arrangements

35.   Falkirk Council's governance arrangements are formally monitored via:

- the Council's established Committee framework, including the Audit Committee;
- the Best Value Forum and Best Value Working Group;
- Corporate Management Team;
- Internal and external audit work; and
- the work of Falkirk Council's Best Value 2 Local Area Network, which includes Audit Scotland, Her Majesty's Inspectorate of Education, the Care Commission, Social Work Inspection Agency, and the Scottish Housing Regulator.

36.   This monitoring is done within the context of the Delivering Good Governance guidance, the Council's Corporate Plan, local Community Plan, agreed Single Outcome Agreement, and the fundamental statutory requirement to demonstrate and achieve best value.

37.   The Council has a Strategic Planning and Management Framework (SPMF) which brings each of these strands together. The SPMF sets a common operational framework linking all activities to the Council's strategic priorities and service delivery objectives. This framework facilitates the monitoring and management of performance and quality, and provides for demonstrable consistency between strategic and operational aims and objectives.

System of Internal Financial Control

38.   This section of the Annual Governance Statement relates to the systems of internal financial control of Falkirk Council and of the consolidated entries in the Council's group accounts for the year to 31 March 2010. It incorporates assurance on the systems of internal financial controls in place within each of these entities.

39.   Responsibility for ensuring that an effective system of internal financial control is maintained and operated rests with the Director of Finance. It should be noted that the system of internal financial control can only provide reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

40.   The system of internal financial control is based on a framework of risk management, robust management information, application of comprehensive financial regulations, administrative procedures including management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers, and includes:

- arrangements for the identification and management of risks;
- comprehensive budgeting systems;
- the preparation and regular review of periodic and annual financial reports which indicate actual expenditure and financial performance against forecasts;
- setting targets to measure financial and other performance;
- clear capital expenditure guidelines; and
- formal project management arrangements.

41.   The Council's Internal Audit Section provides an independent assessment of arrangements for risk management, governance and control. The Section undertakes an annual programme of work approved by the Chief Executive, Director of Finance, and Audit Committee. This work is planned taking account of the outcomes of the Council's risk management arrangements and Internal Audit's own assessment of risk.

42.   The Council's appointed external auditors have concluded that the Internal Audit Section operates in

accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

43.   All Internal Audit reports are brought to the attention of management and include recommendations and agreed action plans where scope for improvement has been identified. It is management's responsibility to ensure that proper consideration is given to Internal Audit reports and that appropriate action is taken to address recommendations. Significant matters, including non-compliance with recommendations arising from Internal Audit work, are reported periodically to the Council's Audit Committee.

44.   The Audit Committee, which was set up on the basis of a decision by Council in June 2008, operates in accordance with guidance entitled 'Audit Committee Principles in Local Authorities in Scotland' (CIPFA, 2004) and 'Audit Committees: Practical Guidance for Local Authorities' (CIPFA, 2005), and has a remit to provide:

- independent scrutiny on the adequacy of the risk management framework and associated control environment;
- independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects risk exposure and weakens the control environment; and
- assurance that any issues arising from the process of drawing up, auditing and certifying the Authority's annual accounts are properly dealt with.

45.   Part of the role of the Committee is to consider the Annual Assurance Report provided by the Internal Audit Manager. This report provides an independent opinion on the adequacy and effectiveness of the Council's arrangements for risk management, governance and control, and is based on work undertaken during the year. In his Annual Assurance Report for 2009/10 the Internal Audit Manager concluded that he was able to provide substantial assurance on the Council's overall framework of control for the year to 31 March 2010.

46.   The programme of Internal Audit work for 2009/10 was completed as planned, although there were, as expected, a number of alterations to the Plan as new risks emerged and demands on Internal Audit time changed as a result of, for example, requests for ad hoc and investigative work from Services. The breadth and depth of work undertaken was sufficient to allow the Internal Audit Manager to form a robust and balanced opinion based on the level of assurance provided in each individual Internal Audit report.

47.   While, in overall terms, the Internal Audit Manager was able to provide substantial assurance in respect of the Council's control framework, there were areas where limited or no assurance was provided. It is part of the established Internal Audit process to carry out follow-up work to determine the extent to which recommendations have been implemented, and particular emphasis will be placed on recommendations made in these reviews. The outcomes of follow-up work will be reported to Members of the Audit Committee during 2010/11.

48.   The Director of Finance is required to review the effectiveness of the Council's systems of internal financial control, taking account of:

- the work of managers within the Council;
- the work of Internal Audit (as described above); and
- the work of external audit.

49.   Based on consideration of the above, the Director of Finance has concluded that substantial assurance can be placed on the adequacy and effectiveness of the Council's internal financial control systems for the year to 31 March 2010.

50.   In respect of other entities that fall within the Council's group boundary, the Director of Finance's review of their internal control systems is informed by:

- the Statements on the System of Internal Financial Control or, where available, the Annual Governance Statements, included within the respective financial statements of the Joint Boards;

and

- the work of the relevant bodies' respective external auditors (and, where relevant, Internal Auditors) and other interim reports.

51. Based on consideration of the above, the Director of Finance has concluded that, on the whole, substantial assurance can be placed on the internal financial control systems of other bodies falling within the Council's group boundary.

52. Earlier in 2010, CIPFA issued its 'Statement on the Role of the Chief Financial Officer (CFO) in Local Government' (the Statement) and an associated 'Application Note to Delivering Good Governance in Local Government: A Framework' (the Application Note). The Statement sets out 5 principles defining the role of the CFO in Local Government, and the Application Note encourages self assessment against these principles with the outputs reported within the Annual Governance Statement.

53. An initial assessment against the principles has been undertaken, confirming broad compliance. A further, more detailed assessment will be undertaken during 2010/11.

Governance Arrangements – Areas for Improvement

54. Falkirk Council is committed to ensuring that governance and internal financial control arrangements are robust, proportionate, and in line with best practice. The Council has a well established culture of improvement, and is thorough in addressing issues that emerge either through self assessment or as part of the external scrutiny process. The process of preparing this Statement has highlighted areas where further work is required, and these will be addressed within the context of the continuous improvement agenda:

- continue to undertake and complete PSIF / REFLECT reviews, and to identify and implement improvement action;

- complete roll-out of Achievement and Personal Development Scheme to all Council Officers;

- review working arrangements and job descriptions in light of Service restructure;

- use the Record of Responsibilities with External Organisations to ensure that Officers with such responsibilities receive the appropriate training and are fully advised of their legal obligations;

- implement action to address issues raised via the corporate self assessment undertaken by Corporate Management Team;

- continue to develop and embed risk management arrangements; and

- finalise and roll out a formal Community Engagement Strategy.

Conclusion

55. This Annual Governance Statement summarises, openly and transparently, arrangements established by Falkirk Council for ensuring good governance and appropriate arrangements for internal financial control for 2009/10 and the period to date. It highlights areas of improvement that have been identified to enhance existing governance arrangements, and is consistent with the Council's established improvement agenda.

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Councillor Craig Martin   **Mary Pitcaithly**
Leader of Falkirk Council   **Chief Executive**
31 May 2010   **31 May 2010**

FALKIRK COUNCIL

Subject:	**INTERNAL AUDIT: ANNUAL ASSURANCE REPORT 2009/10**
Meeting:	**AUDIT COMMITTEE**
Date:	**31 May 2010**
Author:	**INTERNAL AUDIT MANAGER**

1. INTRODUCTION

1.1 Members are invited to note and comment on this paper which reports on Internal Audit work undertaken during 2009/10, and provides an overall assurance on arrangements for risk management, governance and control in those areas. 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 a robust framework of internal control, and to ensure the continuing effectiveness of that system. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code) requires that the Internal Audit Manager provides an annual 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;
- 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 23 main Audits during 2009/10, exceeding the target of completing 85% of agreed reviews. As such, I am 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 Assurance Categories 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 2010. Members should note that we did identify a number of issues that may impact on the achievement of business objectives, with action to address these 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 2009/10

3.1   Internal Audit's Annual Plan for 2009/10 consisted of 23 reviews.

3.2   Over the course of the year there were a number of alterations to the Plan as new risks emerged and demands on Internal Audit time changed. This resulted in 3 additional reviews being undertaken, with 3 planned reviews deferred at the request of, or in agreement with, the relevant Service.

Audits	Number
Planned Audits	23
PLUS Audits Added to Plan	3
LESS Audits Deferred	3
TOTAL AGREED AUDITS	**23**

3.3   The following planned audits were not undertaken during 2009/10:

- External Funding Unit Including Following the Public Pound;
- Housing Allocations; and
- Development Management and Control.

3.4   Of these 3 audits, the reviews of External Funding Unit Including Following the Public Pound and Housing Allocations have been included in the 2010/11 Internal Audit Plan. The review of Development Management and Control will be considered within the context of future Internal Audit Plans.

3.5   The deferment of these reviews allowed Internal Audit to react to requests from Services to undertake audits of Bed and Breakfast Arrangements, Building Maintenance Hired Small Plant, and Social Work Intermediary Bank Accounts. Members should note that the outputs from this additional work was considered in the context of providing the overall assurance set out at paragraph 2.4 above.

3.6   Details of all Internal Audit Activity undertaken during 2009/10 is set out at **Appendix 2**, with a summary of the scope of, and findings arising from, each review set out at **Appendix 3**.

3.7   Internal Audit were, for the majority of audits, able to provide substantial assurance on the adequacy of arrangements for risk management, governance and control.

3.8   There were, however, areas where we were able to provide limited or no assurance, namely Joint Loan Equipment Service and Legionella Management Arrangements.

3.9   We also provided a split assurance in respect of our review of Overtime and Allowance Administration. While we found arrangements for processing claims within Payroll Section to be generally sound, there was scope for improving the claim checking regime within Services prior to approval and submission to Payroll Section. Internal Audit will undertake detailed follow up work in this area during 2010/11.

3.10   Internal Audit is considered by Audit Scotland to be a key element of Falkirk Council's framework of internal control. Members should note that Audit Scotland, in their role as External Auditor to the Council, have confirmed in their 2009/10 Annual Audit Plan that they will place formal reliance on, or obtain assurances from, work undertaken by Internal Audit in the following areas:

- Treasury Management;
- Overtime and Allowance Administration;
- Direct Payments;
- Land / Asset Disposal;
- Education Services ICT Governance and Security;
- Revenues IT Systems; and
- Cash Spot Checks.

3.11   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.

3.12 Members will be aware that Internal Audit measures its performance against a set of five Key Performance Indicators. Performance against each of these for 2009/10 is set out in the table below:

Key Performance Indicator	2009/10 Performance
Complete **85%** of agreed audits:	100%
Have **90%** of audit recommendations accepted:	100%
Spend **75%** of time on direct audit work:	76%
Issue **75%** of draft reports within 3 weeks of completion of fieldwork:	87%
Complete (to issue of final report) **75%** of main audits within budget:	74%

3.13 As can be seen, Internal Audit performance is above target for four of the five Key Performance Indicators.

3.14 In respect of completion of main audits within budget, although performance remains very slightly below target, there has been a significant improvement over 2007/08 when only 55% of reviews were completed within budget and 2008/09 when 70% were completed within budget.

3.15 The staffing position within Internal Audit during 2009/10 was stable, with the section fully staffed between April 2009 and January 2010 [1]. The Internal Audit Plan for 2009/10 has been prepared on the basis that this will continue to be the case.

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 2009/10, Audit Scotland have concluded that Internal Audit operates in accordance with the Code.

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[1] NOTE that one Audit Assistant joined Social Work Services on secondment in January 2010. It has been agreed with Social Work Services that this temporary arrangement will end in June 2010.

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 2010;

    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 2010 was as set out at paragraph 3.12;

    5.1.5   Internal Audit operates in compliance with the CIPFA Code.

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Internal Audit Manager

Date: 21 May 2010

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.

SUMMARY OF 2009/10 INTERNAL AUDIT PROGRAMME

Planned 2009/10 Audits Completed During Year to 31 March 2010		
Service	**Audit Area**	**Level of Assurance**
Law and Administration	Mail Management	Substantial
Community	Land and Asset Disposal	Substantial
Corporate and Neighbourhood	Telecommunications	Substantial
Various	Statutory Performance Indicators	N/A
Social Work	Joint Loan Equipment Service	Limited
Finance	Treasury Management	Comprehensive
Education	Childcare and Early Years Services	Substantial
Corporate and Neighbourhood	Legionella	No Assurance
Finance / All Services	Overtime and Allowance Administration	Substantial / Limited
Finance	Revenues IT Systems – Security and Management	Substantial
Various	National Fraud Initiative	N/A
Social Work	Fostering	Substantial
Various	Cash Spot Checks	Substantial
Education	ICT Governance and Security	Substantial
Development	Sustainability Strategy	Substantial
Social Work	Direct Payments	Substantial
Education	Additional Support for Learning	Substantial
Community	Community Learning Strategy and Community Education	Substantial
Development	Utilities Invoices and Payment	Substantial
Central Scotland Fire and Rescue Service	Overtime and Allowance Administration	N/A

1

Additional 2009/10 Audits Completed During Year to 31 March 2010		
Service	**Audit Area**	**Level of Assurance**
Corporate and Neighbourhood	Building Maintenance Division Hired Small Plant	Substantial
Corporate and Neighbourhood	Bed and Breakfast Arrangements	N/A
Social Work	Social Work Intermediary Bank Accounts	N/A

Planned 2009/10 Audits Deferred		
Service	**Audit Area**	**Level of Assurance**
Corporate and Neighbourhood	External Funding Unit Including Following the Public Pound	N/A
Corporate and Neighbourhood	Housing Allocations	N/A
Development	Development Management and Enforcement	N/A

2

DETAILS OF 2009/10 INTERNAL AUDIT PROGRAMME

Planned 2009/10 Audits Completed During Year to 31 March 2010	
Audit Area	**Scope and Outcome**
Mail Management Law and Administration	**Substantial Assurance** Covered roles and responsibilities, arrangements for the secure opening, storage, and onward distribution of mail, the use of external couriers, and contingency arrangements. Arrangements were generally sound. Roles, responsibilities and objectives were clear, with various initiatives in place to secure best value. There were issues relating to the opening / storage of mail, and a need for an approved courier list.
Land and Asset Disposal Community	**Substantial Assurance** Covered the disposal decision making process, roles and responsibilities, policies and procedures, collection of income, and management information. In general, sound systems of control were in place, although there was some scope for improving the accuracy of the Land Register maintained by the Asset Management Unit, and the transparency of the internal asset valuation review process.
Tele-communications Corporate and Neighbourhood	**Substantial Assurance** Covered policies, procedures, roles and responsibilities relating to fixed and mobile telephony, purchasing and contract management arrangements, budgetary and financial controls, usage monitoring, fault reporting and contingency arrangements, and management information. In general, sound systems of control were in place. Roles and responsibilities were clear, with up to date policies and business continuity arrangements in place. There was, however, a need to ensure that potential savings through smarter use of existing and new telephony are highlighted to Services, and to agree management information requirements.
Statutory Performance Indicators Various	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.

1

Planned 2009/10 Audits Completed During Year to 31 March 2010	
Audit Area	**Scope and Outcome**
Joint Loan Equipment Service Social Work	**Limited Assurance** Undertaken jointly with FTF Audit and Management Services. Covered governance arrangements, financial and operational controls, arrangements for securing and demonstrating best value, and the adequacy and accuracy of management information. There was scope for improving governance arrangements, including a need to review the Consortium Agreement, document roles and responsibilities, and develop risk management systems. There were also weaknesses in financial and operational controls. In particular, there was a need to improve stock management controls, including the development of a formal Stock Control Policy, and to agree management information requirements.
Treasury Management Finance	**Comprehensive Assurance** Covered borrowing and investment roles, responsibilities, policies and practices, including risk management and compliance with the CIPFA Code of Practice for Treasury Management. Also covered broker and adviser procurement and contract management arrangements, and the reliability and flexibility of management information. Sound systems of control were in place, in compliance with the CIPFA Code of Practice for Treasury Management.
Childcare and Early Years Services Education	**Substantial Assurance** Covered arrangements for ensuring compliance with legislation, strategy and guidance, the development and delivery of childcare services, the monitoring of childcare provision and associated training, budgetary and financial controls, and management information. Robust arrangements were in place for the development, delivery and monitoring of childcare services, within the context of relevant legislation and local implementation of relevant policies and procedures. There was, however, scope for improving the process for commissioning private partners, and for re-imbursing partners and parents with nursery education costs.
Legionella	**No Assurance**

Planned 2009/10 Audits Completed During Year to 31 March 2010	
Audit Area	**Scope and Outcome**
Corporate and Neighbourhood	Covered policies and procedures, governance, roles and responsibilities, monitoring, risk assessment, maintenance and preventative works, training, continuity planning, and the production of management information. There were weaknesses in relation to the operation of the checking regime and the arrangements established to ensure its operation. In particular, there was a need to ensure that all buildings are subject to survey, that staff responsible for undertaking checks are aware of their role, and for making Services accountable to the Corporate Risk Management Group for ensuring that all Premises Manager responsibilities (including those relating to Legionella) are properly discharged. Significant work has been undertaken by management since the issue of this report to address recommendations made by Internal Audit, and a follow-up review will be carried out by Internal Audit during 2010/11.
Overtime and Allowance Administration Finance / All Services	**Substantial / Limited Assurance** Covered arrangements in place within Finance Payroll Section and locally within Services. Specific areas reviewed included rules and guidance, procedures for checking, approving, processing and monitoring claims, arrangements for making payments, and the adequacy of management information. In general, sound systems of control were in place within Payroll Section. There was, however, a need for a standard corporate claim form incorporating appropriate declarations, and the finalisation of the overpayment policy. There was scope within Services for better checking of claims prior to approval and submission to Payroll Section, to ensure validity, accuracy and best value.
Revenues IT Systems – Security and Management Finance	**Substantial Assurance** Focussed on Council Tax and Business Rates modules. Covered roles and responsibilities, systems documentation, physical and environmental controls, access management arrangements, and business continuity plans. Robust controls were in place, although there was a need

| Planned 2009/10 Audits Completed During Year to 31 March 2010 ||
Audit Area	Scope and Outcome
	to put in place a formal System Security Statement and Access Control Policy, and to further develop business continuity arrangements.
National Fraud Initiative Various	The Internal Audit Manager, who is the key contact for NFI work, was responsible for ensuring that all NFI matches (housing benefit, housing rents and rent arrears, payroll, pensions and creditors) were investigated as appropriate. The majority of matches have now been satisfactorily investigated and closed, with only a small number of minor discrepancies found.
Fostering Social Work	**Substantial Assurance** Covered governance, risk management, and strategic planning arrangements, policies and procedures, application, assessment and approval arrangements, monitoring and quality assurance frameworks, and financial and other administrative controls. In general, sound systems of control were in place. There was, however, some scope for improving elements of training, recruitment and assessment arrangements, and for improving management information. There was also a need to ensure that payments to external fostering agencies are checked to placement agreements as a matter of course, and that all additional expenses are supported by receipts.
Cash Spot Checks Various	**Substantial Assurance** Internal Audit visited a number of locations to review local cash handling and administrative arrangements. In general we found arrangements to be sound.
Education Services ICT Governance and Security Education	**Substantial Assurance** Covered liaison between Education and corporate ICT, governance roles and responsibilities, security policies and standards and arrangements for enforcing these across Education Services, and ICT budget setting and monitoring arrangements. There was evidence of close working across the Service to identify key ICT issues, solutions, and priorities for development, with work ongoing to implement and enforce ICT security.

Planned 2009/10 Audits Completed During Year to 31 March 2010	
Audit Area	**Scope and Outcome**
	There was, however, scope for putting in place a formal Education ICT Strategy (based on the corporate Strategy) and for further embedding risk management. There was also some scope for improving the ICT security framework, particularly relating to the clarity of responsibilities arising from the Council's proposed Information Security Policy.
Sustainability Strategy Development	**Substantial Assurance** Covered governance, management and roles and responsibilities, arrangements for delivering the Sustainable Falkirk Strategy and implementing the associated Action Plan, budgetary and financial controls, and the adequacy of management information. Generally robust controls were in place. The sustainable Falkirk Strategy and Action Plan provide a corporate framework, supported by a Working Group and Service Sustainability Teams. There was some scope for improving the validation of reported performance and for allocating and approving expenditure from the Sustainable Falkirk Strategy Fund.
Direct Payments Social Work	**Substantial Assurance** Covered policies, procedures and guidance, systems for prioritisation and assessment, financial and operational controls, and outcome monitoring and reporting. Adequate arrangements were in place for monitoring budgets, and sound application and assessment controls had been established. There was a need for the formalisation and dissemination of procedural guidance to staff and to address weaknesses relating to the submission of expenditure records by clients. There was also scope for improving performance monitoring and management arrangements.
Additional Support for Learning Education	**Substantial Assurance** Covered ASL arrangements at a sample of primary and secondary schools, focussing on compliance with procedures set out in the Council's ASL Handbook and Staged Intervention Model. Robust controls were in place, with schools visited found

Planned 2009/10 Audits Completed During Year to 31 March 2010	
Audit Area	**Scope and Outcome**
	to be applying the Council's ASL Handbook and Staged Intervention Model.
Community Learning Strategy and Community Education Community	**Substantial Assurance** Focussed on the Capacity Building and Youth Learning Teams. Covered compliance with legislation, strategy and guidance, the development and delivery of services in conjunction with partners, and arrangements for monitoring community learning and development provision and associated training. In general, sound systems of control were in place. There was, however, some scope for developing a formal Community Learning and Development Strategy and improving the Community Education Services Operating Plan. There was also a need to put in place more robust performance monitoring and management arrangements.
Utility Invoices and Payment Development	**Substantial Assurance** Covered roles and responsibilities, budgetary and financial controls, measures to monitor utility usage and cost, and the adequacy of management information. In general, sound controls were in place, with invoices paid on time and robust processing arrangements established. There was scope for putting in place Council-wide energy reduction targets and for ensuring that actual meter readings are always submitted to Energy Management Unit. There was also scope for ensuring that management information on energy consumption is provided to Services.
Overtime and Allowance Administration Central Scotland Fire and Rescue Service	As discussed and agreed with CSFRS management and presented to CSFRS Best Value and Scrutiny Committee.

Additional 2009/10 Audits Completed During Year to 31 March 2010	
Audit Area	**Scope and Outcome**

Additional 2009/10 Audits Completed During Year to 31 March 2010	
Audit Area	**Scope and Outcome**
Bed and Breakfast Arrangements

Corporate and Neighbourhood | **N/A – Undertaken as Consultancy**
Covered the management of placements and identification of accommodation, arrangements for monitoring the standard of accommodation, the adequacy of management information, and the validation and approval of invoices from providers.

There were a number of areas where further improvement was required. In particular, there was a need to review the continuing use of non-framework accommodation providers and for agreeing the approach to client visits and property inspections. There was also scope for improving invoice validation and approval arrangements. |
| Building Maintenance Division Hired Small Plant

Corporate and Neighbourhood | **Substantial Assurance**
Covered roles and responsibilities, policy and procedures, arrangements for the purchase, hire, allocation and disposal of small plant, storage and security, and budgetary and financial controls.

Sound controls were in place, although there was some scope for better monitoring of the internal availability of small plant, and for the checking and processing of invoices. |
| Intermediary Bank Accounts

Social Work | **N/A – Undertaken as Consultancy**
Covered the adequacy of procedural instructions, the accuracy of client transaction information, banking arrangements, and the security of funds and records.

There was scope for improving the framework of control. In particular, there was a need for the development and dissemination of procedural instructions, and for better segregation of duties between the collection, processing and banking of income and when incurring expenditure. |