FALKIRK COUNCIL

Subject:	**INTERNAL AUDIT PROGRESS REPORT**
Meeting:	**AUDIT COMMITTEE**
Date:	**24 March 2014**
Author:	**INTERNAL AUDIT MANAGER**

1. INTRODUCTION

1.1 The purpose of this paper is to update Members on progress with completing the agreed 2013/14 Internal Audit Plan (the Plan), as presented to Audit Committee on 25 March 2013.

1.2 The paper also provides an update on: Internal Audit performance; ad hoc / consultancy work; and recommendations outstanding.

2. AUDIT PROGRESS

2.1 Progress with completing planned 2013/14 Internal Audit work is summarised in the table below:

Review / Assignment Status	Number	%
Complete	18	72%
In Draft	2	8%
In Progress	3	12%
Not Started	2	8%
Total	**25**	**100%**

2.2 The target of completing 85% of the main Internal Audit programme will again be exceeded, with no significant adjustments to the Plan. **Appendix 1** lists each planned review / assignment and current status, along with the assurance level provided for those completed (see **Appendix 2** for definitions).

2.3 Key findings arising from completed reviews / assignments are set out at **Appendix 3** (Previously Reported to Committee) and **Appendix 4** (Not Previously Reported to Committee).

3. INTERNAL AUDIT PERFORMANCE

3.1 Performance against our established 5 Key Performance Indicators is as set out in the table below:

Key Performance Indicator	2013/14 - to date	2012/13	2011/12
Complete **85%** of main audit programme	**80%**	100%	100%
Have **90%** of recommendations accepted	**100%**	99%	99%
Spend **75%** of time on direct audit work	**77%**	78%	77%
Issue **75%** of draft reports within 3 weeks of completion of fieldwork	**95%**	96%	82%
Complete (to issue of final report) **75%** of main audits within budget	**83%**	87%	82%

3.2 As with previous years, performance against each indicator is as expected, and all will be met or exceeded.

4. INTERNAL AUDIT – AD HOC AND CONSULTANCY WORK

4.1 Members will recall that, as part of each Annual Plan, Internal Audit allocate a number of days to ad hoc and consultancy work. This allocation of days is intended to allow Internal Audit to: provide input into corporate working groups and initiatives; comment on draft policies and procedural guidance; respond to Service requests for advice on risk and control matters; and assist with the investigation of any instances of fraud / irregularity.

4.2 While a fixed number of days is allocated to this work, the reality is that Internal Audit seek to react and respond to all requests as promptly and professionally as possible. On that basis, the Section aims to strike a balance between the delivery of planned assurance work and the more reactive (and in many cases more time critical) ad hoc / consultancy work.

4.3 At the last meeting of the Audit Committee, Members requested that I provide some information on the types of ad hoc / consultancy work Internal Audit have been involved in during 2013/14. The following list, while far from exhaustive, seeks to give a flavour of the exercises, projects, and initiatives we have input into:

- regular or ad hoc attendance at, and input to, groups such as Corporate Management Team; Corporate Risk Management Group; the Fit Fleet Group; the Website Editorial Group; Corporate Asset Management Group; and the Social Work Homecare Real Time Monitoring Project Board;

- review and comment on various corporate strategies, policies, and guidance. Examples include the ICT Strategy; various HR Policies; Business Improvement Team Project Management documentation; Financial Regulations and Contract Standing Orders; Risk Management Strategy, Policy, and Guidance; and various Service Business Continuity Plans;

- input to, and attendance at, the annual Procurement Capability Assessment; and

- advice, guidance, and assistance in relation to various instances of theft, loss, or misappropriation.

4.4 Related to the final bullet point, work has started on the review and update of the Anti Fraud and Corruption Strategy. It had been my intention to bring an updated draft Strategy to this meeting, with the key driver for the review being the need to include reference to the relevant sections of the Bribery Act 2010 (as recommended by Audit Scotland in their 'Annual Report on the 2012/13 Audit').

4.5 I have delayed completing the draft, however, pending further clarity in a number of areas, particularly:

- the timing, role, and remit of the DWP Single Fraud Investigation Service. While the overall picture is beginning to crystallise, there remains a degree of uncertainty as to how this will impact on the potential to divert existing resource towards preventative corporate fraud work;

- the recently established Police Scotland Public Sector Counter Corruption Unit is working on an 'Integrity Model' aimed at assisting Local Authorities prevent and detect fraud and corruption; and

- the Scottish Government has recently established a Cross-Sector Counter Fraud Group, which includes Local Authority representation. One of the aims of this group is to identify areas of good practice in relation to counter fraud governance and practice.

4.6 While it is acknowledged that the existing Anti Fraud and Corruption Strategy remains in need of review and update (albeit it remains broadly fit for purpose), in my view it would be prudent to await further clarity in relation to the above three workstreams. On that basis, I would ask for Members' agreement that preparation and presentation of an updated Anti Fraud and Corruption Strategy be delayed until the 22 September meeting of this Committee.

4.7 In addition to the work highlighted above, Internal Audit have provided input to the ongoing corporate Business Transformation project. To date this has involved engaging with, and gathering information from, Services, and the subsequent review and analysis of that information. Further engagement with Corporate Management Team and with Services is currently underway to discuss and agree workstreams to be progressed on the basis of this first phase of work.

4.8 Internal Audit will retain an involvement in this project during 2014/15, and Business Transformation work will continue to be balanced and progressed alongside our other assurance and ad hoc / consultancy work.

5.   REPORTING OF RECOMMENDATIONS OUTSTANDING

5.1   Members will recall that, at the last meeting of the Audit Committee, it was agreed that reporting on Internal Audit recommendations outstanding should focus on:

- Recommendations where the Agreed Action Date has lapsed;
  AND
- Where no revised (and reasonable) Action Date has been agreed with managers;
  AND
- Where there is a clear and material link to one of the Council's seven agreed risk categories (ie financial; information; human resource; asset; change management; governance / accountability; or partnerships).

5.2   Since the last meeting of the Committee in December, much work has been done by Services in relation to progressing work on implementing recommendations. In some cases the recommendation has been implemented in full and in others a revised, future, implementation date has been agreed with Internal Audit.

5.3   At the time of writing this report a total of 58 recommendations are 'live', ie not implemented. In every case, however, the original implementation date has yet to lapse or a revised implementation date has been agreed.

5.4   On that basis, then, there are no specific areas of concern to report to Members or recommendations that I would wish to highlight. The much improved position, and the level of on-going dialogue with Services, confirms managers' commitment to implementing our recommendations and improving the Council's framework of internal control.

6.   RECOMMENDATIONS

6.1   Members are invited to:

6.1.1   note that good progress is being made with planned Internal Audit work;

6.1.2   note performance against KPIs, as reported at paragraph 3.1;

6.1.3   agree that an updated Anti Fraud and Corruption Strategy be presented to the 22 September meeting of this Committee; and

6.1.4   note that significant progress has been made by Services in implementing Internal Audit recommendations.

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Internal Audit Manager

Date: 13 March 2014

INTERNAL AUDIT PLAN 2013/14 – PROGRESS AT MARCH 2014

No.	Service/Status	Review / Assignment	Level of Assurance
		Reviews / Assignments Complete	
1.	Corporate and Neighbourhood	Fleet Management – Operator's Licence Requirements	Substantial
2.	Finance	Debtors	Substantial
3.	Governance	Records Management	Substantial
4.	Social Work	Clients' Funds / Intermediary Accounts	Limited
5.	All Services	Statutory Performance Indicator Verification	Substantial
6.	Social Work	Cash Spot Checks	Substantial
7.	All Services	Corporate Purchasing	Not Applicable [1]
8.	Development / Finance	Strategic Projects – Position Statement	Not Applicable
9.	All Services	Continuous Auditing	Not Applicable [2]
10.	All Services	Welfare Reform – Position Statement	Not Applicable
11.	Finance	General Services Capital Programme	Substantial
12.	Corporate and Neighbourhood / Finance	Chip and Pin and Paye.Net	Substantial
13.	Education	Site Key Control Testing (Head of Muir Primary School)	Limited
14.	All Services	Premises Managers' Handbook Compliance – Follow Up to Previous Work	Not Applicable
15.	All Services	Business Continuity Planning	Substantial
16.	Finance	Corporate Fraud – Ongoing Workstream	Not Applicable
17.	All Services	Serious Organised Crime – Ongoing Workstream	Not Applicable
18.	Falkirk Community Trust	Repairs and Maintenance / Library Acquisitions / Payroll	As reported to Trust Board
		Reviews / Assignments In Draft	
19.	Development	Reciprocal Review with West Lothian Council – Falkirk Council Carbon Management Arrangements	Not Applicable
20.	All Services	Data and Information Security – Governance and Practice	Not Applicable

[1] **NOTE** – Report issued 04 October 2013 covering period 01 April 2013 to 30 September 2013. A second report will be issued in April 2014, at which point a formal 'Level of Assurance' will be reported.

[2] **NOTE** – reporting is on an on-going basis. Focus is on analysis of transactions rather than provision of system assurance.

No.	Service/Status	Review / Assignment	Level of Assurance
	Reviews / Assignments In Progress		
21.	Social Work	Self Directed Support	Not Applicable
22.	All Services	National Fraud Initiative	Not Applicable
23.	Education	Premises Management Arrangements at Larbert High School [3]	Not Applicable
	Reviews / Assignments Not Started		
24.	Development	Falkirk Townscape Heritage Initiative	Not Applicable
25.	Internal Audit	Income Generation	Not Applicable

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[3] **NOTE** – This replaces the planned review of Education Services' Financial Governance and Management.

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.

REVIEWS / ASSIGNMENTS COMPLETE – SUMMARY OF KEY FINDINGS
2013/14

(Previously Reported to Audit Committee)

No	Review / Assignment Area and Service	Assurance and Key Findings
1.	Fleet Management – Operator's Licence Requirements Corporate and Neighbourhood Services	**Substantial Assurance** Covered arrangements for ensuring compliance with the conditions attached to the Standard National Goods Vehicle Operator's Licence granted to Falkirk Council in August 1995. In general, adequate arrangements were in place. A robust vehicle servicing and maintenance programme has been developed, with all vehicles covered by the Licence subject to regular inspection. We did, however, note scope for improving: training for drivers, Service Transport Officers, and line managers; risk management; first use vehicle checks; line manager sample checking; driver infringement reports; and management information.
2.	Debtors Finance Services	**Substantial Assurance** Covered controls over the identification, input, and authorisation of debtor information on Integra; arrangements for recording payments; debt management, arrears, and write-offs; reconciliations; and management information. Sound systems of control were in place, with clear roles, responsibilities, and guidance. There was some scope for further improving system access and administration; authorised signatory lists; debt-write off and recovery arrangements; and performance information.
3.	Records Management Governance	**Substantial Assurance** Covered arrangements for ensuring an effective records management function, focussing on compliance with the Public Records (Scotland) Act 2011. We found that work in relation to the six compulsory elements of the Act was substantively complete, with work planned to address any remaining outstanding areas. Of the remaining eight, non-compulsory, elements, we noted that there were several where improvements are planned or in progress. In overall terms, however, we found that the Records Management Plan submitted to the Keeper of the Records of Scotland complied, in general terms, with the requirements of the Act.

No	Review / Assignment Area and Service	Assurance and Key Findings
4.	Clients' Funds / Intermediary Accounts Social Work Services	**Limited Assurance** Covered policies, procedures, and guidance; financial and operational controls; the security and retention of clients' funds records; and the production of management information. Internal Audit visited Brockville, Camelon, and Grangemouth Area Offices to review local arrangements. While we noted that operational guidance had recently been updated and that training had taken place, there remained a number of weaknesses. In particular, we made recommendations in relation to criteria for appointeeship; the application of segregation of duties; management checks; reconciliations and record keeping; reviewing account balances; and management information.
5.	Statutory Performance Indicator Verification 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.	Cash Spot Checks Social Work Services	**Substantial Assurance** We reviewed procedures for the receipt, recording, and reconciliation of cash (imprest, donations, and client funds) at Torwoodhall and Grahamston House Care Homes, and at Caledonia Clubhouse. While arrangements were generally sound, we made a number of recommendations relating to security and record keeping.
7.	Corporate Purchasing All Services	**Level of Assurance To Be Confirmed in April 2014** On a weekly basis Internal Audit reviews a sample of payments of greater than £10,000 to assess compliance with Financial Regulations and Contract Standing Orders. All sampled payments are checked to ensure that a contracted supplier has been used. Where this is not the case, Internal Audit contact the 'authorising officer' to confirm whether the appropriate quotation / tendering exercise was undertaken. To date, we have found there to be broad compliance with Financial Regulations and Contract Standing Orders when procuring goods and services. An interim report on our findings was issued to management in October 2013. We will continue to undertake weekly sample checking, with a view to issuing a final report, incorporating a formal 'level of assurance', in April 2014.

No	Review / Assignment Area and Service	Assurance and Key Findings
8.	Strategic Projects – Position Statement Development / Finance Services	**Not Applicable – Position Statement** Internal Audit has maintained an oversight role in relation to strategic projects, focussing on the Tax Incremental Finance project. We noted that significant work had been undertaken to satisfy the requirements of the Scottish Government's terms and conditions of approval, and to put in place governance and management structures. In the short term, the TIF Delivery Team need to ensure that a full risk register is maintained to allow robust risk reporting to the TIF Steering Group and TIF Executive. In addition, it is important that the programme of meetings with the Scottish Futures Trust and Scottish Government is maintained. Internal Audit will continue to monitor progress, and will include review of ongoing arrangements for monitoring, measuring, governance, and reporting in future Internal Audit Plans.
9.	Continuous Auditing All Services	**Not Applicable – Ongoing Reporting and Assurance** To date, work has focussed on: • creditors duplicate payments; • supplier database – data cleansing; • overtime payments; • finance system access control; • debtor analysis (feeding into Review of Debtors); • VAT registration number / post code validity; • Scottish Welfare Fund; and • taxi operator licences. Various reports have been issued and, in the main, these continue to provide positive assurance on transactional processes. As with previous years, a number of duplicate creditors payments have been identified (totalling c£35k for 2013/14 to date) – action has been taken (or is being taken) to recover these amounts (either by credit note or refund).
10.	Welfare Reform – Position Statement Corporate and Neighbourhood / Finance Services	**Not Applicable – Position Statement** Internal Audit has maintained an oversight role in relation to Welfare Reform planning and change management. This includes governance arrangements (via the Welfare Reform Governance Group), risk management, and the associated operational work programme. A Welfare Reform Project Manager (PM) has recently been appointed. The PM will further develop and improve monitoring and reporting, project risk management, and project planning arrangements. Much work has been undertaken to satisfy the requirements of the Welfare Reform Change Programme set by the Department for Work and Pensions. The implementation of welfare reforms is, however, an ongoing process, and Internal Audit will continue to allocate resource to the project in future Internal Audit Plans.

**REVIEWS / ASSIGNMENTS COMPLETE – SUMMARY OF KEY FINDINGS
2013/14**

(NOT Previously Reported to Audit Committee)

No	Review / Assignment Area and Service	Assurance and Key Findings
1.	General Services Capital Programme Finance Services	**Substantial Assurance** Focussed on roles, responsibilities, policies, and procedures; the efficiency and effectiveness of the capital bid and decision making process; budget monitoring and payment arrangements; and management information. In general, we found that sound systems of control were in place. Capital Section were involved at all stages of the management and co-ordination of the programme, with guidance and a programme timetable in place. There was some scope for improvement in relation to bid sheet completion and submission, agreement of the bid scoring matrix, and the recording and monitoring of expenditure information.
2.	Corporate Payment System – Chip and Pin / Paye.Net Finance Services	**Substantial Assurance** Internal Audit reviewed system documentation, training, and guidance; roles and responsibilities; physical and environmental controls; data and information management and security; and business continuity arrangements, in relation to the Chip and Pin / Paye.Net system. Visits were made to seven sites using the Paye.Net system and, at each, good controls were in place. The Paye.Net system replaces the previous 'Streamline' system – we recommended that the exercise to replace all Streamline devices with Paye.Net is completed as soon as possible. We also recommended that a formal and comprehensive business continuity (and recovery) plan is prepared for Paye.Net.
3.	Site Key Control Testing – Head of Muir Primary School Education Services	**Limited Assurance** Internal Audit visited Head of Muir Primary School to review Premises Management and financial arrangements. This included visitor arrangements, security, fire safety, health and safety, maintenance, inventory, first aid provision, risk management, business continuity, budget monitoring, ordering of and payment for goods and services, and income collection and recording. While we found there to be a number of areas of good practice, we did identify scope for improvement in relation to: visitors; fire alarm arrangements; CCTV; the opening, closing, and inspection of premises; business continuity plan testing; income handling; segregation of duties; and school meals income.

No	Review / Assignment Area and Service	Assurance and Key Findings
4.	Premises Managers' Handbook Compliance All Services	**Not Applicable – Undertaken as Follow Up to Previous Work** This review followed on from an initial audit undertaken in August 2012. Our 2014 work focussed on visits to a sample of seven premises, to assess the extent to which Annual Statement of Assurance (SoA) returns reconciled to actual supporting documentation. In summary, we found there to be discrepancies between the SoA return and actual supporting documentation at six of the seven premises visited.
5.	Business Continuity Planning Development / All Services	**Substantial Assurance** Focussed on overarching corporate arrangements for establishing business continuity and recovery plans; the adequacy of guidance and training for staff; and arrangements for testing the adequacy and robustness of documented plans. The Council's Business Continuity Management Policy is in the process of being approved. In addition, significant work is ongoing to update Service business continuity plans and to put in place guidance and training for staff. While no testing of updated plans has yet been undertaken, this has been programmed in and will be a key element of the rolling business continuity plan review and update process.
6.	Corporate Fraud Finance Services	**Not Applicable – Ongoing Workstream** Internal Audit continues to work with colleagues in Finance – Revenues and Benefits to consider and scope out the potential for the establishment of a Corporate Fraud Team. This will, to some extent, depend on the roll out of the DWP Single Fraud Investigation Service, as well as issues arising via other national initiatives, such as the recent formation of the Scottish Government Cross-Sector Counter Fraud Group and guidance from the new Police Scotland Public Sector Counter Corruption Unit. This workstream will be rolled forward into the 2014/15 Internal Audit Plan.

No	Review / Assignment Area and Service	Assurance and Key Findings
7.	Serious Organised Crime All Services	**Not Applicable – Ongoing Workstream** The Internal Audit Manager acts as Falkirk Council's Single Point of Contact with Police Scotland in relation to Serious Organised Crime (SOC). Actions undertaken over the course of 2013/14 include: • continued involvement with the Divert / Deter sub-Group of the Scottish Government's SOC Taskforce; • co-ordinating the Council's response to Divert / Deter actions delegated to SOLACE within the SOC Taskforce Implementation Plan; • running a SOC related desktop business continuity planning exercise with CMT, in conjunction with Police Scotland; and • delivering a presentation at the national launch of the Police Scotland Public Sector Counter Corruption Unit on our approach to auditing SOC readiness. In addition, the approach developed by Falkirk Council Internal Audit in relation to the risks associated with SOC has been adopted by the SOC Taskforce for roll out across all other Scottish Local Authorities.
8.	Repairs and Maintenance / Library Acquisitions / Payroll Falkirk Community Trust	**Not Applicable** As reported to Falkirk Community Trust Audit and Performance Sub-Group.