



## **Agenda Item 6**

# **Internal Audit Plan 2017/18**

**Falkirk Council**

**Title: Internal Audit Plan 2017/18**

**Meeting: Audit Committee**

**Date: 13 March 2017**

**Submitted By: Internal Audit Manager**

**1. Purpose of Report**

1.1 This report proposes a Falkirk Council Internal Audit Plan for 2017/18 and seeks Committee's approval of that Plan.

1.2 It also provides information about the development of an Internal Audit joint working arrangement with Clackmannanshire Council.

**2. Recommendation**

**2.1 It is recommended that Audit Committee:**

- **agrees the proposed Falkirk Council Internal Audit Plan 2017/18; and**
- **notes work undertaken to date to develop the joint working arrangement with Clackmannanshire Council and that this will be implemented on a pilot basis for 2017/18.**

**3. Background**

3.1 The Public Sector Internal Audit Standards 2013 (PSIAS) require the preparation of a risk based Internal Audit Plan setting out the section's annual work programme. For 2017/18, this has been done within the context of a joint working arrangement with Clackmannanshire Council.

3.2 The opportunity to develop a joint working arrangement (and formal Joint Working Agreement) with Clackmannanshire Council has arisen due to vacancies within their team. Entering into such an arrangement would present benefits and risks to both Councils and, as a result, is initially presented on the basis of a 12 month pilot.

**4. Falkirk Council Internal Audit Plan – Internal Audit Resources**

4.1 To provide a balanced and evidence based opinion to Members on the adequacy of the Council's arrangements for risk management, governance, and control, the Internal Audit team must be adequately resourced, experienced, qualified, and knowledgeable.

- 4.2 All Internal Audit staff are qualified, and all have an excellent knowledge of the Council and the changing environment within which the Council operates.
- 4.3 Over the course of 2017/18 the team may have the opportunity to further develop their breadth of experience, via the joint working arrangement with Clackmannanshire Council (see Section 6 of this report).
- 4.4 As part of this arrangement, the 2017/18 Internal Audit Plans of both Councils will be closely aligned, focussing on key risks and key financial controls. This joined up approach provides efficiencies in the planning of reviews while also allowing both Councils' newly appointed External Auditors to place reliance on Internal Audit work.
- 4.5 On that basis, time will be allocated as follows:

<b>Activity</b>	<b>Planned Days</b>
Direct Internal Audit Time	450
Consultancy Work	100
Work on Recommendations Outstanding	5
<b>Total Direct Internal Audit Activity</b>	<b>555</b>

- 4.6 The allocation of days to Consultancy work is particularly important. As the Council's environment and working practices change, the need to balance sound but proportionate control with streamlined and efficient systems becomes more evident. The Consultancy days allow Internal Audit to, for example, provide input into corporate projects and working groups; provide advice on guidance and controls; and deliver short-term assignments requested by Services. The outputs from this work form an important element of the opinion we provide to Members on the Council's framework of control.

## **5. Planned Internal Audit Work, Development of Falkirk Council Internal Audit Plan, and Reporting Arrangements**

- 5.1 Details of individual assignments to be undertaken during 2017/18 are set out at Appendix 1.
- 5.2 As required by PSIAS, this 2017/18 Plan has been developed taking account of key financial and other risks. This has been done by:
- reviewing high and medium risks and the associated Assurance Map (which maps sources of internal and external assurance against each corporate risk);
  - consulting with senior managers; and
  - considering our Internal Audit Needs Assessment model.

- 5.3 For those assignments listed at Appendix 1, a more detailed Terms of Reference will be agreed with the relevant Chief Officer prior to the commencement of fieldwork. This will set out key risks, and the scope of work to be undertaken.
- 5.4 On completion of each assignment, Internal Audit will issue a draft report to the relevant manager. In most cases, this will include an opinion on the adequacy of risk management, governance, and control arrangements in the area under review, and an action plan setting out any recommendations for improvement. The assurance will be provided in line with the definitions set out at Appendix 2.
- 5.5 In some cases no overall assurance will be provided. This may be the case where, for example, Internal Audit undertake work in relation to a developing system or emerging risk and issue a Position Statement rather than a full report (although recommendations may still be raised).
- 5.6 Where Internal Audit make recommendations, Service managers will be required to provide formal responses (including action dates). The report and completed action plan will then form the final record of the assignment, with the implementation of recommendations monitored via the Covalent system.
- 5.7 Progress with completing the 2017/18 Internal Audit Plan will be reported to Members throughout the year. Progress Reports will summarise findings arising from each completed assignment, as well as recommendations that remain outstanding beyond their agreed implementation date.
- 5.8 On an annual basis, an Internal Audit Annual Assurance Report will be presented to Members. This will give an overall opinion on the Council's risk management, governance, and control arrangements, based on Internal Audit work carried out over the course of the year.

## **6. Internal Audit Joint Working Arrangement with Clackmannanshire Council**

- 6.1 During 2016/17 Clackmannanshire Council's Internal Audit Manager left to take up a post elsewhere, and two other members of their team expressed an interest in leaving on a voluntary basis. One Internal Audit Officer remains in post.
- 6.2 The Local Authority Accounting (Scotland) Regulations 2014 require a Local Authority to operate a professional and objective Internal Auditing service in accordance with recognised standards and practices in relation to Internal Auditing (that is, in compliance with PSIAS).
- 6.3 On that basis, Officers of Clackmannanshire Council considered various alternative delivery models, including the appointment of an external firm to provide Internal Audit services.

- 6.4 Rather than recruit into vacant posts, or appoint a private firm, Officers of Clackmannanshire Council expressed an interest in engaging with Falkirk Council to provide Internal Audit services on the basis of a joint working arrangement. The key drivers for this were:
- financial: the need to seek efficiencies within the context of pressure on revenue budgets; and
  - operational: to seek a wider perspective on the Council's control environment.
- 6.5 Falkirk Council's Internal Audit Manager and Clackmannanshire Council's Head of Resources and Governance (in conjunction with both Councils' Legal Services teams) have worked closely to develop a Joint Working Agreement (JWA) that defines the terms of a jointly delivered service and offers advantages to both Councils. Falkirk Council's role would be to provide, from 01 April 2017, management and supplemental resource to deliver, in conjunction with Clackmannanshire's Internal Audit Officer, a programme of risk based Internal Audit reviews. There would also be input to the delivery of Internal Audit services to Central Scotland Valuation Joint Board. A total of 186 days of auditor time, plus 70 days of Internal Audit Manager time, will be used to deliver this service to Clackmannanshire Council and to Central Scotland Valuation Joint Board.
- 6.6 The JWA has been drafted on the basis of an initial 12 month pilot, with evaluation (against various critical success factors) undertaken after 6 months to assess whether there might be scope for extending the Agreement for a longer period.
- 6.7 From Falkirk Council's perspective there are various advantages of progressing with the joint working arrangement. These include:
- it provides a new income stream for the Council. For 2017/18 this is likely to be in the region of £90,000;
  - the opportunity for members of the team to learn and develop across a wider set of client organisations, and to apply that within Falkirk Council;
  - exposure to different systems and ways of working;
  - streamlining of assignment planning. By closely aligning Internal Audit Plans both Councils will benefit from time (and, therefore, resource) savings at the assignment planning stage; and
  - in the longer term there would be greater resilience in the delivery of services via access to a pool of Falkirk and Clackmannanshire Council Internal Audit staff and other resource.

- 6.8 Clearly there are also risks in entering such an arrangement. The key risk to Falkirk Council is that pressure on resource compromises delivery of the Falkirk Council Internal Audit Plan. There are two key mitigating controls in place to help minimise this risk:
- the JWA has been framed in a way that allows either party to terminate the Agreement at one month's notice, even if there is no breach; and
  - there is scope for filling, on a temporary or seconded basis, an Internal Audit Assistant post that is currently vacant.
- 6.9 Updates on implementation, and evaluation of the success of the pilot, will be included within Internal Audit Progress Reports throughout the year.

## **7. Implications**

### **Financial**

- 7.1 The Internal Audit joint working arrangement with Clackmannanshire Council will generate a further income stream.

### **Resources**

- 7.2 Falkirk Council's Internal Audit section will provide management and supplemental resource to deliver a programme of risk based Internal Audit reviews at Clackmannanshire Council, in conjunction with that Council's Internal Audit Officer.

### **Legal**

- 7.3 There are no legal implications.

### **Risk**

- 7.4 The role of Internal Audit is to provide Members with assurance on the Council's arrangements for risk management, governance, and control. Recommendations made by Internal Audit aim to reduce or mitigate risk to which the Council may be exposed.
- 7.5 The Internal Audit joint working arrangement with Clackmannanshire Council will require to be carefully managed and monitored to minimise any risk to completion of either Council's Internal Audit Plan.

### **Equalities**

- 7.6 An equality and poverty impact assessment was not required.

### **Sustainability / Environmental Impact**

- 7.7 A sustainability / environmental assessment was not required.

## **8. Conclusions**

- 8.1 The programme of work set out in this Internal Audit Plan 2017/18 will allow Internal Audit to provide a balanced and evidenced based assurance to Members on the Council's arrangements for risk management, governance, and control.
- 8.2 The opportunity to establish an Internal Audit joint working arrangement with Clackmannanshire Council brings both risk and opportunity. It does, however, generate income for Falkirk Council. It also allows members of the team to learn and develop within a different working environment, and to suggest and implement lessons learned based on that experience. Mitigating controls are in place to minimise the risk to completion of planned Internal Audit work.

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Internal Audit Manager

**Author:** Gordon O'Connor, Internal Audit Manager, 01324 506339  
gordon.oconnor@falkirk.gov.uk

**Date:** 3 March 2017

## **APPENDICES**

- Appendix 1 – Assignments Planned for Period April 2017 to March 2018.

### **List of Background Papers:**

**The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act 1973:**

- None.

## ASSIGNMENTS PLANNED FOR PERIOD APRIL 2017 TO MARCH 2018

No.	Service	Purpose and Scope of Assignment
A1	Corporate and Housing / All Services	<p><b>Payroll Transactional Testing</b> We will focus on testing a sample of new starts, payroll related changes, and leavers.</p> <p>This will include the accuracy and timeliness of processing, the authorisation of payroll related changes, and the adequacy of management information.</p>
A2	Corporate and Housing / All Services	<p><b>Recruitment and Selection</b> This review will cover the recruitment of permanent, temporary, and casual staff, from identification of need through to signing of contract of employment.</p> <p>The sample reviewed will include individuals recruited both internally and externally, and will consider the arrangements that have been established to undertake pre-employment checks.</p>
A3	Corporate and Housing	<p><b>Housing Revenue Account – Key Controls</b> The Housing (Scotland) Act 1987 sets out the requirement for Local Authorities to maintain a dedicated Housing Revenue Account (HRA) in relation to their housing stock. In 2014, the Scottish Government supplemented this with the issue of ‘Guidance on the Operation of Local Authority HRAs in Scotland’.</p> <p>Internal Audit will review arrangements established to ensure compliance with the ‘Key Principles’ set out in this Guidance.</p>
A4	All Services	<p><b>Council of the Future – Assurance Role</b> Internal Audit will focus on high level governance and management arrangements, and the regime of progress reporting through the Council of the Future (COTF) Board and to Members.</p> <p>We will also review a sample of specific projects being taken forward as part of the COTF programme. This work will focus on the robustness of project plans, and on arrangements for tracking and reporting on progress against these.</p>
A5	Corporate and Housing / All Services	<p><b>Sundry Debtors</b> We will review arrangements for the identification, invoicing, and collection of sundry debts.</p> <p>This will focus on the framework of policies and procedures that govern the Council’s approach to debt management, collection, monitoring, and write off, as well as transactional testing to assess the effectiveness of these arrangements.</p>

No.	Service	Purpose and Scope of Assignment
A6	Corporate and Housing / All Services	<p><b>Procurement / Contract Monitoring</b> Internal Audit will undertake a review of procurement governance arrangements, encompassing roles, responsibilities, policies, and procedures. We will identify and assess controls established to ensure that these are reflected in operational practice.</p> <p>In particular, we will focus on systems for the ongoing monitoring of contracts, and for dealing with, and reporting on, any mid contract variations that arise.</p>
A7	Corporate and Housing	<p><b>Cyber Security</b> Internal Audit will assess controls established to manage cyber security risks.</p> <p>This will include review of policies, security standards, and associated procedures and guidance; cyber security roles and responsibilities; arrangements for communicating risks to staff; systems for the monitoring of, and reporting on, attempted cyber security attacks; and continuity and recovery plans should the Council fall victim to a cyber security breach.</p>
A8	Children's / Adult Social Work	<p><b>Public Protection (Children and Adults) - Governance</b> Internal Audit will review Public Protection governance arrangements. This will include strategy, policy and procedures, and arrangements for ensuring their practical application.</p> <p>In particular, we will review arrangements for partnership working (for example through information sharing protocols) and for the provision of meaningful management information and reports.</p>
A9	Development / Children's / Adult Social Work	<p><b>Social Care and Education Transport</b> This review will cover the arrangements established to transport users of social work services to and from their care setting and pupils with Additional Support Needs to and from school.</p> <p>We will focus on the process for procuring transport, and for the subsequent monitoring of service delivery. This will include arrangements established to assess the efficiency and effectiveness of service provision, as well as the extent to which transport provision meets the needs of service users.</p>
A10	All Services	<p><b>Code of Corporate Governance</b> This review will focus on the Council's overarching framework of corporate governance documents and practices, based on the principles set out in the CIPFA / SOLACE 'Delivering Good Governance in Local Government' Framework.</p>

No.	Service	Purpose and Scope of Assignment
A11	All Services	<p><b>Welfare Reform</b> To cover governance, planning, and change management, and arrangements for assessing and addressing the impact of reforms.</p>
A12	Corporate and Housing / Children's / Adult Social Work	<p><b>Procurement of Services from External Providers of Social Work Services</b> This will cover the procurement of services and subsequent contract monitoring and management. In particular, we will focus on arrangements for the checking of service user care packages, and that the costs of these packages match prices set out in contract pricing schedules.</p>
A13	All Services	<p><b>Follow Up of Internal Audit Recommendations</b> All recommendations made by Internal Audit will be uploaded to the Covalent system, with responsibility for implementing each recommendation allocated to the relevant manager.</p> <p>While Internal Audit will not follow up on the implementation of all recommendations, we have allocated time to the targeted follow up of a sample of these.</p>
A14	All Services	<p><b>Consultancy Work</b> The Internal Audit Charter is clear that the provision of ad hoc consultancy and advice to Services is a key element of Internal Audit's role.</p> <p>This time will be used to allow Internal Audit to: be involved in corporate projects and working groups; provide advice on guidance and controls; and deliver short term assignments requested by Services.</p>
A15	All Services	<p><b>National Fraud Initiative</b> The National Fraud Initiative (NFI) is a bi-ennial counter fraud exercise using data matching to identify potential fraud and error. In Scotland, the NFI is administered by Audit Scotland, with the results of the data matching exercise made available to individual Councils via a secure website.</p> <p>The Internal Audit Manager is 'key contact' for Falkirk Council.</p>
A16	All Services	<p><b>Continuous Auditing</b> The purpose of continuous auditing work is to consider, review, and test transactional systems on an ongoing basis.</p> <p>For 2017/18 this will focus on the testing of payments to suppliers of goods and services, with the aim of identifying and recovering any duplicate amounts paid.</p>
A17	To Be Confirmed	<p><b>Reciprocal Audit Review with West Lothian Council</b> West Lothian Council Internal Audit will undertake a review of an agreed Falkirk Council system, and vice versa.</p>

No.	Service	Purpose and Scope of Assignment
A18	Internal Audit	<p><b>External Quality Assessment – Participation in External Quality Assurance Programme</b></p> <p>This exercise has been deferred from 2016/17. Falkirk Council's Internal Audit section will be subject to External Quality Assessment (EQA). Five yearly EQA is required by the Public Sector Internal Audit Standards.</p> <p>The review will be undertaken by another Local Authority's Internal Audit Manager, and will require preparation and engagement on the part of Internal Audit.</p>
A19	All Services	<p><b>Falkirk Pension Fund</b></p> <p>Falkirk Council's Internal Audit Section provides Internal Audit Services to Falkirk Pension Fund. Coverage will be agreed with the Pensions Committee and Board, and will include transactional testing of new member contributions, transfer values, and pension payments.</p>
A20	Falkirk Integration Joint Board	<p><b>Falkirk Integration Joint Board</b></p> <p>The Chief Internal Auditor of NHS Forth Valley is fulfilling that role for the IJB for the three years from 01 April 2016. An IJB Internal Audit Plan for 2017/18 will be presented to the Board's Audit Committee in due course.</p> <p>Falkirk Council's Internal Audit Section will provide resource to support the IJB Chief Internal Auditor in discharging his duties.</p>
A21	Falkirk Community Trust	<p><b>Falkirk Community Trust</b></p> <p>To be determined and agreed with Trust management.</p>

## DEFINITION OF INTERNAL AUDIT ASSURANCE CATEGORIES

Level of Assurance	Definition
<b>Substantial Assurance</b>	Largely satisfactory risk, control, and governance systems are in place. There may be some scope for improvement as current arrangements may 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.