

The background of the slide features a large, light blue crest of the University of Victoria. The crest is a shield divided into four quadrants. The top-left quadrant shows a sailing ship on wavy lines representing water. The top-right quadrant shows a stag's head with large antlers. The bottom-left quadrant shows a cross with a smaller cross in the center. The bottom-right quadrant shows a bird with spread wings. Above the shield is a crown with four points, each topped with a flower. Below the shield is a banner with the text "ANNE FOR A'".

## **Agenda Item 4**

# **Internal Audit Progress Report**

**Falkirk Council**

**Title:** Internal Audit Progress Report  
**Meeting:** Audit Committee  
**Date:** 27 September 2018  
**Submitted By:** Internal Audit, Risk, and Corporate Fraud Manager

**1. Purpose of Report**

- 1.1 This report provides an update on progress with completing the 2018/19 Internal Audit Plan.

**2. Recommendation**

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

- (1) notes progress being made with completing the 2018/19 Internal Audit Plan; and**
- (2) agrees the revised set of Key Performance Indicators.**

**3. Progress With Completing 2018/19 Internal Audit Plan and Key Performance Indicators**

- 3.1 The Plan was agreed by Audit Committee on 09 April 2018. It set out 23 assignments to be completed by the team during the year.
- 3.2 An additional assignment, on Revenues and Benefits Data Handling and Bulk Mailing, was added to the Plan at the request of the Chief Finance Officer. This assignment has been completed and final report issued.
- 3.2 In addition, a review of the Council of the Future Board's scrutiny of programme and project progress has been added. This will be undertaken towards the end of 2018/19 on conclusion of the wider, ongoing, corporate review of Council of the Future Governance Arrangements.
- 3.3 To date, 6 assignments have been completed to final report stage. A further 8 are in progress or have been completed to draft report stage. A summary of progress is set out at Appendix 1. The scope and Executive Summary of each finalised report is at Appendix 2.
- 3.4 In recent years Internal Audit has measured performance using a set of 5 Key Performance Indicators. These are:
- Complete **85%** of agreed audits.
  - Have **90%** of recommendations accepted.

- Spend **75%** of time on direct audit work.
  - Issue **75%** of draft reports within 3 weeks of completion of fieldwork.
  - Complete (to issue of final report) **75%** of main audits within budget.
- 3.5 At the 18 June meeting of the Audit Committee, Members asked that I review this set of KPIs to ensure they remain fit for purpose. The commitment to review was also captured within the recent self assessment against Public Sector Internal Audit Standards (PSIAS).
- 3.6 To inform this assessment, I sought input from across the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG). Eighteen Chief Internal Auditors provided information on their Key Performance Indicators.
- 3.7 With one exception, all Councils have KPIs in place, generally between three and six separate measures of performance. Most Chief Internal Auditors stressed that the measures that they, and their Audit Committees, focus on relate to completion of the annual Internal Audit Plan, the prompt issue of draft reports to management, the acceptance by management of Internal Audit recommendations, and the Internal Audit section's compliance with PSIAS.
- 3.8 On that basis, I would propose that the existing 5 KPIs are replaced, as follows:
- Complete **85%** of agreed assignments;
  - Issue **85%** of draft reports within 3 weeks of completion of fieldwork;
  - Have **95%** of recommendations accepted by management; and
  - Demonstrate via annual self assessment that the section operates in compliance with PSIAS.
- 3.9 These are not a dramatic shift from the existing measures, but are more stretching, and focus on elements of performance that are directly within the control of Internal Audit.
- 3.10 The recent peer review, by the Scottish Prison Service, of Internal Audit's compliance with PSIAS also made recommendations relating to the grading of recommendations and the practice of seeking feedback from management after each audit assignment. I have sought input from across the SLACIAG group on these issues too, and will progress them separately.

## **4. Implications**

### **Financial**

- 4.1 There are no financial implications.

### **Resources**

- 4.2 There are no resource implications.

### **Legal**

- 4.3 There are no legal implications.

## **Risk**

- 4.4 The role of Internal Audit is to provide Audit Committee 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.

## **Equalities**

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

## **Sustainability/Environmental Impact**

- 4.6 A sustainability / environmental assessment was not required.

## **5. Conclusions**

- 5.1 The team are making good progress with 2018/19 Internal Audit work. This will contribute to a balanced and evidenced based year end opinion on arrangements for risk management, governance, and control. The revised Key Performance Indicators will allow Internal Audit to more meaningfully monitor performance.

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Internal Audit, Risk, and Corporate Fraud Manager

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**Date:** 04 September 2018

## **APPENDICES**

- Appendix 1: Internal Audit Plan: Progress at 04 September 2018
- Appendix 2: Summary of Findings from Assignments Complete to Final Report
- Appendix 3: Definition of Internal Audit Assurance Categories

## **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.

## INTERNAL AUDIT PLAN 2018/19 – PROGRESS AT 04 SEPTEMBER 2018

Planned Assignments (as per 2018/19 Internal Audit Plan)			
	Service	Assignment	Status
<b>Annually Recurring Assignments</b>			
1.	All Services	Ad Hoc / Consultancy Work	In Progress - Ongoing
2.	All Services	Continuous Auditing	In Progress – Ongoing <sup>1</sup>
3.	All Services	National Fraud Initiative	In Progress - Ongoing
4.	All Services	Follow Up of Internal Audit Recommendations	In Progress - Ongoing
5.	Development Services	LEADER Grant Audit	In Progress
6.	Development Services	Carbon Reduction scheme Energy Efficiency Audit	Final Report Issued – Substantial Assurance
7.	Development Services	Climate Change Act Public Body Duties Audit	Not Started
8.	Development Services	Falkirk Townscape Heritage Initiative Audit	In Progress
9.	TBC	Reciprocal Audit Review with West Lothian Council	Not Started
10.	Internal Audit	External Quality Assessment of Internal Audit Compliance with Public Sector Internal Audit Standards	Final Report Issued – Broadly Compliant with PSIAS
11.	Falkirk Pension Fund	Transactional Testing and Pension Fund Investment Management	Not Started
12.	Falkirk Integration Joint Board	To Be Confirmed	Not Started
13.	Falkirk Community Trust	<ul style="list-style-type: none"> <li>Building Security</li> <li>Second Review TBC</li> </ul>	<ul style="list-style-type: none"> <li>Final Report Issued - Substantial Assurance</li> <li>Not Started</li> </ul>
<b>Committed Assignments – April 2018 to September 2018</b>			
14.	All Services	Welfare Reform	In Progress
15.	Corporate and Housing / All Services	GDPR Readiness	Final Report Issued – Substantial Assurance

<sup>1</sup> Findings to date included at Appendix 2.

Planned Assignments (as per 2018/19 Internal Audit Plan)			
	Service	Assignment	Status
<b>Annually Recurring Assignments</b>			
16.	Corporate and Housing / All Services	Capital Planning and Expenditure Monitoring	<b>Draft Report Issued</b>
17.	All Services	Building Security (Operational Buildings)	<b>Final Report Issued</b> – Limited Assurance
18.	Children's Services	Pupil Equity Fund	Not Started
<b>Indicative Assignments – October 2018 to March 2019</b>			
19.	Corporate and Housing / Development Services	Stores (Building Maintenance Division / Roads)	Not Started
20.	Development / All Services	PREVENT (Counter Terrorism) and Serious Organised Crime Readiness	Not Started
21.	Social Work Adult Services	Social Work Adult Services Financial Procedures	Not Started
22.	Corporate and Housing / All Services	Insurance (Claims Process and Lessons Learnt)	Not Started
23.	Children's Services	Implementation of Headteachers' Charter	Not Started

Additional Assignments			
	Service	Assignment	Status
1.	Corporate and Housing	Revenues and Benefits Data Handling / Bulk Mailing	<b>Final Report Issued</b> – Substantial Assurance
2.	Corporate and Housing	Council of the Future Board – Scrutiny of Programme and Project Progress	Not Started

## Summary Of Key Findings Arising From Assignments Complete to Final Report

Assignment	Service	Assurance
Continuous Auditing	All Services	N/A – Ongoing Assurance
Scope	Final Report Executive Summary	
<p>This involves analysing Creditors payment file data (payments to suppliers of goods and services) to identify any potential duplicate payments.</p> <p>We use audit interrogation software to identify any matches on invoice date, invoice amount, and invoice number. We then check our initial results on Integra to identify any cancelled payments; payments made to different suppliers; and duplicate payments that have already been identified and either cancelled or monies recovered. We also review the scanned version of the invoices on Integra.</p>	<p>For the period April 2018 to June 2018 we identified 16 potential duplicate payments, with a value c£23,000. Details of these have been passed to Accountancy Services for appropriate recovery action.</p>	

Assignment	Service	Assurance
Carbon Reduction Scheme Energy Efficiency Audit	Development Services	Substantial
Scope	Final Report Executive Summary	
<p>Work focussed on ensuring that the Council:</p> <ul style="list-style-type: none"> <li>Is discharging its statutory responsibilities and has effective controls in place to manage the implementation and operation of the scheme;</li> <li>Is able to submit its CO2 emissions annual report within the permitted tolerance for accuracy and has appropriate processes to collect, collate, and maintain energy consumption data;</li> <li>Has appropriate financial activities, processes, and controls to purchase and surrender allowances in accordance with statutory requirements; and</li> <li>Has sufficient evidence to demonstrate regulatory compliance.</li> </ul>	<p>We were content that roles, responsibilities, and risks were well understood, and that up to date procedural instructions were in place. The annual report was submitted on time. We tested reported data for a sample of properties to ensure it reconciled to Systems Link and, other than a few minor queries, we were content that this was the case.</p> <p>We were also content that the Council had in place arrangements to ensure that sufficient allowances were in place to cover the level of emissions reported.</p> <p>The evidence pack maintained to demonstrate compliance with carbon reduction commitments contained all mandatory evidence and was appropriately structured.</p>	

Assignment	Service	Assurance
<b>Internal Audit: External Quality Assessment</b>	Corporate and Housing	<b>Broadly Compliant with PSIAS</b>
Scope	Final Report Executive Summary	
<p>Internal Audit seeks to operate in compliance with the Public Sector Internal Audit Standards (PSIAS). One of the requirements of PSIAS is that the Internal Audit Manager develops a Quality Assurance and Improvement Programme (QAIP) to enable evaluation of the section's conformance with PSIAS.</p> <p>The QAIP must include annual self assessments and five yearly independent external assessment.</p> <p>The Internal Audit Manager undertook a self assessment against PSIAS in early 2018. This concluded that the section was broadly compliant with PSIAS.</p> <p>To fulfil the requirement for five yearly external assessment, the Scottish Prison Service's (SPS) Head of Audit and Assurance has undertaken an independent validation of this self assessment.</p>	<p>Our review of the Falkirk Council (FC) Internal Audit (IA) PSIAS self-assessment concluded, in line with the self-assessment itself (undertaken by FC's Internal Audit Manager), that FCIA is broadly compliant with PSIAS.</p> <p>The quality of the FCIA self-assessment was sound, and was predicated on the Scottish Local Authorities Chief Internal Auditor Group (SLACIAG) checklist devised specifically for PSIAS compliance self-assessment. Sufficient evidence was collated and included on the self-assessment file to corroborate and validate questionnaire responses.</p> <p>Matters arising from the FCIA self-assessment have been incorporated by them in an action plan, the completion of which will result in FCIA being closer to full compliance with PSIAS. The nature of the actions relate more to continuously improving FCIA practice and approach than dealing with material non-compliance with PSIAS.</p> <p>Interviews with stakeholders provided information that was largely consistent with the FCIA self-assessment and, where appropriate, those perspectives have informed the content of this report.</p> <p>In this report we make 4 recommendations that we believe will lead to better compliance with PSIAS and help to ensure that actions to improve are followed up.</p>	

Assignment	Service	Assurance
<b>Falkirk Community Trust – Building Security</b>	Falkirk Community Trust	<b>Substantial</b>
Scope	Final Report Executive Summary	
<p>The purpose of this review was to evaluate and report on the adequacy of the controls in place to ensure that Falkirk Community Trust's operational buildings, and the contents therein, are secure.</p>	<p>To be reported to the Audit and Performance Sub-Group in due course.</p>	



Assignment	Service	Assurance
GDPR Readiness	Corporate and Housing / All Services	Substantial
Scope	Final Report Executive Summary	
<p>We reviewed:</p> <ul style="list-style-type: none"> <li>the clarity of accountability arrangements and roles and responsibilities, including the role of the Information Management Working Group;</li> <li>overall project planning and management arrangements, including the reporting of progress with the GDPR action plan; and</li> <li>communications and awareness raising, including the availability of Council wide guidance and training.</li> </ul>	<p>In relation to roles, responsibilities, and accountability arrangements we were, in general, content. A Data Protection Officer was appointed by the Council on 09 May 2018 and the Information Management Working Group (IMWG) is overseeing the Council's preparations for GDPR. There have been progress reports to the Corporate Risk Management Group, Corporate Management Team, and to the Executive.</p> <p>An updated Data Protection Policy was approved by the Executive on 15 May 2018 to reflect the implementation of GDPR, and this includes the Council's ten core commitments on data protection. There are not yet arrangements in place to assess whether these commitments have been achieved, and we have recommended that this is addressed.</p> <p>The overall project planning and management arrangements were robust. An action plan for the implementation of GDPR has been developed, and is regularly updated by the Information Governance Manager. This is overseen by the IMWG. The action plan does not include target implementation dates for incomplete tasks, and we have recommended that these are added.</p> <p>There have been a range of actions taken to raise awareness of GDPR within the Council. Comprehensive guidance has been prepared and training sessions held for employees. Elected members have still to receive GDPR training, and we have recommended that this is held as soon as is feasible.</p>	

Assignment	Service	Assurance
Building Security	All Services	Limited
Scope	Final Report Executive Summary	
<p>The purpose of this review was to evaluate and report on the adequacy of the controls in place to ensure that Falkirk Council's operational buildings, and the contents therein, are secure.</p>	<p>We undertook unannounced visits to a sample of nine operational buildings and reviewed the physical security measures in place at each building to prevent unauthorised access. Particular emphasis was placed on buildings in which vulnerable people (eg, pupils and elderly residents) and Council vehicles are located.</p> <p>Robust security measures were found to be in place to prevent and deter unauthorised access to the majority of the sampled buildings. These included, for example, a combination of two or more of the following controls:</p> <ul style="list-style-type: none"> <li>perimeter fencing around the building and its grounds;</li> <li>remote locking entry doors to the main reception area;</li> <li>locked and secure external doors (eg, fire exits and boiler room);</li> <li>CCTV cameras and intruder alarms.</li> </ul> <p>Based on the full sample of buildings visited, however, we could only provide Limited Assurance in relation to the adequacy of building security arrangements. We found there to be a number of significant weaknesses that require to be addressed, including:</p> <ul style="list-style-type: none"> <li>unauthorised entry was gained to three operational Council buildings, and an adjoining Council building, via fire exits which had been left ajar and / or a 'push button' door entry system. Only one of these buildings did not contain vulnerable persons (children and vulnerable adult service users);</li> <li>we were not challenged by staff once unauthorised entry had been gained to operational buildings (and their grounds) despite the absence of an ID or visitors badge, and trying to open classroom and vehicle doors at random; and</li> <li>unauthorised entry was gained to Council vehicles at a depot, with keys left in three of the unlocked and unattended vehicles.</li> </ul>	

Assignment	Service	Assurance
Revenues and Benefits Data Handling / Bulk Mailing	Corporate and Housing	Substantial
Scope	Final Report Executive Summary	
<p>We reviewed:</p> <ul style="list-style-type: none"> <li>the controls over each of the bulk mailing types, including operational roles and responsibilities, the documenting of procedures, and the adequacy of management checks;</li> <li>the controls over the use of email for bulk mailings; and</li> <li>the steps taken to ensure that all Revenues and Benefits staff are aware of their data handling responsibilities, including the availability of guidance and training.</li> </ul>	<p>Revenues and Benefits have made a number of changes to the bulk mailing arrangements recently and revised bulk mailing procedures are in place. This includes the introduction of an outgoing bulk mail control sheet that is used to ensure the number of bills / reminders / notifications that are initially printed agrees to the number that are subsequently prepared for posting. We tested these arrangements and confirmed they were operating effectively.</p> <p>The other main change to the process has involved amending the format of the bills and reminders to ensure they are two pages in length. We have recommended that this approach is applied to all bill and reminder types.</p> <p>We have also made recommendations about changing the format of the outgoing bulk mail control sheet, preparing written procedural instructions for the printing of bulk mailing types, and advising all Revenues and Benefits staff of the policy that under no circumstances should eMail be used for bulk mailings, unless under the explicit direction and supervision of the Benefits Manager, or Revenues and Benefits Manager.</p> <p>We also visited all five offices where Revenues and Benefits staff are based. We spoke to a range of Revenues and Benefits staff at each of these locations to determine their awareness of their data handling responsibilities and the data handling guidance and training they had received.</p> <p>We were content that Revenues and Benefits staff were able to describe the personal data they were handling or had access to; their responsibilities for ensuring this data is held securely; and the guidance and training that is available.</p> <p>A small number of Revenues and Benefits staff have yet to complete the Council's online Data Protection and Information Security 2018 training module. The Revenues and Benefits Manager has instructed all those staff to complete it as soon as possible. We have also recommended that all Revenues and Benefits staff are reminded of their responsibilities in relation to the Data Protection Principles; the steps to be taken by Revenues and Benefits to reduce the likelihood of any personal data breach; and that the contents of the Council's Data Protection Guidance is reiterated.</p>	

**Definition of Internal Audit Assurance Categories**

<b>Level of Assurance</b>	<b>Definition</b>
<b>Substantial assurance</b>	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or abuse.
<b>Limited assurance</b>	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or abuse.
<b>No assurance</b>	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or abuse is unacceptable. Significant improvements are required.