

FALKIRK COUNCIL

Subject: INTERNAL AUDIT PROGRESS REPORT
Meeting: AUDIT COMMITTEE
Date: 22 March 2010
Author: INTERNAL AUDIT MANAGER

1. INTRODUCTION

- 1.1 The purpose of this paper is to update Members on progress with completing the agreed 2009/10 Internal Audit Plan (the Plan), as presented to the Audit Committee on 03 April 2009. The report also includes information on Services' progress with implementing Internal Audit recommendations, as well as the Internal Audit Section's performance against established performance indicators.

2. AUDIT PROGRESS

- 2.1 Progress with completing 2009/10 Internal Audit work is summarised in the tables below, and set out in more detail at Appendix 1.

Status	Number	%
Final Reports Issued	16	70%
Draft Reports Issued	4	17%
Audits In Progress	3	13%
Audits Not Started	0	0%
Total	23	100%

Adjustments to Plan During 2009/10	
Audits Added During Year	3
Audits Deferred During Year	3

- 2.2 As is normal, and in line with shifting priorities and risks during the year, there have been a number of changes to Internal Audit work planned and undertaken during 2009/10.

- 2.3 In discussion and agreement with management, reviews of Bed and Breakfast Arrangements, Building Maintenance Hired Small Plant, and Social Work Intermediary Bank Accounts have replaced planned reviews of Following the Public Pound, Housing Allocations, and Development Management and Control.
- 2.4 Members should note that the reviews of Following the Public Pound and Housing Allocations will now be undertaken during 2010/11. The review of Development Management and Control has been deferred for a further year to allow self assessment, as part of the Public Sector Improvement Framework project, to be undertaken in this area during 2010/11.
- 2.5 In general, Internal Audit has been able to provide substantial assurance in relation to arrangements for risk management, governance and control in the areas reviewed (see Appendix 2 for definitions and Appendix 3 for key findings arising from each review completed to final report stage).
- 2.6 Where we have identified scope for improvement, in relation to either internal control or best value, action plans have been agreed with management, and we will monitor progress with implementing agreed action on an ongoing basis.
- 2.7 In addition to the 16 audits completed to final report stage, a further 4 reports have been issued in draft and are the subject of discussion with the relevant Services to agree action to address recommendations raised. A summary of key findings arising from these reviews, as well as those where work is in progress, will be included in my Annual Assurance Report to Members at the May meeting of this Committee.

3. INTERNAL AUDIT FOLLOW-UP WORK

- 3.1 Internal Audit continue to follow up recommendations made during 2008/09 and previous years.
- 3.2 At the November 2009 meeting of this Committee I reported to Members that Services were making good progress in implementing recommendations, and that action taken to address recommendations was continuing to have a positive impact on the efficiency and effectiveness of the control framework. I am content that this remains to be the case, and that there are no areas where implementation of recommendations has not been given the appropriate priority.
- 3.3 The follow-up of recommendations made in previous reports is now an embedded part of the audit process, with all Services aware that work to ensure implementation of agreed recommendations will be undertaken by Internal Audit and reported to this Committee, if appropriate.

4. INTERNAL AUDIT PERFORMANCE

- 4.1 Internal Audit continues to monitor its performance against a set of 5 Key Performance Indicators. The table below sets out performance to date.

Key Performance Indicator	2009/10 Performance to 15 March 2010	2008/09 Performance
Complete 85% of main audit programme:	87%	100%
Have 90% of recommendations accepted:	100%	99%
Spend 75% of time on direct audit work:	75%	79%
Issue 75% of draft reports within 3 weeks of completion of fieldwork:	85%	78%
Complete (to issue of final report) 75% of main audits within budget:	70%	70%

- 4.2 I am pleased that, in general, performance shows an improvement over 2008/09 and that out-turn performance will meet or exceed target for at least four of the five indicators. In particular, Members should note that Internal Audit are on target to complete all planned audits for the second consecutive year.
- 4.3 In my previous progress report to Members I highlighted examples of how we are working collaboratively with other organisations to improve our efficiency and to maximise the breadth of assurance that can be taken from Internal Audit work.
- 4.4 As Members will note from our 2010/11 Internal Audit Plan, it is my intention to continue to seek and fulfil opportunities for joined up working.
- 4.5 Most recently, this has involved collaboration with the Scottish Crime and Drug Enforcement Agency (SCDEA) in developing an approach for auditing Falkirk Council's arrangements for diverting, disrupting, deterring and detecting serious organised crime. Members should note that Falkirk Council Internal Audit is the first Scottish Local Authority Internal Audit section to seek to undertake such collaborative work with SCDEA.
- 4.6 Updates on current and future collaborative working exercises will be reported to Members throughout 2010/11.

5. RECOMMENDATIONS

5.1 Members are invited to note that:

5.1.1 progress being made in completing planned work is as reported at paragraph 2.1;

5.1.2 progress with work on following-up previous year recommendations is as reported at Section 3; and

5.1.3 performance against KPIs is as reported at paragraph 4.1.



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Internal Audit Manager

Date: 15 March 2010

2009/10 Internal Audit Plan – Progress at 15 March 2010

No	Service/Status	Audit	Level of Assurance
<i>Final Reports Issued</i>			
1.	Law and Administration	Mail Management	Substantial
2.	Community	Land and Asset Disposal	Substantial
3.	Corporate and Neighbourhood	Telecommunications	Substantial
4.	Various	Statutory Performance Indicators	N/A
5.	Social Work	Joint Loan Equipment Service	Limited
6.	Finance	Treasury Management	Comprehensive
7.	Education	Childcare and Early Years Services	Substantial
8.	Corporate and Neighbourhood	Legionella	No Assurance
9.	Finance / All Services	Overtime and Allowance Administration	Substantial / Limited
10.	Corporate and Neighbourhood	Bed and Breakfast Arrangements ¹	N/A
11.	Finance	Revenues IT Systems – Security and Management	Substantial
12.	Corporate and Neighbourhood	Building Maintenance Division Hired Small Plant ¹	Substantial
13.	Various	National Fraud Initiative	N/A
14.	Social Work	Fostering	Substantial
15.	Various	Cash Spot Checks	Substantial
16.	Central Scotland Fire and Rescue Service	Overtime and Allowance Administration	N/A
<i>Draft Reports Issued</i>			
17.	Education	ICT Governance and Security	TBC
18.	Development	Sustainability Strategy	TBC
19.	Social Work	Direct Payments	TBC
20.	Social Work	Social Work Intermediary Bank Accounts ²	TBC

¹ Additional reviews undertaken at the request of the Director of Corporate and Neighbourhood Services.

² Additional review undertaken in agreement with the Acting Director of Social Work Services.

	<i>Audits In Progress</i>		
21.	Education	Additional Support for Learning	TBC
22.	Community	Community Learning Strategy and Community Education	TBC
23.	Corporate and Neighbourhood	Energy Management	TBC
	<i>Audits Not Started</i>		
None			
	<i>Audits Deferred</i>		
24.	Corporate and Neighbourhood	Following the Public Pound	N/A
25.	Corporate and Neighbourhood	Housing Allocations	N/A
26.	Development	Development Management and Enforcement	N/A

Definition of 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.

Final Reports Issued - Summary of Key Findings 2009/10

No	Audit Area and Service	Assurance and Key Findings
1.	Mail Management Law and Administration	<p>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.</p> <p>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.</p>
2.	Land and Asset Disposal Community	<p>Substantial Assurance Covered the disposal decision making process, roles and responsibilities, policies and procedures, collection of income, and management information.</p> <p>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.</p>
3.	Telecommunications Corporate and Neighbourhood	<p>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.</p> <p>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.</p> <p>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.</p>

No	Audit Area and Service	Assurance and Key Findings
4.	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.
5.	Joint Loan Equipment Service Social Work	<p>Limited Assurance</p> <p>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.</p> <p>There was scope for improving governance arrangements, including a need to review the Consortium Agreement, document roles and responsibilities, and develop risk management systems.</p> <p>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.</p>
6.	Treasury Management Finance	<p>Comprehensive Assurance</p> <p>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.</p> <p>Sound systems of control were in place, in compliance with the CIPFA Code of Practice for Treasury Management.</p>

No	Audit Area and Service	Assurance and Key Findings
7.	<p>Childcare and Early Years Services</p> <p>Education</p>	<p>Substantial Assurance</p> <p>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.</p> <p>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.</p> <p>There was, however, scope for improving the process for commissioning private partners, and for re-imbursing partners and parents with nursery education costs.</p>
8.	<p>Legionella</p> <p>Corporate and Neighbourhood</p>	<p>No Assurance</p> <p>Covered policies and procedures, governance, roles and responsibilities, monitoring, risk assessment, maintenance and preventative works, training, continuity planning, and the production of management information.</p> <p>There were weaknesses in relation to the operation of the checking regime and the arrangements established to ensure its operation.</p> <p>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.</p> <p>Significant work has been undertaken by management since the issue of this report to address recommendations made by Internal Audit.</p>

No	Audit Area and Service	Assurance and Key Findings
9.	Overtime and Allowance Administration Finance / All Services	<p>Substantial / Limited Assurance</p> <p>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.</p> <p>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.</p> <p>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.</p>
10.	Bed and Breakfast Arrangements Corporate and Neighbourhood	<p>N/A – Undertaken as Consultancy</p> <p>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.</p> <p>There were a number of areas where further improvement was required. In particular, there was a need to review the need for continuing to use 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.</p>

No	Audit Area and Service	Assurance and Key Findings
11.	Revenues IT Systems – Security and Management Finance	<p>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.</p> <p>Robust controls were in place, although there was a need to put in place a formal System Security Statement and Access Control Policy, and to further develop business continuity arrangements.</p>
12.	Building Maintenance Division Hired Small Plant Corporate and Neighbourhood	<p>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.</p> <p>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.</p>
13.	National Fraud Initiative Various	<p>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.</p> <p>The majority of matches have now been satisfactorily investigated and closed, with only a small number of minor discrepancies found.</p>

No	Audit Area and Service	Assurance and Key Findings
14.	Fostering Social Work	<p>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.</p> <p>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.</p>
15.	Cash Spot Checks Various	<p>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.</p>
16.	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 Sub-Committee.