

AGENDA ITEM 4

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.

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

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

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	<p>Substantial Assurance</p> <p>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>
Land and Asset Disposal Community	<p>Substantial Assurance</p> <p>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>
Tele-communications Corporate and Neighbourhood	<p>Substantial Assurance</p> <p>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>
Statutory Performance Indicators Various	<p>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.</p>

Planned 2009/10 Audits Completed During Year to 31 March 2010	
Audit Area	Scope and Outcome
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>
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>
Childcare and Early Years Services Education	<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>
Legionella	No Assurance

Planned 2009/10 Audits Completed During Year to 31 March 2010	
Audit Area	Scope and Outcome
Corporate and Neighbourhood	<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, and a follow-up review will be carried out by Internal Audit during 2010/11.</p>
<p>Overtime and Allowance Administration</p> <p>Finance / All Services</p>	<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>
<p>Revenues IT Systems – Security and Management</p> <p>Finance</p>	<p>Substantial Assurance</p> <p>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</p>

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	<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>
Fostering Social Work	<p>Substantial Assurance</p> <p>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>
Cash Spot Checks Various	<p>Substantial Assurance</p> <p>Internal Audit visited a number of locations to review local cash handling and administrative arrangements. In general we found arrangements to be sound.</p>
Education Services ICT Governance and Security Education	<p>Substantial Assurance</p> <p>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.</p> <p>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.</p>

Planned 2009/10 Audits Completed During Year to 31 March 2010	
Audit Area	Scope and Outcome
	<p>There was, however, scope for putting in place a formal Education ICT Strategy (based on the corporate Strategy) and for further embedding risk management.</p> <p>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.</p>
Sustainability Strategy Development	<p>Substantial Assurance</p> <p>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.</p> <p>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.</p> <p>There was some scope for improving the validation of reported performance and for allocating and approving expenditure from the Sustainable Falkirk Strategy Fund.</p>
Direct Payments Social Work	<p>Substantial Assurance</p> <p>Covered policies, procedures and guidance, systems for prioritisation and assessment, financial and operational controls, and outcome monitoring and reporting.</p> <p>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.</p>
Additional Support for Learning Education	<p>Substantial Assurance</p> <p>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.</p> <p>Robust controls were in place, with schools visited found</p>

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	<p>Substantial Assurance</p> <p>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.</p> <p>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.</p>
Utility Invoices and Payment Development	<p>Substantial Assurance</p> <p>Covered roles and responsibilities, budgetary and financial controls, measures to monitor utility usage and cost, and the adequacy of management information.</p> <p>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.</p>
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	<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 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.</p>
Building Maintenance Division Hired Small Plant Corporate and Neighbourhood	<p>Substantial Assurance</p> <p>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>
Intermediary Bank Accounts Social Work	<p>N/A – Undertaken as Consultancy</p> <p>Covered the adequacy of procedural instructions, the accuracy of client transaction information, banking arrangements, and the security of funds and records.</p> <p>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.</p>