



West Lothian  
Council

Finance & Estates

Audit and Risk Management Unit

EX1101

## **INTERNAL AUDIT REPORT**

### **FALKIRK COUNCIL INTERNAL AUDIT (PEER REVIEW)**

### **COMPLIANCE WITH THE CIPFA CODE OF PRACTICE FOR INTERNAL AUDIT IN LOCAL GOVERNMENT 2006**



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## 1.0 EXECUTIVE SUMMARY

- 1.1 In accordance with the annual audit plan for 2011/12, we have undertaken a peer review of the Falkirk Council Internal Audit Unit and conclude that there is a **high level of compliance** with the CIPFA Code of Practice for Internal Audit in Local Government 2006 (the Code).
- 1.2 The audit remit is set out in section two.
- 1.3 The Code defines the way in which Internal Audit should operate and provides a framework for the measurement, management and monitoring of an Internal Audit service. The Code consists of eleven standards of Internal Audit practice (e.g. independence, Audit Committees, undertaking audit work and reporting etc.) and there are numerous requirements within each standard, with 192 requirements in total.
- 1.4 Appendix A provides a summary of the level of compliance with each of the eleven standards. From our review undertaken we confirmed that the Falkirk Council Internal Audit Unit **fully complies with 94%** of the requirements of the Code. A brief summary is provided below:

	Falkirk Council			
	Full Compliance	Partial Compliance	Non-Compliance	Total
Number of CIPFA Code Requirements	181	2	9	192
% of CIPFA Code Requirements	94%	1%	5%	100%

- 1.5 All local authorities should comply with the requirements of the Code, and are required to detail compensating measures or agreed actions in progress to address any areas of non-compliance. The action plan in section three of this report details the partial and non-compliances found, and includes the agreed actions of the Falkirk Council Internal Audit Unit.

**Kenneth Ribbons**  
**Audit and Risk Manager**

**21 March 2012**

## **2.0 REMIT**

- 2.1 The objective of the audit was to review compliance with the 'CIPFA Code of Practice for Internal Audit in Local Government 2006'.
- 2.2 We briefly discussed compliance with the principles of the 'CIPFA Role of the Head of Internal Audit' document however we concluded that these requirements were comprehensively met via our review of the Code.
- 2.3 Our compliance testing was undertaken on a sample basis. Therefore, the non-compliances we have identified are not necessarily all those which exist.
- 2.4 We agreed the draft report for factual accuracy with Gordon O'Connor, Internal Audit Manager on 21 March 2012.
- 2.5 The Falkirk Council Internal Audit Manager is responsible for both the implementation of the recommendations and the risk arising from not acting on any of the recommendations in this report.
- 2.6 We carry out follow up reviews on a risk based approach. The West Lothian Council Audit and Risk Manager will determine the need for a follow-up review of this report.
- 2.7 We appreciate the assistance of all Falkirk Council staff contacted during the conduct of our audit. Should you require any further assistance please contact Stuart Saunders (01506 281574).

### 3.0 ACTION PLAN

Ref	CIPFA Code of Practice Requirements	Peer Review Findings	Agreed Actions
<b>Standard 5 - Relationships</b>			
5.5.1	<b><u>Relationships with Regulators / Inspectors</u></b> Has the Head of Internal Audit sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation?	The Internal Audit Manual documents the key Internal Audit relationships however this does not include relationships with regulators, inspectors or elected members.	Consideration will be given to updating the Internal Audit Manual to include relationships with regulators, inspectors, and elected Members.
5.6.1	<b><u>Relationships with Elected Members</u></b> Do the terms of reference for Internal Audit define the channels of communication with Members and describe how such relationships should operate?	Our enquiries with the Chief Executive and the Audit Committee Chair confirmed that relationships between Internal Audit and Members was very good.	In practice, Internal Audit engages with regulators, inspectors, and elected Members as appropriate / required, and in a professional and considered way.
<b>Standard 7 - Audit Strategy and Planning</b>			
7.1.2 (c)	<b><u>National Issues and Risks</u></b> Does the strategy include how Internal Audit's work will identify and address local and <u>national</u> issues and risks?	The Internal Audit Strategy does not include reference to identifying and addressing <u>national</u> issues and risks.	This will be considered within the context of a wider review of the Internal Audit Strategy, with a view to presenting a revised and updated Strategy to the Autumn meeting of the Audit Committee.
7.2.3 (c)	<b><u>Prioritise Assignments</u></b> Does the annual audit plan prioritise assignments?	Audit assignments in the Annual Audit Plan are not prioritised.	The Internal Audit Plan is prepared taking into account the Council's risk and performance management processes and Internal Audit's own assessment of risk. The timing of reviews is agreed with Directors, and Internal Audit aims to complete all planned reviews.
<b>Standard 8 - Undertaking Audit Work</b>			
8.3.3	<b><u>Access Policy</u></b> Is there an access policy for audit files and records?	Internal Audit does not have an access policy in place for audit files and records.	Internal Audit operates within the Council's established Information Security Policy, with record and file retention governed by the Council's Retention Schedule.

Ref	CIPFA Code of Practice Requirements	Peer Review Findings	Agreed Actions
<b>Standard 10 – Reporting</b>			
10.2.4	<b><u>Prioritising Recommendations</u></b> Has the Head of Internal Audit determined a process for prioritising recommendations according to risk?	As documented in the Internal Audit Manual, recommendations are not prioritised. Guidance within the audit manual states that management may wish to prioritise recommendations via the agreed implementation dates.	Internal Audit have made a conscious and deliberate decision not to rank or prioritise recommendations. All recommendations are made to help address one or more of the 'risks' set out in the Terms of Reference, and the Action Plan section of our reports includes a 'Reason for Recommendation' column.  To supplement the 'Reason for Recommendation', consideration will be given to the feasibility of linking each recommendation back to the relevant Risk Categories as per the Council's Corporate Risk Register.
10.2.6	<b><u>Circulation of Report</u></b> Is the circulation of each audit report determined when preparing the audit brief?	The circulation of each audit report is not determined and documented in the audit brief. Circulation details are recorded on the front page of each audit report.	Current practice will continue, as the final report distribution list can change over the course of an audit.
10.3.3	<b><u>Revised Audit Opinion Post Follow-Up</u></b> Where appropriate, is a revised opinion given following a follow-up audit and reported to management?	A revised audit opinion is not given following a follow-up audit.  Our discussions confirmed that Internal Audit staff would find it inappropriate to give a level of assurance based <u>solely</u> on follow up work.	Internal Audit are in the process of changing the way follow-ups are undertaken, placing greater onus on Services to confirm when corrective action has been completed.  The initial level of assurance is based on evidence built up during the main audit, whereas at follow up confirmation is only sought on recommendations raised rather than a full review of all risks / controls considered during the main audit. On that basis, it would not be appropriate for a revised audit assurance to be given after each follow up.

Ref	CIPFA Code of Practice Requirements	Peer Review Findings	Agreed Actions
<b>Standard 11 - Performance, Quality and Effectiveness</b>			
11.3.1 (d)	<b><u>Results of Performance Management</u></b> Do the results of the performance management and quality assurance programme evidence that the internal audit service is effective, efficient, continuously improving?	<p>Internal Audit has five key performance indicators (KPI). The Internal Audit Manager reports performance against each KPI to the Audit Committee on a periodic basis.</p> <p>Review of the KPIs found that targets do not reflect the current high performance. For example 100% of the audit programme has been completed for the past two years, however the target remains at 85%.</p> <p>We also noted limited evidence available to show continuous improvement as reporting only considers current and previous years KPI performance.</p>	<p>The Scottish Local Authorities Chief Internal Auditors' Group is currently working on the development of a balanced scorecard to be implemented across all LA Internal Audit sections. Falkirk Council Internal Audit will participate in that exercise.</p> <p>In the meantime, consideration will be given to existing KPI targets, with a view to making any required changes for 2012/13.</p> <p>In addition, reporting to Audit Committee will now show current year performance and the previous two years.</p>
11.3.2 (b)	<b><u>Audit Feedback</u></b> Does the performance management and quality assurance framework include user feedback obtained for each individual audit and periodically for the whole service?	<p>Internal Audit does not issue questionnaires after each audit. We were informed that this process was stopped as responses were not seen to be adding any value.</p> <p>Periodic questionnaires to obtain user feedback for service provision as a whole are also not issued.</p>	<p>Feedback on the service provided by Internal Audit will be sought from Directors on an annual basis. The Internal Audit Manager will develop a questionnaire to be issued to, and completed by, Directors.</p>
11.3.2 (e)	<b><u>Improvements Action Plan</u></b> Does the performance management and quality assurance framework include an action plan to implement improvements?	<p>Internal Audit does not have an action plan in place to implement improvements from performance management and quality assurance reviews.</p>	<p>This completed and agreed document will form the basis of an improvement action plan for Internal Audit, along with any actions arising from future peer review processes.</p>

## Appendix A

**Summary Table of Compliance with the Requirements of the  
CIPFA Code of Practice for Internal Audit in Local Government 2006**

Code of Practice	Falkirk Council		
	Full Compliance	Partial Compliance	Non-Compliance
<b>Standard 1</b> Scope of Internal Audit	All standards	None	None
<b>Standard 2</b> Independence	All standards	None	None
<b>Standard 3</b> Ethics for Auditors	All standards	None	None
<b>Standard 4</b> Audit Committees	All standards	None	None
<b>Standard 5</b> Relationships	Standards <b>5.1</b> to <b>5.4</b>	None	<b>5.5.1</b> (Relationships with Regulators / Inspectors) <b>5.6.1</b> (Relationships with Elected Members)
<b>Standard 6</b> Staffing, Training & CPD	All standards	None	None
<b>Standard 7</b> Audit Strategy and Planning	All standards within <b>7.1</b> and <b>7.2</b> with the exception of <u>two</u> requirements.	<b>7.1.2 (c)</b> (National Issues and Risks)	<b>7.2.3 (c)</b> (Prioritise Assignments)
<b>Standard 8</b> Undertaking Audit Work	All standards within <b>8.1</b> to <b>8.3</b> with the exception of <u>one</u> requirement.	None	<b>8.3.3</b> (Access Policy)
<b>Standard 9</b> Due Professional Care	All standards	None	None
<b>Standard 10</b> Reporting	Standards <b>10.1</b> and <b>10.4</b> . <u>Two</u> requirements within <b>10.2</b> and <u>one</u> within <b>10.3</b> were non-compliant.	None	<b>10.2.4</b> (Prioritising Recommendations) <b>10.2.6</b> (Circulation of Report) <b>10.3.3</b> (Revised Audit Opinion Post Follow-Up)
<b>Standard 11</b> Performance, Quality and Effectiveness	Standards <b>11.1</b> and <b>11.2</b> . Within <b>11.3</b> , <u>one</u> requirement was partial compliant and <u>two</u> requirements were non-compliant.	<b>11.3.1 (d)</b> (Results of Performance Management)	<b>11.3.2 (b)</b> (Audit Feedback) <b>11.3.2 (e)</b> (Improvements Action Plan)

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