

FALKIRK COUNCIL

Subject: INTERNAL AUDIT: ANNUAL ASSURANCE
REPORT 2012/13
Meeting: AUDIT COMMITTEE
Date: 24 June 2013
Author: INTERNAL AUDIT MANAGER

1. INTRODUCTION

- 1.1 The purpose of this paper is to report on 2012/13 Internal Audit work, and to provide an overall assurance on the Council's control framework based on that work.
- 1.2 Senior managers are responsible for establishing and maintaining robust, effective, and proportionate risk management, governance, and control arrangements. The Public Sector Internal Audit Standards 2013 (the Standards) require the Internal Audit Manager to provide an Annual Assurance Report that includes:
- a statement on the overall adequacy of the Council's control environment;
 - a summary of Internal Audit work undertaken during the year; and
 - a statement on conformance with the Standards¹.
- 1.3 This report has been prepared to meet those requirements.

2. OVERALL OPINION

- 2.1 Internal Audit completed 23 main reviews during 2012/13. I am content, therefore, 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.
- 2.2 As Members are aware, Internal Audit use a set of Assurance Categories to provide an opinion on the adequacy of arrangements for risk management, governance, and control. A summary of these is set out at **Appendix 1**.
- 2.3 On this basis, Internal Audit can provide **SUBSTANTIAL** assurance on the Council's overall framework of controls for the year to 31 March 2013.

¹ NOTE, for 2012/13 this statement will comment on conformance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006, which remained the relevant Standards until their replacement on 01 April 2013.

3. OPERATIONAL ACTIVITY DURING 2012/13

- 3.1 Internal Audit's Annual Plan for 2012/13 consisted of 23 main reviews, with two reviews deferred and two added over the course of the year.
- 3.2 Details of Internal Audit Activity undertaken during 2012/13 are set out at **Appendix 2**, with a summary of the scope of, and findings arising from, each review set out at **Appendix 3**.
- 3.3 In most cases Internal Audit were able to provide Substantial Assurance. There were, however, areas where we were able to provide only Limited (or split) Assurance, namely:
- Appointment of Consultants;
 - Premises Managers' Handbook Compliance;
 - Corporate Risk Management Arrangements;
 - Recruitment and Selection.
- 3.4 Action has been agreed to address the recommendations raised in all of the Internal Audit reports issued during 2012/13, and details of recommendations that remain outstanding will continue to be provided to Audit Committee over the course of the coming year.
- 3.5 Internal Audit is considered by Audit Scotland to be a key element of the Council's governance framework. Members should note that Audit Scotland have confirmed in their 2012/13 Annual Audit Plan that they will place formal reliance on work undertaken by Internal Audit in the following areas:
- Payroll;
 - Integra Supplier Management and Payments;
 - Corporate Purchasing and Contract Monitoring;
 - Debtors (part of 2013/14 Internal Audit Plan);
 - Corporate Risk Management Arrangements;
 - National Fraud Initiative; and
 - Statutory Performance Indicator Verification.
- 3.6 Internal Audit continues to measure its performance against a set of five Key Performance Indicators (KPI). Performance against each of these for 2012/13 (along with previous year comparator figures) is set out in the table overleaf.

Key Performance Indicator	2012/13 Performance	2011/12 Performance	2010/11 Performance
1. Complete 85% of agreed audits.	100%	100%	100%
2. Have 90% of audit recommendations accepted.	99%	99%	100%
3. Spend 75% of time on direct audit work.	78%	77%	78%
4. Issue 75% of draft reports within 3 weeks of completion of fieldwork.	96%	82%	88%
5. Complete (to issue of final report) 75% of main audits within budget.	87%	82%	88%

- 3.7 Internal Audit has again exceeded each of our 5 KPIs, and maintained a good level of performance. To supplement these existing KPIs, Internal Audit will adopt national indicators being developed by the Scottish Local Authority Chief Internal Auditors' Group over the course of 2013.

4. INTERNAL AUDIT COMPLIANCE WITH CIPFA CODE

- 4.1 Until 31 March 2013, all Local Authority Internal Audit Sections were required to operate in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 (the Code). This set out standards in relation to independence, staffing and training, audit strategy and planning, reporting and performance, and quality and effectiveness. As Members are aware, the Code was replaced by new Public Sector Internal Audit Standards on 01 April 2013.
- 4.2 As part of their annual external audit work, Audit Scotland are required to review Internal Audit's compliance with the relevant Standards (for 2012/13 the CIPFA Code). In their Annual Audit Plan 2012/13, Audit Scotland concluded that Internal Audit operated in accordance with the Code, with sound documentation standards and reporting procedures in place.

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 can provide SUBSTANTIAL assurance on the Council's control framework for the year to 31 March 2013;**
- 5.1.3 Audit Scotland will place formal reliance on the work of Internal Audit;**
- 5.1.4 performance against Key Performance Indicators for the year to 31 March 2013 was as set out at paragraph 3.6; and**
- 5.1.5 during 2012/13 Internal Audit operated in compliance with the CIPFA Code.**

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Internal Audit Manager

Date: 14 June 2013

DEFINITION OF INTERNAL AUDIT ASSURANCE CATEGORIES

Level of Assurance	Definition
Comprehensive assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
Substantial assurance	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.
Limited assurance	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.
No assurance	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.

SUMMARY OF 2012/13 INTERNAL AUDIT PROGRAMME

Planned Audits Completed During Year to 31 March 2013			
No.	Service	Audit	Level of Assurance
1.	Finance	Pensions – Transactional Systems	Substantial
2.	Finance	Payroll	Substantial
3.	All Services	Statutory Performance Indicator Validation	Substantial
4.	Social Work / Governance	Administrative Procedures and Cash Counts	Substantial
5.	All Services	Premises Managers' Handbook Compliance	Limited
6.	All Services	Continuous Auditing	N/A – ongoing assurance
7.	All Services	Appointment of Consultants	Limited
8.	Development	Corporate Risk Management Arrangements	Limited
9.	Corporate and Neighbourhood	Recruitment and Selection	Substantial / Limited
10.	All Services	Corporate Purchasing and Contract Management	N/A – ongoing assurance
11.	Corporate and Neighbourhood	Council Housing – Construction ²	Substantial
12.	Corporate and Neighbourhood	Council Housing – Maintenance ²	Substantial
13.	All Services	National Fraud Initiative	N/A
14.	Finance	Integra Supplier Management and Payments	Substantial
15.	Corporate and Neighbourhood	Refuse Collection Improvement Process	N/A
16.	Development	Development Management and Enforcement	Substantial
17.	Development / Corporate and Neighbourhood	Corporate Gas Safety (jointly with WLC)	Substantial
18.	Finance	Benefits – Corporate Fraud Scoping Study	N/A
19.	Falkirk Community Trust	Invoice Approval and Payment and Business Continuity Planning	N/A
20.	CSFRS	Payroll	N/A
21.	West Lothian Council	WLC Risk Management Arrangements	N/A

² NOTE – although undertaken as two separate reviews, these were reported together.

Appendix 2

Additional Audits Completed During 2012/13			
No.	Service	Audit	Level of Assurance
1.	Social Work	Modernising Technology in Homecare - Project Assurance	N/A – ongoing assurance
2.	Development	Bo'ness Townscape Heritage Initiative – Audit Certification	Substantial

2012/13 Audits Deferred			
No.	Service	Audit	Level of Assurance
1.	Development	Tax Incremental Finance Scheme	N/A
2.	Social Work	Central Matching Team	N/A

DETAILS OF 2012/13 INTERNAL AUDIT PROGRAMME

Planned Audits Completed During 2012/13		
No.	Audit Area and Service	Assurance and Key Findings
1.	Pensions – Transactional Systems Finance	<p>Substantial Assurance Covered governance and operational roles and responsibilities; admission of new members; calculation and collection of contributions; payment and receipt of transfer values; pension payments; and arrangements for actuarial valuations.</p> <p>In general, sound controls were in place. Operational controls around the calculation and collection of contributions, transfer values, and payments were well managed and working effectively. Roles and responsibilities were clear and well understood, with comprehensive procedural instructions in place.</p> <p>There was some scope for improving risk management, and for formalising Standards of Service for Scheduled and Admissions bodies.</p>
2.	Payroll Finance	<p>Substantial Assurance Reviewed policies, procedures, roles, and responsibilities; administrative and operational controls; service standards and performance monitoring; and the security of payroll related data and administration.</p> <p>Operational controls relating to new starts, leavers, and other changes were working effectively, and roles and responsibilities were clear.</p> <p>There was scope for better monitoring of under and overpayments, and the Payroll Data Handling Register required to be finalised.</p>
3.	Statutory Performance Indicator Validation All Services	<p>Substantial Assurance Reported on Internal Audit's role in collecting and validating SPI returns prepared by Services. For each of the SPIs falling within our remit, we found that the information gathered for publication was accurate and complete.</p>
4.	Administrative Procedures and Cash Count Social Work / Governance	<p>Substantial Assurance We reviewed cash and general administration arrangements at ASSET, Criminal Justice, Rowan Short Breaks, SW Business Support, Laurieston SW Office, and Bo'ness Registration Office.</p> <p>Arrangements were generally sound, although we made a number of recommendations relating to security, cash handling, and record keeping.</p>

Planned Audits Completed During 2012/13		
No.	Audit Area and Service	Assurance and Key Findings
5.	Premises Managers' Handbook Compliance All Services	<p>Limited Assurance Focussed on the allocation of Premises Manager (PM) responsibilities; the availability of guidance and training; compliance with Handbook requirements; arrangements for identifying and addressing non-compliance; and the annual Statement of Assurance process.</p> <p>There was significant scope for improvement. More robust systems for identifying changes to operational premises and PMs were required, as was better training.</p> <p>We were unable to confirm compliance with the Handbook in a number of areas, with numerous instances where the frequency of checking was not in line with guidance. There was a need to better document checking undertaken.</p> <p>There was also scope for improving the annual Statement of Assurance process.</p>
6.	Continuous Auditing All Services	<p>N/A – Ongoing Reporting and Assurance Work focussed on:</p> <ul style="list-style-type: none"> • creditors duplicate payments; • creditor payment analysis; • overtime payments; • contract expenditure; • system access control. <p>While various improvement actions have been identified, in overall terms continuous auditing work has provided positive assurance on the adequacy of financial controls. Payment analysis has identified a number of duplicates, with c£41k recovered by the Council during 2012/13 (c£138k since continuous auditing work commenced in October 2010).</p>
7.	Appointment of Consultants All Services	<p>Limited Assurance Focussed on roles and responsibilities; policies, procedures, and training; selection and engagement arrangements; and management information and reporting.</p> <p>There was a need to review and update the Protocol for the Appointment of Consultants, and to improve appointment, approval, and administrative arrangements. There was, however, adequate segregation of duties in relation to the selection and engagement of, and payment for, consultants.</p>

Planned Audits Completed During 2012/13		
No.	Audit Area and Service	Assurance and Key Findings
8.	Corporate Risk Management Arrangements Development	<p>Limited Assurance Reviewed the overall framework at a corporate level; risk management policy and strategy; accountability, roles, and responsibilities; links to business planning; procedures, training, and guidance.</p> <p>There was a need to review and update the Risk Management Policy and Strategy, and for better embedding of risk management across all Services. The role and remit of the Corporate Risk Management Group requires to be reviewed, and there was a need to ensure that risk management links more clearly with business planning.</p>
9.	Recruitment and Selection Corporate and Neighbourhood	<p>Substantial / Limited Assurance Covered preparation, approval, and dissemination of Recruitment and Selection Policy; roles and responsibilities; application, assessment, and approval arrangements; and management information.</p> <p>A robust Policy was in place and roles and responsibilities were clear. There was scope for improving compliance with the Policy, and in particular the retention of documentation to support the recruitment process.</p>
10.	Corporate Purchasing and Contract Management All Services	<p>N/A – Ongoing Reporting and Assurance Internal Audit reviews a sample of payments on a weekly basis to assess compliance with Financial Regulations and Contract Standing Orders. This includes checks to ensure that a contracted supplier has been used. Where this is not the case, Internal Audit contact the invoice authorising officer to establish whether the appropriate quotation / tendering exercise was undertaken to select the supplier used.</p> <p>In general, across the sample of payments examined, we have found there to be broad compliance with Financial Regulations and Contract Standing Orders.</p>

Planned Audits Completed During 2012/13		
No.	Audit Area and Service	Assurance and Key Findings
11.	Council Housing – Construction and Maintenance Programmes Corporate and Neighbourhood	<p>Substantial Assurance</p> <p><u>Construction</u>: reviewed BMD's arrangements for planning, undertaking, monitoring, and reporting on certified capital improvement and new build work; quality assurance and management; and budgetary and financial control.</p> <p>Capital investment and new build projects were generally well controlled and managed, with sound quality assurance and performance monitoring arrangements. Roles and responsibilities were clear, with guidance and procedures in place. There was some scope for improving sub-contracting arrangements.</p> <p><u>Maintenance</u>: reviewed roles and responsibilities; arrangements for identifying, prioritising, costing, undertaking, monitoring, and reporting on planned and reactive maintenance; quality assurance and management; and budgetary and financial control.</p> <p>Maintenance arrangements were generally sound, although there was some scope for improving the operational approval and processing of job lines.</p>
12.	National Fraud Initiative All Services	<p>N/A</p> <p>The 2010/11 NFI exercise is now largely complete. NFI is co-ordinated by Internal Audit, with investigations arising from the Accounts Commission's data matching undertaken by Services.</p> <p>A total of 2,726 matches have been investigated as part of NFI 2010/11, with c£246k returned (or in the process of being recovered and returned) to the public purse as a result of successful investigation of errors or discrepancies.</p> <p>The 2012/13 NFI exercise is now underway. All of the required data has been submitted to the Accounts Commission, with the resultant matches made available in January / February. These are now being reviewed and investigated by Services.</p>
13.	Integra Supplier Management and Payments Finance	<p>Substantial Assurance</p> <p>Internal Audit reviewed controls over the on-line input and authorisation of supplier information; payment processing; arrangements for invoice and BACS processing; non-standard and emergency payment arrangements; and management information.</p> <p>In general, sound systems of control were in place. There was, however, some scope for improving business continuity, for tightening various operational controls, and for rationalising / data cleansing the supplier database.</p> <p>The recommendations made by Internal Audit will be addressed within the context of ongoing system development work to enhance the functionality of Integra.</p>

Planned Audits Completed During 2012/13		
No.	Audit Area and Service	Assurance and Key Findings
14.	Refuse Collection Improvement Process Corporate and Neighbourhood	N/A Internal Audit has maintained a watching brief via review of documentation and reports, and attendance at meetings. This input will continue as appropriate.
15.	Development Management and Enforcement Development	Substantial Assurance Covered roles and responsibilities; policies, procedures, and guidance; arrangements for receiving, managing, approving, and monitoring planning applications, including appeals and enforcement; and management information. Controls were, on the whole, robust and operating effectively, and roles and responsibilities were clear. To further enhance the framework of control we recommended the development of a Planning Charter and Development Management Manual, and there was some scope for improving information systems.
16.	Corporate Gas Safety Development and Corporate and Neighbourhood	Substantial Assurance This review was undertaken jointly by staff from Falkirk Council's Health, Safety, and Care Team and West Lothian Council's Audit and Risk section. The review covered the practical application of responsibilities set out in Falkirk Council's Gas Safety Management Policy, the resultant Statements of Assurance, and the extent to which previous Internal Audit recommendations had been implemented. In broad terms, management systems were sound and previous recommendations had been considered and implemented. There remained scope, however, for improving various elements of operational control, particularly in relation to Facilities Management.
17.	Benefits – Corporate Fraud Scoping Study Finance	N/A Internal Audit undertook an exercise to identify and consider potential areas of 'corporate' fraud. This involved review of national reports and studies, discussion with staff across all Council Services, and meetings with various external bodies with an expertise in dealing with 'corporate' fraud. The resultant report will be used to assess and determine whether existing knowledge and skills can be effectively channelled towards diverting, identifying, and investigating areas of 'corporate' fraud.

Planned Audits Completed During 2012/13		
No.	Audit Area and Service	Assurance and Key Findings
18.	Invoice Approval and Payment and BCP Falkirk Community Trust	N/A As reported to Falkirk Community Trust Audit and Performance Sub-Group.
19.	Payroll Central Scotland Fire and Rescue Service	N/A As reported to CSFRS Best Value and Scrutiny Committee.
20.	Risk Management Arrangements West Lothian Council	N/A As reported to West Lothian Council's Audit and Governance Committee.

Additional Audits Completed During 2012/13		
No	Audit Area and Service	Assurance and Key Findings
21.	Modernising Technology in Homecare – Project Assurance Social Work	N/A - Ongoing Assurance Internal Audit has provided assurance input throughout this project, including attendance at relevant meetings and review of project structures and documentation.
22.	Bo'ness Townscape Heritage Initiative – Audit Certification Development	Substantial Assurance Internal Audit undertook work to allow the provision of a final audit certificate for this Initiative. Work included review of the final account reconciliation, validation of roles and responsibilities, and review of a sample of individual projects. We were able to provide substantial assurance that grants had been properly paid in line with valid applications and that administration costs had been properly recorded and paid for.