

FALKIRK COUNCIL

MINUTE of MEETING of the AUDIT COMMITTEE held in the MUNICIPAL BUILDINGS, FALKIRK on TUESDAY 23 NOVEMBER 2010 at 1.30 p.m.

PRESENT:- Councillors Blackwood, Lemetti, C Martin and Patrick.

CONVENER: Councillor Patrick.

ATTENDING:- Chief Executive; Directors of Corporate & Neighbourhood Services, of Community Services and of Finance Services; Acting Director of Social Work; Head of Accountancy; Head of Educational Resources; Accountancy Services Manager; Audit Manager, and Democratic Services Manager.

ALSO

ATTENDING:- M Taylor and G Mcreadie (Audit Scotland)

DECLARATIONS

OF INTEREST:- None.

AC6. MINUTES

There was submitted (circulated) and **APPROVED:-**

- (a) Draft Minute of Meeting of the Audit Committee held on 22 March 2010; and
- (b) Draft Minute of Reconvened Meeting of the Audit Committee held on 10 June 2010.

AC7. UNDERSTANDING THE FINANCIAL STATEMENTS

D McGregor, Head of Accountancy, gave a presentation summarising the key features of the Council's Financial Statements. The presentation focussed on:-

- The Income & Expenditure Account
- The Statement of Movement in the General Fund Balance
- The Statement of Total Recognised Gains & Losses
- The Balance Sheet
- Group Accounts
- Other Important Accounts eg Council Tax Account

Discussion focussed on:-

- The pensions arrangements for the Police and Fire Boards
- The funding arrangements for the Joint Boards

- The cost to the council in preparing the various types of accounts required of it.

NOTED.

AC8. ANNUAL REPORT ON 2009/10 AUDIT

There was submitted Report (circulated) dated 1 November 2010 by the Director of Finance presenting (a) Audit Scotland's Annual Report to Members on the 2009/10 Audit; (b) Audit Scotland's Report to those charged with Governance on the 2009/10 Audit and (c) the Annual Report and Accounts 2009/10.

Discussion focussed on:-

- The proposed introduction of a separate audit of the Pension Fund and the likely cost to the Council of this
- The accounting of £3.4m of expenditure in relation to equal pay liabilities
- The membership of the Audit Committee and the progress made in appointing a lay Convener
- The scope to develop a more strategic set of high level outcome measures within the SOA whilst retaining ownership and focus
- The progress made against SOA performance indicators
- The auditing arrangements for the Pension Fund and the role of the Funds' advisors
- The value in partnership working during the current economic downturn and the potential benefits
- The outcome of the audit of the Council's procurement practices.

NOTED.

AC9. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) – PROGRESS REPORT

There was submitted Report (circulated) dated 27 October 2010 by the Director of Finance (a) on the progress made to date in the implementation of International Financial Reporting systems (IFRS) and (b) presenting a workplan to ensure full implementation by the deadline of 30 June 2011.

Discussion focussed on the accrual of annual leave and the makeup of the accrued annual leave.

NOTED.

AC10. INTERNAL AUDIT PROGRESS REPORT

With reference to the Minute of the meeting held on 22 March 2010 (Paragraph AC27 refers), there was submitted Report (circulated) dated 5 November 2010 by the Internal Audit Manager (a) summarising progress made towards completing the 2010/11 Internal Audit Plan, (b) advising of developments within the Internal Audit workplan, (c) detailing

progress made in implementing actions arising from the Audit programme and (d) highlighting Internal Audit's performance against established performance indicators.

Discussion focussed on:-

- Progress made towards completing the Audit Programme for 2010/11
- The flexibility of the Audit workplan to encompass unplanned work
- The findings of the Audit of Serious Organised Crime
- The "limited assurance" given to audits of Tremann Residential Unit and of travel and subsistence expenses and allowances
- The procedures for investigating allegations by the public with regard to service provision and fraud.

NOTED:-

- (1) the progress being made in completing planned work;
- (2) the recent Internal Audit developments;
- (3) the progress with work on following-up previous recommendations;
- (4) that a report on the impact of implementing Internal Audit recommendations will be provided to the March 2011 meeting of the Audit Committee; and
- (5) the performance against KPIs.

FALKIRK COUNCIL

Subject: INTERNAL AUDIT PROGRESS REPORT
Meeting: AUDIT COMMITTEE
Date: 21 March 2011
Author: INTERNAL AUDIT MANAGER

1. INTRODUCTION

- 1.1 The purpose of this paper is to update Members on progress with completing the agreed 2010/11 Internal Audit Plan (the Plan), as presented to the Audit Committee on 22 March 2010. The report also includes information on Continuous Auditing work, the impact of implementing Internal Audit recommendations, and the Section's performance against established performance indicators.

2. AUDIT PROGRESS

- 2.1 Progress with completing 2010/11 Internal Audit work is summarised in the tables below, and set out in more detail at **Appendix 1**.

Status	Number	%
Final Reports Issued	15	63%
Draft Reports Issued	5	21%
Audits In Progress	4	16%
Audits Not Started	0	0%
Total	24	100%

Adjustments to Plan During 2010/11	
Audits Added During Year	1
Audits Deferred During Year	2

- 2.2 Members should note that the reviews of Forth Valley Sensory Centre and Falkirk CHP Governance, Risk and Performance Management will not be completed as planned, primarily to facilitate the commencement of the Continuous Auditing covered in more detail later in this paper. Both of these reviews were to be undertaken jointly with Fife, Tayside and Forth Valley NHS Internal Audit consortium, and we will continue to explore the possibility for future joint working.

- 2.3 As normal, for each of the reviews completed to draft or final report stage Internal Audit has provided an assurance in respect of arrangements for risk management, governance and control and, in general, we have been able to provide Substantial Assurance (see **Appendix 2** for definitions and **Appendix 3** for key findings arising from each review completed to final report stage).
- 2.4 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.
- 2.5 In addition to the 15 audits completed to final report stage, a further 5 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. CONTINUOUS AUDITING: ASSURANCE AND EMERGING FINDINGS

- 3.1 Members will recall that, in my November 2010 Progress Report to this Committee, I advised that a proportion of the time of an existing member of the Internal Audit team would be allocated to the ‘continuous auditing’ of transactional systems.
- 3.2 It was my intention that, initially, the focus would be on reviewing the accuracy and validity of a sample of creditors payments on a weekly basis to ensure that these had been appropriately checked and authorised. To date almost 500 payments relating to the period October to December 2010 have been reviewed, and this work has provided assurance that controls are, in general, operating as intended.
- 3.3 As well as this work on invoice checking and approval, analysis has been undertaken to identify any potential duplicate creditors payments. Payments made during the period April 2007 to January 2011 have been analysed, using our audit interrogation software, to seek matches within data downloaded from Integra.
- 3.4 To date, eight potential duplicate payments have been identified, totalling c£32k, with details passed to Creditors Section to allow the appropriate recovery action to be taken. Following detailed examination, refunds / credit notes have been received in respect of six duplicates, amounting to c£18k. A further invoice, amounting to c£13k, is considered to be a duplicate and Creditors Section are currently awaiting confirmation from the supplier. The eighth potential duplicate was found to be a valid charge.

- 3.5 Given that the Council processes c200k creditors invoices totalling c£218m annually, the relatively small number and low value of potential duplicate payments identified for the period April 2007 to January 2011 provides substantial assurance that reasonable and proportionate controls are in place to identify and prevent such payments from occurring.
- 3.6 I am content that the continuous auditing arrangements, initially established on a pilot basis, are providing sufficient output, both in terms of key financial control assurance and potential financial savings, to merit continuation. As such, work on reviewing invoice checking and approval arrangements, and the analysis of financial data to identify any potential duplicate payments, will continue.
- 3.7 In addition, we have recently expanded the role to cover the analysis of overtime, travel, and subsistence claims and payments, and I will provide an update on that work to Members at an appropriate future meeting of this Committee.

4. IMPACT OF IMPLEMENTING INTERNAL AUDIT RECOMMENDATIONS

- 4.1 In my November 2010 Progress Report to this Committee I provided some examples of how the implementation of Internal Audit recommendations had led to improvement in the Council's framework of control and / or best value.
- 4.2 In that report I also committed to providing fuller information to Members on the impact of Internal Audit recommendations at this meeting. As such I have attached, at **Appendix 4**, a table setting out information relating to examples of positive outcomes realised, wholly or in part, as a result of the implementation of Internal Audit recommendations.
- 4.3 It is my intention to periodically refresh this information and to present it as part of my Progress Report to Members.

5. INTERNAL AUDIT PERFORMANCE

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

Key Performance Indicator	2010/11 Performance to March 2011	2009/10 Performance
Complete 85% of main audit programme	83%	100%
Have 90% of recommendations accepted	100%	100%
Spend 75% of time on direct audit work	77%	76%
Issue 75% of draft reports within 3 weeks of completion of fieldwork	85%	87%
Complete (to issue of final report) 75% of main audits within budget	87%	74%

5.2 Performance is as expected, and I am content that Internal Audit is on target to meet or exceed all five performance measures.

6. RECOMMENDATIONS

6.1 Members are invited to note that:

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

6.1.2 work in relation to Continuous Auditing is as set out at Section 3;

6.1.3 a summary of the impact of the implementation of Internal Audit recommendations is as reported at Section 4; and

6.1.4 performance against KPIs is as reported at paragraph 5.1.

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Internal Audit Manager

Date: 10 March 2011

2010/11 INTERNAL AUDIT PLAN – PROGRESS AT MARCH 2011

No.	Service/Status	Audit	Level of Assurance
<i>Final Reports Issued</i>			
1.	Chief Executive Office - Governance	Printworks Falkirk	Substantial
2.	All Services	Travel and Subsistence Expenses and Allowances	Limited
3.	All Services	Serious Organised Crime	Substantial
4.	All Services	Statutory Performance Indicators	Substantial
5.	Chief Executive Office - Finance	IFRS Implementation and Application	Substantial
6.	Social Work	Tremanna Residential Unit	Limited
7.	Education	School Fund Accounts	Limited
8.	Community	Cash and Income Collection Across Community Services	Substantial
9.	Community	Helix Governance and Finance Arrangements	Substantial
10.	Education	NPDO/PPP School Maintenance	Substantial
11.	Social Work	Child Protection – Key Processes	N/A - Consultancy
12.	Corporate and Neighbourhood	Corporate / Service Planning and Performance Management	Substantial
13.	All Services	Continuous Auditing	N/A – Ongoing Reporting
14.	Various Services	Cash Spot Checks	Substantial
15.	Central Scotland Fire and Rescue Service	Approval and Payment of Invoices	N/A
<i>Draft Reports Issued</i>			
16.	Social Work	Budgetary and Financial Control	TBC
17.	All Services	Senior Officer Financial Controls	TBC
18.	All Services	Taxi Contracts	TBC
19.	Development	IT Contract Management	TBC
20.	Corporate and Neighbourhood	Customer First – Contact Centre	TBC

	<i>Audits In Progress</i>		
21.	Corporate and Neighbourhood	External Funding Unit and FPP	TBC
22.	Corporate and Neighbourhood	Procurement	TBC
23.	Development	Building Design (DDA / EA Compliance)	TBC
24.	Corporate and Neighbourhood	Housing Allocations	TBC
	<i>Audits Added</i>		
25.	All Services	Continuous Auditing	N/A – Ongoing Reporting
	<i>Audits Deferred</i>		
26.	Social Work	Forth Valley Sensory Centre	N/A
27.	Social Work	Falkirk CHP Governance, Risk and Performance Management	N/A

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.

FINAL REPORTS ISSUED - SUMMARY OF KEY FINDINGS 2010/11

No	Audit Area and Service	Assurance and Key Findings
1.	Printworks Falkirk Chief Executive Office - Governance	<p>Substantial Assurance</p> <p>Covered roles, responsibilities and accountability, financial and operational control, arrangements for securing and demonstrating best value, and the adequacy of management information.</p> <p>Arrangements were generally sound, with adequate budget monitoring arrangements in place and the implementation of measures to help ensure best value. There was some scope for improving performance monitoring and risk management, and to put in place formal contracts with all external clients.</p>
2.	Travel and Subsistence Expenses and Allowances All Services	<p>Limited Assurance</p> <p>Covered rules and guidance, arrangements within Services for checking and approving claims, and the adequacy of management information.</p> <p>There was significant scope for improvement, particularly in relation to corporate guidance and the checking of claims by Services prior to approval. There was a need for all Services to review their spend on these allowances and expenses, and for a wider review of allowances and expenses within the context of best value.</p>

No	Audit Area and Service	Assurance and Key Findings
3.	<p>Serious Organised Crime (SOC)</p> <p>All Services</p>	<p>Substantial Assurance</p> <p>Based on an approach developed in conjunction with the Scottish Crime and Drug Enforcement Agency (SCDEA). Covered awareness and communication of SOC risks, liaison with local and national law enforcement agencies, the recruitment of staff with reference to SOC risks, and the consideration of SOC risks within a number of operational areas.</p> <p>We found that, in general, SOC risks and national strategies had been communicated and that there was a willingness to change existing processes and procedures as necessary although this will, to some extent, be dependent on national developments.</p> <p>There were a number of areas where improvements could be made. These related to information sharing, the formalisation of anti-money laundering arrangements, the transparency of the civic licensing process, and the embedding of SOC risks and issues in corporate strategies and policies.</p> <p>We also identified a number of national issues that are to be taken forward by the SCDEA in conjunction with the Scottish Government. These related to disclosure checking, the assessment of information received from civic licensing applicants, and the private landlord registration process.</p>
4.	<p>Statutory Performance Indicators</p> <p>All Services</p>	<p>Substantial Assurance</p> <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>

No	Audit Area and Service	Assurance and Key Findings
5.	<p>International Financial Reporting Standards Implementation and Application</p> <p>Chief Executive Office - Finance</p>	<p>Substantial Assurance</p> <p>Covered roles and responsibilities, project and implementation management arrangements, the use of external advice, and contingency arrangements.</p> <p>Project management arrangements were sound, with an implementation action plan in place against which progress is monitored. There is some scope for improving risk management, and year end processes and data sources require to be reviewed and amended.</p>
6.	<p>Tremanna Residential Unit</p> <p>Social Work Services</p>	<p>Limited Assurance</p> <p>Covered arrangements for budget monitoring, payroll, petty cash, residents' monies, the ordering and receipt of goods and services, inventory management, risk management, business continuity and general building security.</p> <p>While adequate staff, information, and building security arrangements were in place, there was scope for improving budget monitoring, petty cash administration, procurement and inventory management procedures, risk management, and business continuity.</p>
7.	<p>School Fund Accounts</p> <p>Education Services</p>	<p>Limited Assurance</p> <p>Covered roles, responsibilities, policies and procedures, systems for supporting schools, including monitoring and reporting, and financial and operational controls.</p> <p>While there was a general awareness of the risks associated with School Funds there was scope for improving the content and availability of procedures, the consistent application of procedures, the reporting of transaction activity and arrangements relating to VAT.</p>

No	Audit Area and Service	Assurance and Key Findings
8.	Cash and Income Collection Community Services	<p>Substantial Assurance Covered roles, responsibilities, policies and procedures, income handling, storage, transfer, banking and recording, and security and contingency arrangements.</p> <p>In general, sound systems of control were in place, with clear roles and responsibilities and income held securely and banked regularly. There was some scope for improving management checks and for reviewing Security Patrol / Courier duties.</p>
9.	Helix Governance and Finance Arrangements Community Services	<p>Substantial Assurance Covered roles, responsibilities and accountability, partnership agreement commitment monitoring, funding and project management arrangements, and progress reporting.</p> <p>Arrangements were generally sound. There was, however, some scope for more frequent review of the Governance and Fundraising Strategies.</p>
10.	NPDO/PPP School Maintenance Education Services	<p>Substantial Assurance Covered contractual maintenance requirements, the identification, prioritisation and commissioning of work, the monitoring of progress and quality, and budgetary and financial controls.</p> <p>Sound systems of control were in place, with good working relationships and clarity of roles and responsibilities between maintenance service providers and Council Officers. We did, however, note some inconsistencies across maintenance schedules and a need for formal confirmation from service providers that statutory maintenance requirements were being met.</p>

No	Audit Area and Service	Assurance and Key Findings
11.	Child Protection – Key Processes Social Work Services	<p>N/A – Undertaken as Consultancy</p> <p>Ahead of a planned HMIE inspection, Internal Audit reviewed the Service’s compliance with policies and procedures, particularly in relation to Case Conferences, Reviews and Core Groups, recording of decisions and outcomes, and child plan monitoring.</p> <p>The outputs from the audit will be used by Social Work Services management to further improve the framework of control and the practical application of existing policies and procedures</p>
12.	Corporate and Service Planning Corporate and Neighbourhood Services	<p>Substantial Assurance</p> <p>Covered roles and responsibilities, arrangements for identifying and agreeing Corporate and Service Plan objectives, consultation, communication and monitoring arrangements, and the production of management information.</p> <p>In general we found arrangements to be robust, although there is scope for better integrating risk management into the Service planning process, and for ensuring consistency in the Service Plan reporting framework.</p>
13.	Continuous Auditing	<p>N/A – Ongoing Reporting and Assurance</p> <p>Work has focussed on identifying potential duplicate creditors payments and on reviewing the accuracy, validity, checking and authorisation of a sample of creditors payments.</p> <p>We have been able to provide assurance that controls around the checking and authorisation of invoices are, in general, operating effectively. Details of any potential duplicate payments are passed to Creditors Section as a matter of course.</p>

No	Audit Area and Service	Assurance and Key Findings
14.	Cash Counts Various Services	<p>Substantial Assurance</p> <p>Internal Audit reviewed cash and general administration arrangements at Camelon One Stop Shop, Licensing Section at Municipal Buildings, and at the Social Work Leaving Care Team.</p> <p>We made a number of recommendations relating to local arrangements, but in general found controls to be reasonable and proportionate.</p>
15.	Approval and Payment of Invoices Central Scotland Fire and Rescue Service	As discussed and agreed with CSFRS management and presented to CSFRS Best Value and Scrutiny Committee.

IMPACT OF IMPLEMENTING INTERNAL AUDIT RECOMMENDATIONS

No.	Audit	Year	Service	Key Improvements to Control Environment / Best Value as a Result of Internal Audit Recommendations
1.	Fleet Management	2007/08 and 2008/09	Corporate and Neighbourhood / All Services	Improved operational guidance on vehicle usage, with clearer responsibility for fleet matters within Services and better management information to those Service contacts. Better scrutiny of Short Term Hires, with a reduction in monthly expenditure from c£49k at January 2008 to c£34k at February 2011.
2.	ICT Governance and Security	2007/08	Corporate and Neighbourhood	Ownership of Information Security Policy, and responsibility for monitoring its implementation, has been allocated to the ICT Strategy Group. This responsibility will be formalised in the next version of the ICT Strategy.
3.	Integra Supplier Management and Payments	2008/09	Chief Executive Office - Finance	Reduced risk of erroneous payment as a result of better maintenance of supplier database and checking of bank account change requests. Improved system resilience via formalisation of business continuity arrangements.
4.	Building Security	2008/09	Various Services	Reduced risk of unauthorised access to key Council buildings (and therefore staff, information and assets) through better access control, and through action to address building specific security weaknesses.
5.	Email and Internet Security	2008/09	Corporate and Neighbourhood	Improved information and data security through implementation of complex passwords with the requirement for periodic change. Better filtering of spam email as a result of review of filtering software security settings.
6.	Voids Management	2008/09	Corporate and Neighbourhood	Formal voids management procedure established and operating. Reduced rent loss due to voids: 2007/08 = £592,316 (1.5% of rent due); 2009/10 = £420,755 (1% of rent due).
7.	Supply Teacher Provision	2008/09	Education	Electronic timesheets introduced for Supply staff, and clearer financial reporting of the reasons for Supply need.

Appendix 4

No.	Audit	Year	Service	Key Improvements to Control Environment / Best Value as a Result of Internal Audit Recommendations
8.	Social Work Information Systems	2008/09	Social Work	Reduced risk of loss or compromise of sensitive and confidential client data as a result of improved system security, particularly in relation to the administration of user access privileges.
9.	Telecommunications	2009/10	Corporate and Neighbourhood / All Services	Highlighted potential savings relating to low and no use land and mobile lines, and calls to unknown numbers. Identified matters to be considered when re-tendering for telecommunications services.
10.	Joint Loan Equipment Service	2009/10	Social Work	Successful joint exercise with Fife, Tayside and Forth Valley NHS Internal Audit consortium. Internal Audit work has resulted in improved governance arrangements and has acted as a catalyst for better cross-partner working.
11.	Legionella Management	2009/10	Corporate and Neighbourhood / All Services	Significantly improved control framework and reduced risk of incident / outbreak. Raised profile of Legionella risks and resulted in better enforcement of robust checking regime in line with legislative requirements.
12.	Childcare and Early Years Education	2009/10	Education	Better arrangements for commissioning, monitoring, and vetting of private partners, improving the consistency of arrangements across Council and private establishments.
13.	Fostering	2009/10	Social Work	Better control over payments in respect of external placements, and list of essential items established. Improved assessment and scrutiny of potential foster carer applications.
14.	Overtime and Allowances	2009/10	All Services	Re-designed standard claim forms, incorporating guidance and declarations, to be rolled out across the Council. Better scrutiny of Overtime claims by Services. Overtime and Allowance expenditure April 2009 to January 2010 = c£6.5m, compared to expenditure April 2010 to January 2011 of c£5.5m.

FALKIRK COUNCIL

Subject: INTERNAL AUDIT PLAN 2011/12
Meeting: AUDIT COMMITTEE
Date: 21 March 2011
Author: INTERNAL AUDIT MANAGER

1. INTRODUCTION

- 1.1 The CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 (the Code) requires the Internal Audit Manager, on an annual basis, to prepare a risk based Internal Audit Plan, taking account of the Council's risk management, performance management, and other assurance processes. In line with this requirement I attach, at **Appendix 1**, a copy of the proposed Plan for 2011/12.
- 1.2 As part of their responsibilities under CIPFA's guidance on Audit Committee principles, Members are required to consider the Internal Audit Plan. This report, therefore, provides details of the resources available to Internal Audit, the basis of the preparation of the Plan, and the mechanism for reporting on findings arising from Internal Audit work.

2. INTERNAL AUDIT RESOURCES

- 2.1 The Code states that Internal Audit should be adequately resourced to meet its objectives, with the appropriate mix of experience, qualifications and personal attributes. I am content that this remains the case¹, although Members should note the following changes, each of which has some impact on the structure and operation of the Internal Audit Section:
- one of our Internal Auditors is now focussing on 'Continuous Auditing' (see paragraph 4.1.3 later in this report);
 - one of our Internal Audit Assistants has moved to a post in Accountancy Services, initially on secondment, but with a view to making this permanent; and
 - our other Internal Audit Assistant has successfully attained the Institute of Internal Auditors (IIA) Diploma, meaning that all Internal Audit staff now hold a relevant professional qualification.

¹ See Organisational Chart at **Appendix 2**.

- 2.2 While the changes outlined above have resulted in a reduction in time available for direct Internal Audit activity, the continued focus on high risk auditable areas and the additional assurance provided via Continuous Auditing, combined with the experience and competence of the remaining team members, mean that there will be no material impact on the breadth (or quality) of assurance that Internal Audit will be able to provide.
- 2.3 The Internal Audit Plan for 2011/12 has been developed on the assumption that the Section will be fully staffed throughout the year. On this basis, and taking account of time spent on indirect activities such as leave, training, and development, the resources available for Direct Internal Audit Activity are as follows:

Activity	Planned Days
Direct Internal Audit Time	780
Ad Hoc Work / Contingency	60
Follow up 2010/11 Recommendations	60
Total Direct Internal Audit Activity	900

- 2.4 As with previous years, the Plan contains some allowance to accommodate any unforeseen or ad hoc work, and time has also been included for following-up recommendations made during 2010/11 and previous years.

3. DEVELOPMENT OF THE INTERNAL AUDIT PLAN

- 3.1 In line with the Code, preparation of the Internal Audit Plan has taken account of the outcomes of the Council's risk management processes, as well as Internal Audit's own assessment of risk analysed via our Audit Needs Assessment model.
- 3.2 Consideration of the outcomes of the Council's risk management processes included review of the Corporate Risk Register and other documentation such as subsidiary Service Risk Management Plans and Service Performance Plans, as well as discussion with senior staff.
- 3.3 Internal Audit will continue to review, on an ongoing basis, emerging and developing risks, and these will be built into our Audit Needs Assessment for consideration in future Internal Audit Plans. Where appropriate, and in consultation with senior management, changes may be made to the 2011/12 Plan to take account of emerging risks or changing circumstances. Any changes to the Plan will be reported to Members at the earliest opportunity.

4. PLANNED INTERNAL AUDIT COVERAGE

- 4.1 As per paragraph 1.1 above, planned 2011/12 Internal Audit coverage is set out at **Appendix 1**. With regard to the detail of the Plan, Members may wish to note the following:

- 4.1.1 The review of Corporate Data Security and Transfer (**Audit A5**) will build on previous work undertaken by the Council's ICT Strategy Group and on last year's Internal Audit review of Serious Organised Crime arrangements. The emphasis will be on ensuring that all internal and external transfers of data are identified, and that protocols are in place to allow the legal and proper sharing of data. This work will be done in parallel with the related review of Payment Card Industry Data Security Standards (**Audit A16**);
- 4.1.2 The reviews of the Integra Finance System (**Audit A6**), Integrated Housing Management System (**Audit A7**) and Procon Costing System (**Audit A10**) will focus on security at the operating system, database and application levels. We will also review system and database administrator privileges, security configurations, and business continuity arrangements;
- 4.1.3 Internal Audit will continue to undertake the Continuous Auditing (**Audit A18**) of key transactional systems. Arrangements in relation to the ongoing review of creditors payments are now embedded and, during 2011/12, we will extend our work into other transactional areas. In particular, arrangements will be established to review transactions flowing through the Payroll section in respect of overtime and travel and subsistence claims and payments;
- 4.1.4 The IIA International Standards state that an external assessment (of an IA Section's compliance with those Standards) must be conducted at least once every five years by a qualified, independent, reviewer from outside the organisation. This builds on the requirements of the CIPFA Code. It has been agreed with West Lothian Council's Internal Audit Manager that a reciprocal peer review will be undertaken during 2011/12, with findings reported to respective Audit Committees (**Audit A19**).
- 4.2 Subject to Members' comments on the Plan, we will develop full terms of reference for all planned reviews following preliminary visits to discuss the risks and controls present, prior to the start of each audit. Before then, Directors will be consulted about the broad timetable for audit reviews in their areas.

5. REPORTING ARRANGEMENTS

- 5.1 Matters arising from each Internal Audit exercise will be communicated to management in the form of a draft report. Each audit report will provide a statement on the level of assurance that can be provided on the systems of risk management, governance and control, as well as an action plan setting out specific audit recommendations. The overall assurance will be provided in line with the definitions set out at **Appendix 3**, and management will be expected to provide responses to each recommendation in line with timeframes agreed at the outset of the review. The report and completed action plan will form the final record of each audit, and the basis for subsequent follow-up work.

- 5.2 Reports will be provided to the Audit Committee in November and March detailing progress in completing the 2011/12 Internal Audit Plan and highlighting any key findings or themes emerging from work carried out.
- 5.3 Finally, Internal Audit will produce an Annual Assurance Report providing an opinion on the overall adequacy and effectiveness of the Council's control environment. This report will include a summary of work undertaken and a comparison of work completed against work planned.

6. RECOMMENDATIONS

6.1 Members are invited to:

6.1.1 agree planned Internal Audit coverage for 2011/12;

6.1.2 note the resources available to Internal Audit; and

6.1.3 note that progress against the Plan will be reported to the Audit Committee in November and March, and summarised in an Annual Assurance Report.

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Internal Audit Manager

Date : 10 March 2011

AUDITS PLANNED FOR PERIOD APRIL 2011 – MARCH 2012

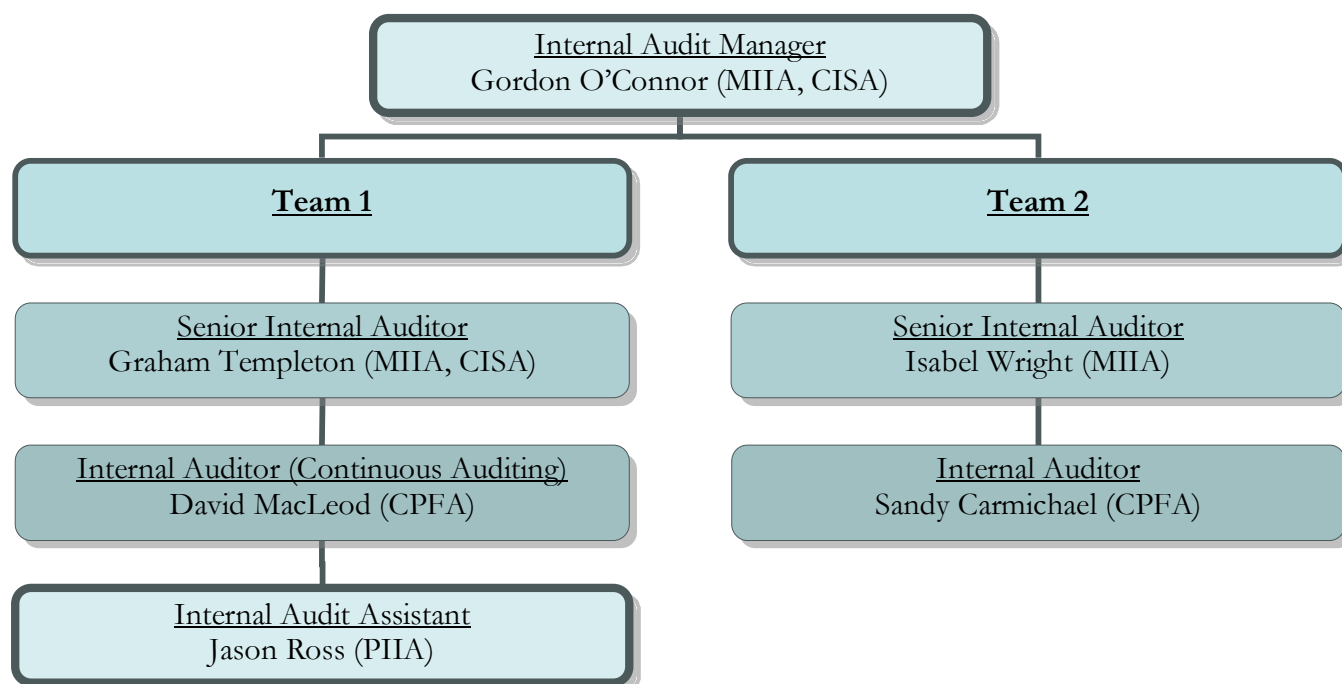
Audit No.	Service	Purpose and Scope of Audit
A1	All Services	Corporate Risk Management Arrangements Internal Audit will review the efficiency and effectiveness of arrangements established to facilitate the management of risk at a corporate level. This will include consideration of the Risk Management Strategy and Policy, the role of the Corporate Risk Management Group, and, in particular, the arrangements for embedding risk management at all levels within the Council.
A2	Development Services	Tax Incremental Finance (TIF) Scheme Internal Audit will review arrangements for assessing and managing TIF related risks, including those relating to governance, planning, financing, procurement, and partnership working.
A3	Chief Executive Office - Finance	Pension Administration and Pension Fund Internal Audit will review all aspects of the Council's administration of the Local Government Pension Scheme, and management of the Pension Fund.
A4	Social Work Services	Social Work Charging Policy (Community Care) Internal Audit will review the implementation and operation of charging arrangements. Areas of potential coverage include: <ul style="list-style-type: none"> • plans, policies, procedures, roles and responsibilities; • communication and client interaction; • financial controls, including invoicing and income collection; and • management information and reporting.
A5	All Services	Corporate Data Security and Transfer Internal Audit will review controls established to manage the risks to the efficient and secure storage and transfer of confidential or sensitive electronic and paper based data. This will include data shared within the Council and between the Council and external organisations, and the adequacy of protocols established to facilitate that sharing.

Audit No.	Service	Purpose and Scope of Audit
A6	Chief Executive Office - Finance	<p>Integra Finance System: Security and Management</p> <p>Internal Audit will review controls established to manage the risks to the effective and efficient management and security of the Integra system. Areas of potential coverage include:</p> <ul style="list-style-type: none"> • compliance with ICT security standards, to minimise the risk of potential system vulnerability; • access control arrangements at operating system (UNIX), database (Oracle) and application levels; • change control and business continuity procedures; and • the adequacy of established support and system administration arrangements.
A7	Corporate and Neighbourhood Services	<p>Integrated Housing Management System: Security and Management</p> <p>As per Audit A6 above.</p>
A8	Corporate and Neighbourhood Services / Chief Executive Office - Finance	<p>Redundancy and Severance Arrangements</p> <p>Internal Audit will review arrangements established to ensure compliance with the agreed Policy. Areas of potential coverage include:</p> <ul style="list-style-type: none"> • policy, procedures, roles and responsibilities; • application, assessment and approval processes; • accuracy and consistency of benefit calculation; • arrangements for payment of entitlements; and • management reporting and information.
A9	Development Services	<p>Roads Maintenance</p> <p>Internal Audit will review controls established to manage the risks to the effectiveness and efficiency of the roads maintenance programme. Areas of potential coverage include:</p> <ul style="list-style-type: none"> • arrangements for preparing the Council's Road Asset Management Plan; • identification and prioritisation of required repairs; • routine and emergency maintenance arrangements; • progress monitoring and quality management; and • budgetary and financial controls, and management information.

Audit No.	Service	Purpose and Scope of Audit
A10	Corporate and Neighbourhood Services	Costing System (Procon) Internal Audit will review system security (as per Audit A6 above) and the arrangements for ensuring the security and integrity of interfaces with other Council systems.
A11	All Services	IT Contract Management Internal Audit will review arrangements for ensuring best value through the procurement and use of IT applications and systems. Areas of potential coverage include: <ul style="list-style-type: none"> • roles and responsibilities; • documented contract management arrangements; • financial control and risk management; and • contingency arrangements.
A12	Education Services / Development Services	School Build, Upgrade, and Maintenance Tendering Process Internal Audit will review arrangements for ensuring the efficiency and effectiveness of the design, specification, and tender stages, and the respective responsibilities of Education and Development Services.
A13	Development Services	Food Hygiene and Safety Internal Audit will review the efficiency and effectiveness of the food hygiene and safety inspection regime. Areas of potential coverage include: <ul style="list-style-type: none"> • policies, procedure, roles and responsibilities; • arrangements for planning and undertaking statutory food hygiene and standards inspections; • activity reporting; and • arrangements for enforcing the smoking ban in public places.
A14	All Services	National Fraud Initiative The Internal Audit Manager, in his capacity as Key Contact for Falkirk Council, is responsible for co-ordinating and monitoring progress in investigating and reporting on data match information provided by the Audit Commission based on its interrogation of Falkirk Council data files.

Audit No.	Service	Purpose and Scope of Audit
A15	All Services	Statutory Performance Indicators Internal Audit has a role in assisting with the collation and validation of Statutory Performance Indicator information provided by Services. Internal Audit will primarily focus on the validation of financial indicators.
A16	Chief Executive Office - Finance	Payment Card Industry Data Security Standards Internal Audit will review arrangements for compliance and assessment with the PCI DSS. This will include visits to sites where card payments are received and processed to review local arrangements.
A17	All Services	Cash Spot Checks Internal Audit will undertake a programme of visits to cash-handling sites across Council Services to ensure that systems are in place to protect Council and client cash /valuables, and the staff responsible for handling any such cash/valuables.
A18	All Services	Continuous Auditing Internal Audit will consider, review and test transactional systems (eg Creditors and Payroll) on an ongoing basis. This work will provide broad assurance as to the adequacy of a number of key financial controls.
A19	Joint Working	Liaison With West Lothian Council Internal Audit Falkirk and West Lothian Councils' Internal Audit sections will undertake a reciprocal peer review to measure respective compliance against the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and the IIA International Standards. In addition to the peer review process, West Lothian Council Internal Audit will undertake an audit of an agreed Falkirk Council system, and vice versa.
A20	Falkirk Community Trust	Falkirk Community Trust Internal Audit coverage will be agreed in discussion with Trust Members and management.
A21	Central Scotland Fire and Rescue Service	Central Scotland Fire and Rescue Service Internal Audit coverage will be agreed in discussion with CSFRS Members and management.

INTERNAL AUDIT ORGANISATIONAL CHART 2011/12



Responsible for providing Internal Audit coverage to the following Services:

- Corporate and Neighbourhood Services;
- Education Services;
- Community Services;
- Chief Executive Office – Finance;
- Falkirk Community Trust.

Responsible for providing Internal Audit coverage to the following Services:

- Chief Executive Office - Governance;
- Development Services;
- Social Work Services;
- Central Scotland Fire and Rescue Service.

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.

FALKIRK COUNCIL

Subject: AUDIT SCOTLAND REPORT – THE COST OF PUBLIC SECTOR PENSIONS IN SCOTLAND
Meeting: AUDIT COMMITTEE
Date: 21 March 2011
Author: DIRECTOR OF FINANCE

1. INTRODUCTION

- 1.1 This report outlines the findings of an Audit Scotland review of Public Sector Pensions in Scotland and places it in the context of a range of developments that are impacting on the Local Government Pension Scheme [LGPS].

2. BACKGROUND

- 2.1 The report covers the six main public sector schemes:-

- ☐ LGPS
- ☐ Teachers (STSS)
- ☐ NHS
- ☐ Civil Service
- ☐ Police
- ☐ Firefighters

Around one million people in Scotland have a direct interest in one of the schemes, either as members, pensioners or dependents.

[A copy of the full report may be obtained by contacting the Director of Finance]

- 2.2 The LGPS is unique in so far as it is the only scheme which is funded – the others are all “pay-as-you-go” with no fund built up to cover future pension payments.
- 2.3 In 2009/10 the six schemes paid out £2.8B to pensioners whilst public bodies contributed £2.2B and employees £814M to meet the cost of benefits. These costs are significant in terms of both the Scottish budget and the budgets of individual public bodies and in consequence it is important the schemes are well managed and controlled.

3. REPORT CONTENT

- 3.1 The report makes a number of observations based on the statistical data gathered. However, all of the trends revealed are already well known and considered in greater depth in the Hutton review [see section 4]:-

- There is a disparity of pension provision between the public and private sectors
- The fragmented nature of female career patterns mean that the average pension for women is half that of men;
- The average annual teacher's pension is £10,200, whereas the average LGPS pension is £4,750, reflecting the fact that many LGPS members are part time with shorter service.
- There is evidence of improved longevity amongst pensioners - there has been a 12% rise in the number of pensioners in the past 5 years
- The report notes the financial pressures on schemes in terms of improvements in longevity and falling gilt yields, but recognises that the indexation of pensions according to CPI rather than RPI will offer some financial easement.
- The report acknowledges the scheme reforms of recent years
- There is recognition that a Career Average Scheme would be fairer to all members than a final salary arrangement
- Of particular concern are cost pressures impacting on the unfunded schemes. Pension payments from these schemes (i.e. not the LGPS) have increased by 32% in real terms in the past 5 years and the gap between income and expenditure is continuing to grow.
- The schemes were generally well administered, but governance arrangements in the smaller LGPS could be improved

3.2 The report notes that whilst pensions policy is generally reserved to Westminster, the Scottish Government retains some influence and jurisdiction over the process including the power to make secondary legislation. The key recommendations from the report are that the Scottish Government:

- Provide a clear statement on aims and objectives of the schemes in Scotland
- Provide improved scrutiny of pension provision through the use of experts
- Investigate whether differences in contribution rates between the schemes are justified
- Ensure UK scheme changes are incorporated into Scottish schemes
- Have a clear policy on setting a cap on employer contributions
- Decide the extent and pace of reform of LGPS

3.3 There are some areas where the report could have extended its content to provide a more rounded view:-

- It offers no comment on the impact of contributions increases on employee relations, including the potential for significant opting-out which could have a negative effect on scheme liabilities
- It does not consider the impact of a shrinking of scheme membership on cashflow and employer contributions through the current round of severances
- It does not acknowledge that LGPS members are the only public sector members to have suffered an adverse change in their ongoing benefit entitlement. All other schemes applied their reforms to new members.
- The statement that the Scottish Public Pensions Agency (SPPA) has a much lower administration cost than local authority funds should have been balanced by a statement that the local authorities undertake a wider range of activities (e.g. support to employers, etc).

4. CONTEXT

- 4.1 There are a number of developments which are impacting on the LGPS and in consequence on the workload of the Pensions and Payroll Division. They are touched upon in this and in the following paragraphs. The first, and most significant, is the Hutton review of public sector pensions at the UK level. The publication of the Hutton report is concurrent with this report and is expected to recommend changes including a move away from a final salary to a career average scheme and increased contributions from employees.
- 4.2 The Pathfinder review is sponsored by the Scottish Government, the Improvement Service and COSLA and is assessing the merits of consolidating the 11 existing Scottish LGPS's into between one and three schemes. This may apply to the Administration or Investment responsibilities, or both. The findings are expected in the summer.
- 4.3 The SPPA are expected to issue Regulations shortly which will revise the corporate governance arrangements for the LGPS funds and is likely to require greater engagement and communication with stakeholders.
- 4.4 LGPS funds with effect from 2010/11 are now required to produce separate annual reports and financial statements which will be subject to separate audit.
- 4.5 Employers in the Falkirk Fund are now placing significant demands on the Payroll and Pensions Division to process voluntary severance calculations and this is likely to continue into the future.

5. CONCLUSIONS

The report is a useful commentary on the current standing of the six schemes in Scotland and makes several recommendations to the Scottish Government to improve the cost, scrutiny and governance of the schemes. The report, however, is likely to be overtaken by the structural reforms being proposed by Hutton and potential changes flowing from the Pathfinder review.

6. RECOMMENDATION

The Audit Committee is invited to note the report.

pp Director of Finance

Date: 9 March 2011

Contact Officer: Bryan Smail

LIST OF BACKGROUND PAPERS

NIL

Bruce Crosbie
Senior Audit Manager
Osborne House
1/5 Osborne Terrace
EDINBURGH
EH12 5HG

Telephone:
0845 146 1010

Website:
www.audit-scotland.gov.uk

27 January 2011

Ms Mary Pitcaithly, OBE
Chief Executive
Falkirk Council
Municipal Buildings
West Bridge Street
Falkirk
FK1 5RS

Dear Mary

**Falkirk Council 2009/10
Corporate governance arrangements – Systems of Internal Control**

1. Audit Scotland's Code of Audit Practice (the code) sets out the basic principles that govern all audit work and compliance with the code ensures that audits are conducted in accordance with legislative requirements and International Standards on Auditing.
2. The code requires the auditor to review and report on the main financial systems to contribute to an assessment of corporate governance arrangements. Our overall assessment of the main financial systems also forms part of the process of arriving at an appropriate audit opinion on the financial statements.
3. As part of our 2009/10 audit, we have identified the following key financial systems:

• Financial ledger	• Capital accounting
• Pension payments	• Budgetary control
• Pension administration	• Treasury management
• Payroll	• Accounts payable
• Accounts receivable	• Cash & cash equivalents
• Council tax: billing & collection	• Non-domestic rates: billing & collection
• Housing rents	• Members expenses
4. Our audit consisted of high level reviews of the systems with our work focused on identification and testing of key 'high level' controls within the systems.

Audit Findings

5. Overall, we found that high level financial system controls were operating satisfactorily. However, we identified some areas where there is scope for improvement to the systems of control.

Management Action

6. The areas we identified where further improvement could be achieved are included in the action plan that follows this summary.
7. This report to management sets out our findings from the review carried out. The weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all of the weaknesses which may exist.
8. Although we have identified a number of areas for improvements to the systems of internal control, it is the responsibility of management to determine the extent of the internal control system appropriate to the Council. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
9. Communication of issues and weaknesses arising from this audit does not absolve management from its responsibility for addressing the issues raised and for maintenance of an adequate system of internal control.
10. We would like to thank your staff for their co-operation and assistance during our review and we look forward to continuing our excellent working relationship during the remainder of our audit appointment.

Yours sincerely

Bruce Crosbie
Senior Audit Manager

cc S. Ritchie, Director of Corporate & Neighbourhood Services
D. McGregor, Head of Accountancy & Revenues
G. O'Connor, Head of Internal Audit
Gillian Battison, Project Manager (Audit Scotland)

Action Plan

Key Risk Areas and Planned Management Action

Action Point	Issues and Risk Identified	Planned Management Action	Responsible Officer	Target Completion Date
Financial ledger				
1.	<p>During the course of our review, we identified that various reconciliations to the financial ledger are not being authorised by a relevant responsible officer. These reconciliations are :</p> <ul style="list-style-type: none"> ▪ Creditors Control Account. ▪ Purchasing Control Account. <p>Risk : there is a risk that reconciliations may be inaccurate.</p>	The balance on the Creditors and Purchasing Control report is checked daily against the ledger and details documented. On rare occasions, when this does not reconcile, a senior member of the team is notified to investigate the difference.	Accounting Services Manager	Ongoing
Capital Accounting				
2.	<p>The authorised signatory list for Corporate & Neighbourhood Services has not been regularly updated (the current list is dated 30/06/06). In addition, some departmental signatory lists were not readily available.</p> <p>Risk: there is a risk of capital expenditure not being authorised by appropriate officers.</p>	This will be reviewed in the next few months. It is our intention to combine the authorised signatory lists for both capital and revenue.	Capital Manager	31 March 2011
Treasury Management				
3.	<p>Two monthly ledger reconciliations had not been authorised by a senior officer.</p> <p>Risk : there is a risk that monthly ledger reconciliations may be inaccurate.</p>	Noted. Normal practice is for Treasury Manager to sign-off monthly reconciliations. However, during periods of annual leave instructions are given for reconciliations to be signed off by an Accounting Assistant to avoid backlog of work.	Head of Treasury & Investment and Payroll & Pensions	No Further Action

Action Point	Issues and Risk Identified	Planned Management Action	Responsible Officer	Target Completion Date
Cash & Cash Equivalents				
4.	<p>There are no written procedures in place for the opening and closing of bank accounts.</p> <p>Risk : there is a risk that the lack of written procedures results in erroneous practice particularly if inexperienced staff are involved.</p>	Adherence to Financial Regulations ensures that Bank Accounts cannot be opened unless authorised by Director of Finance. Reference to Financial Regulations has been made in manual of Treasury Management Practices.	Head of Treasury & Investment and Payroll & Pensions	Completed
Council Tax				
5.	<p>The Council does not have a documented policy or procedures in relation to empty property visits and visits have not been carried out on a regular basis.</p> <p>Risk : there is a risk that erroneous or fraudulent claims for empty property relief are not identified.</p>	Written procedures have been finalised and visits now on structured schedule.	Revenues Manager	Completed
6.	<p>There is no evidence to confirm that staff check that a council taxpayer has no outstanding balances due to the Council before a refund is made.</p> <p>Risk : there is a risk that refunds are made to individuals who owe the Council money.</p>	Action already carried out but electronic confirmation will now be made by both requestor and authoriser to confirm that checks have been made.	Revenues Manager	Immediate
Non-Domestic Rates				
7.	<p>During our review we identified that management control testing checks were not up to date.</p> <p>Risk : there is a risk that erroneous input may not be identified and corrected.</p>	Control Testing now up to date and to be carried out monthly from EDMS system	Revenues Manager	Completed and ongoing

Action Point	Issues and Risk Identified	Planned Management Action	Responsible Officer	Target Completion Date
8.	<p>There is no evidence to confirm that staff check that a Non-Domestic Ratepayer has no outstanding balances due to the Council before a refund is made.</p> <p><i>Risk : there is a risk that refunds are made to individuals who owe the Council money.</i></p>	Action already carried out but electronic confirmation will now be made by both requestor and authoriser to confirm that checks have been made.	Revenues Manager	Immediate
Housing Rents				
9.	<p>Reconciliations between the accumulated values on the rent roll and the gross annual debit in the financial ledger were not undertaken on a monthly basis (only 7 reconciliations were prepared over the year). In addition, 1 reconciliation had not been signed or dated by an authorising officer.</p> <p><i>Risk : there is a risk that inaccuracies may not be identified timeously.</i></p>	Reconciliations will be carried out monthly and signed	Revenues Manager	Immediate

